



Town Administrator's Office

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Memorandum

Date: September 11, 2015

To: Town Council

From: Matt Wojcik

RE: Fiscal Impact of IBPO 2015-2018 contract

SALARY / ALL SWORN PERSONNEL EXCEPT CHIEF

The base salary for police officers will increase over the life of the contract by a total of 6.1%, assuming the same roster of rank and seniority exists in 2018 as we have today. The rate of increase year over year is as follows:

1. Year one (July 1, 2015 – June 30, 2016): 0%
2. Year two (July 1, 2016 – June 30, 2017): 3%
3. Year three (July 1, 2017 – June 30, 2018): 3%

In reality the Town will experience a slightly lower rate of growth in this budget line item over the life of the contract. As more senior officers retire or leave for other reasons, they are replaced by new officers who realize a lower rate of pay. Further, there are periods of time when a position is vacant pending the recruitment and training of a new officer. Annual budgets will reflect these complexities, but this impact statement shows the more aggressive cost estimate assuming a stable roster over the life of the contract.

During contract negotiations it was an explicit understanding that the Tiverton Police Department would experience a reduction of one full time sworn officer (a first class patrolman position, vacancy created by voluntary departure) in order to pay for the salary increases in the last two years of the contract. This decision does not have any impact upon the minimum manning requirement. Legal counsel for both sides discussed the Town's desire to reduce the table of organization to reflect 26 sworn IBPO members on the force instead of 27. The union took the position that the reduction in force is a management right and the Town's counsel agreed. Thus, while the table of organization is not reduced in the contract, in actual operation the Tiverton Police Department is now running with 26 officers; this fact is reflected in this fiscal impact statement.

Therefore, the base salary account of the Tiverton Police department is estimated to change as follows (with current year provided for sake of comparison):

Pay grade	FY 2015 (July 1, 2014-June 30, 2015)	FY 2016	FY 2017	FY 2018	Total change (3 years)
Captain (1)	\$ 63,990	\$ 63,990	\$ 65,910	\$ 67,887	\$ 5,816
Lieutenant (5)	\$ 296,728	\$ 296,728	\$ 305,629	\$ 314,798	\$ 26,973
Sergeant / Detective (6)	\$ 331,303	\$ 331,303	\$ 341,242	\$ 351,479	\$ 30,114
First Class (15)	\$ 774,072	\$ 774,072	\$ 797,294	\$ 930,708	\$ 179,858
Second Class (1)	\$ 46,940	(0) -0-	(2) \$ 96,696	(0) -0-	\$ (44,123)
Probationary (2)	\$ 85,671	(2) \$ 85,671	(0) -0-	(0) -0-	\$ (171,342)
Total	\$1,598,704	\$1,551,763	\$1,606,771	\$1,664,872	\$ 27,295

In conclusion, the base salary line item net impact on Town finances for the life of the contract will be just under \$28,000. Overall spending on this line item is restrained as a result of not filling one vacancy over the three year term of the agreement.

COMPENSATION DIRECTLY TIED TO BASE SALARY

There are several line items in the Police Department payroll and budget accounts that are tied to and move with base salary levels. These items are: longevity, shift differential, acting status and holiday pay.

Longevity is calculated as a percentage of an officer's base pay. The amount paid varies by the total time the officer has worked in the Department. There were no changes in the longevity percentages paid out in the contract. Those levels are: 0-5 years, 0%; 5-10 years, 4.5%; 11-15 years, 5.5%; 16-20 years, 6.5%; over 20 years, 7.5%.

Shift differential varies depending on which shift officers work. No changes were made to shift differential rates in the new contract. The typical day shift (called "second shift") from 8 AM to 4 PM does not receive a differential. First shift (midnight to 8 AM) receives a \$0.35 per hour differential. Third shift (4 PM to midnight) is paid a \$0.50 incentive. The so-called mid-shift (not currently staffed) from 6 PM to 2 AM would make a \$0.50 differential if it were staffed. Over the last 6 fiscal years the average payout of differential has totaled 1.09% of base payroll. For purposes of this impact statement that figure is assumed to hold for the next three years, and thus will show an increase as base salaries are increased in years two and three of the contract.

