



Brian M. Silvia
Finance Director

Joseph J. Solomon
Mayor

CITY OF WARWICK
FINANCE DEPARTMENT
3275 POST ROAD
WARWICK, RHODE ISLAND 02886

To: Honorable Joseph J. Solomon, Mayor
From: Brian M. Silvia, Finance Director *BMS*
CC: Honorable Members, Warwick City Council
Date: 12/6/2019
Re: Fiscal Note PCR-187-19 (Ratification of a new Three Year Contract – Fire)

Attached is a fiscal note pertaining to PCR-187-19 (A Resolution relative to the ratification of a new collective bargaining agreement with Fire Fighters, Local 2748 I.A.F.F., AFL-CO) The contract term for this tentative agreement would be from July 1, 2019 through June 30, 2022. The purpose of the fiscal note is to cite the estimated fiscal impacts of each fiscal year within the tentative agreement. No comment or opinion relative to the merits of the Resolution shall be included, the sole purpose is to outline the estimated technical and fiscal impacts of the tentative agreement.

PCR-187-19 authorizes the Mayor to execute an agreement to fulfill the provisions of the tentative agreement reached with the Warwick Fire Fighters Local 2748, AFL-CO, which establishes a new three (3) year contract commencing on July 1, 2019.

The areas within the tentative agreement which will result in a fiscal impact to the City are as follows:

- Reduction of two personal days
- Reduction of one holiday
- Reduction of four sick days
- An increase of two additional years before a new hire reaches Grade-1
- An increase of two additional years before an employee reaches Grade-2 & Grade-3
- Establishment of an OPEB Trust, with 2% of employee pensionable earnings to be contributed from new hires
- Establishment of Tier-2 benefits for the Fire II Pension Fund, for new hires
- A reduction of the unfunded liability of both fire pension funds as well as a reduction of the pension ARC contributions for each
- Salary increases of 0.00% in Year-1, 2.00% in Year-2 & 2.00% in Year-3

Based on the tentative agreement, the approximate fiscal impact of the agreement by fiscal year is as follows:

- Fiscal Year 2020 (\$613,473)
- Fiscal Year 2021 (\$189,647)
- Fiscal Year 2022 \$407,264
- Estimated Total Impact (\$395,856)

Attached is a spreadsheet analyzing the significant fiscal aspects of the tentative agreement and there overall impact over the term of the proposed contract. Also attached are supporting documents provided by the City's actuaries, illustrating the estimated impact on pension and OPEB obligations of the City, based on the changes within the tentative agreement.

**CITY OF WARWICK
FISCAL IMPACT STATEMENT
PCR-187-19**

| Impacted Sub