Acting status pay is compensation awarded to an officer who serves in the role of a higher ranked employee when the latter is absent for any reason. There are times when a member of equal rank takes a shift for a ranked colleague; the officer then receives no acting status pay but does receive overtime or compensatory time per the contract. Historically, acting status pay is only a minor outlay, accounting on average for 0.22% of base pay each year for the last six years. No changes were made to acting status rules in

the new contract. The same assumption for projecting acting status pay is used as was for shift differential.

Police officers all receive 13 paid holidays, whether they work those days or not (those who do work a holiday receive overtime or compensatory time). Each holiday is paid out as eight hours of straight time. This analysis assumes that the roster is stable over the next three years and holiday time will trend with the underlying base rate of pay and the seniority status / pay grade of each member. Over the last 6 fiscal years, holiday pay has been just about 8.5% of the base salary line; this estimate is assumed true over the next three years.

These compensation items will change directly as a result of base pay trends. The impact of the contract is summarized in the table below.

Budget item	FY 2015 (July 1, 2014-June 30, 2015)	FY 2016	FY 2017	FY 2018	Total change (3 years)
Longevity	\$ 70,066	\$ 70,510	\$ 78,472	\$ 91,229	\$ 30,012
Shift differential	\$ 17,499	\$ 16,986	\$ 17,588	\$ 18,224	\$ 299
Acting Status	\$ 3,554	\$ 3,450	\$ 3,572	\$ 3,702	\$ 61
Holiday	\$ 135,337	\$ 131,364	\$ 136,020	\$ 140,939	\$ 2,311
TOTAL	\$ 226,456	\$ 222,310	\$ 235,652	\$ 254,094	\$ 32,683

In conclusion, for those compensation accounts with a direct tie to base salary, over three years the Town will spend a three year total of \$32,683 more. The largest part of this increase will occur in Fiscal 2018, in the longevity account, since in that year 8 of the 26 sworn officers covered by the agreement will pass an anniversary date that triggers a higher longevity rate.

OVERHEAD COSTS DIRECTLY TIED TO BASE SALARY

As an employer, the Town of Tiverton pays various agencies taxes and contributions based upon both statutory and contractual requirements. Payroll taxes and pension contributions are calculated as a function of base salary, therefore, when base salary levels change, those changes affect the budget for the Town.

The Federal Insurance Contribution Act (FICA) payments made by the Town cover the employer's share of Social Security and Medicare trust fund contributions. The Town pays these contributions at the rate of 7.65% of all compensation earned by its employees.

Tiverton has a private pension plan for its police officers. This plan has recently emerged from "critical status" but remains underfunded. The Town's employer contribution is set by the Financial Town Referendum each year as part of the Town's operating budget. There is a floor below which the Town's contribution may not fall. The actual appropriation may vary from year to year and thus is not part of this analysis.

Employee contributions are tied to gross wages and thus are not a part of this analysis.

OVERTIME

The overtime line item in the police budget is driven primarily by two factors: the number of hours of overtime charged and the salary rate of officers. Since the pay rate will increase 0% - 3% - 3% over the three years of the contract, all things being equal the overtime line would move in exactly the same fashion.

However, the number of hours of overtime logged in any one year is impossible to predict to a high degree of precision. Tiverton police officers enjoy a compensatory time benefit in their contract and may elect to take time off in lieu of overtime compensation, provided the use of "comp" time does not create an overtime obligation. This benefit has saved the Town considerable funds since it was brought into the contract. The tradeoff between time off and extra pay is highly individualized and thus is an added obstacle to predicting with great certainty the future spending trend in this area.

Having said that, overtime is a large budget expenditure and must be estimated to the degree possible. Over the last two fiscal years, overtime has averaged 12.6% of base payroll. This is the factor used to calculate the impact of base salary increases on the overtime budget going forward over the life of the contract, as summarized below.

Budget item	Est. FY 2015	FY 2016	FY 2017	FY 2018	Total change (3 years)
Overtime	\$ 201,437	\$ 195,522	\$ 202,453	\$ 209,774	\$ 3,439

STIPENDS

Tiverton Police receive several stipends that are not tied to base pay. No changes were made to any of these items in the new contract. Holding one position vacant will reduce the number of stipends paid out, and thus, the Town will over the life of the contract realize a modest savings as a result.

Education stipends: the Town provides education incentives to officers depending on the level of degree achieved and whether that degree is law enforcement related or not (focused, topical academic work is compensated at a higher level). For purposes of this analysis it has been assumed that the roster will remain stable; this assumption is applied to this area as well, and it is assumed that over the next 3 years the educational attainment of the Police Department workforce will be the same as it is today. It should be noted that this is unlikely to play out this way in reality; there is typically a pattern each year of officers taking courses (that the Town pays for as a matter of State law) and thus it is probable that at least one degree will be finalized. The resulting financial impact is not material and thus, is not factored in to this FIS.

Clothing allowance: the Town provides each sworn officer with a clothing allowance that is not pensionable or factored into the officer's rate of pay. Regardless of rank or seniority, each officer received \$1,350 in fiscal year 2015. This stipend will remain the same for the next three years. As a line item, clothing allowance will be slightly lower given the vacancy that will be left open.

Health and wellness: Under the last contract, the Town paid each officer a \$500 stipend each year for health and wellness. The intent was to provide an incentive for physical fitness, an important aspect of any officer's overall fitness for duty. The rules surrounding the stipend were sometimes not enforced at all and never enforced uniformly. This stipend was due to expire at the end of fiscal year 2015 but the union wanted it to stay in place. A compromise was reached in which the stipend will be discontinued in FY 2017 (as of June 30, 2016).

The impact of the stipends paid to sworn personnel in the union is summarized in the table below.

Budget item	FY 2015 (July 1, 2014-June 30, 2015)	FY 2016	FY 2017	FY 2018	Total change (3 years)
Education	\$ 46,000	\$ 44,250	\$ 44,250	\$ 44,250	\$ (5,250)
Clothing	\$ 40,500	\$ 39,150	\$ 39,150	\$ 39,150	\$ (4,050)
Health and Wellness	\$ 15,000	\$ 14,500	\$ -	\$ -	\$ (30,500)
TOTAL	\$ 101,500	\$ 97,900	\$ 83,400	\$ 83,400	\$ (39,800)

Therefore, the maintenance of one vacancy for the life of the contract, along with a compromise made on one of the stipends, generates a \$39,800 savings for the Town.

INSURANCE BENEFITS

The Town provides union police officers with a substantial package of insurance products that are almost entirely funded by the municipal budget, including: health insurance, coverage for work-related injury, dental insurance, and life insurance (with accidental death and disability rider). There are no changes to any of the benefit plans provided to police officer in this new contract.

Health insurance is the most expensive benefit provided to any of the Town's employees. At the moment, three of the unions representing employees of the Town (including the Police), along with all non-union personnel, participate in a high deductible Blue Cross plan with a health savings account (HSA) that matches the beneficiary's deductible. At this time the deductible for an individual plan is \$2,000 per year and \$4,000 for a family plan. The beneficiary's HSA is fully funded by the Town at the beginning of the benefit year; employees reimburse the Town for 50% of the HSA in pro-rated payroll deductions made over the remainder of the year.

It took a fair amount of negotiating effort to unify the vast majority of Town employees under one health plan with a large deductible. The Town has saved substantially as a result of moving to this health insurance benefit structure. During fiscal years 2014 and 2015, health insurance rates for the Town were even or slightly below those paid in FY 2013. Other communities experienced significant rate increases, as did the private sector. The Town's experience therefore was not only atypical, it was extraordinary.

The rates charged to the Town for health insurance are reviewed every year based upon claims experience and other cost factors. During the benefit year 2015, the Town of Tiverton posted a very large increase in claims – over 24%. After taking various factors into consideration, including two-year smoothing, the Trust increased the Town’s health insurance premium by 13.3% for Fiscal 2016.

There is no way to predict with certainty the rates that might be charged to the Town for health insurance over the remainder of the life of the contract. It should be understood that the police contract includes insurance benefit guarantees that very likely will cost more over time. For illustrative purposes, those costs are factored in at rates that will approach the national health care rate of inflation by the end of the contract on a straight line basis. Presently the health care rate of inflation is estimated to be 6.5% year over year for 2016 by PricewaterhouseCoopers (PwC). The costs of other insurance products are estimated to rise of 9.8% per year (dental), and 13.5% (for work-related injury coverage), in keeping with the 2015-2016 trend. Life insurance rates were up 12% from 2015-2016 but expected to be stable thereafter.

Budget item	FY 2015 (July 1, 2014-June 30, 2015)	FY 2016	FY 2017	FY 2018	Total change (3 years)
Health	\$ 286,528	\$ 318,053	\$ 349,540	\$ 372,261	\$ 180,269
WRI	\$ 28,069	\$ 30,797	\$ 33,907	\$ 36,179	\$ 16,675
Dental	\$ 22,366	\$ 23,568	\$ 25,925	\$ 28,517	\$ 10,911
Life	\$ 11,520	\$ 12,528	\$ 12,528	\$ 12,528	\$ 3,024
TOTAL	\$ 348,483	\$ 384,946	\$ 421,900	\$ 449,485	\$ 210,879

FINANCIAL CONSIDERATION RETURNED TO THE TOWN

It is well publicized that Other Post Retirement Benefits (known as OPEB) must be accounted for and soon will be a mandatory part of the Town’s financial reporting. The accrued liability to the Town’s retirees is a large, long term demand on the resources of the Town. If there is no strategy for funding the Town’s OPEB obligation put in place, the community’s financial position could erode over time, and/or there will be an undue burden on the operating budget in the foreseeable future.

There are several moves required to address the OPEB situation facing the Town. Both the Town and its employees should contribute toward a fund to help lessen the impact of future funding crunches. The administrator and treasurer will be recommending that the Town join the Interlocal Trust’s OPEB Trust Fund, which will invest and manage the Town’s OPEB savings. Unanticipated revenues or a portion thereof could be added to the OPEB funding effort.

This marks the second contract under which the Police will contribute towards OPEB. From FY 2013-FY 2015 the Police contributed 0.5% of base pay toward OPEB. This level will remain for the first two years of the new contract, and then increase to 1% of gross pay in year 3. The financial impact is summarized in the table below.

Budget item	FY 2015 (July 1, 2014-June 30, 2015)	FY 2016	FY 2017	FY 2018	Total change (3 years)
OPEB	\$ 7,994	\$ 7,759	\$ 8,034	\$ 8,324	\$ 136

SUMMARY

The net total cost of the new three year police contract to the Town will be \$234,360, or approximately \$78,120 a year in additional costs. Compared to the department's overall spending on contract-derived expenses, this is about a 3% year over year rate of increase. It is important to note that just about 90% of the increase is driven by the cost of insurance benefits to employees, a cost driver that is uncertain in terms of its actual rate of increase over time and out of the direct control of the Town. Having taken into consideration the entire range of costs driven by the contract, I recommend its final ratification. In looking to the future, I recommend that if national trends in the cost of health care cannot be reined in, it will be necessary to focus the next negotiation with this and all of the Town's other bargaining units on the plan design for health insurance.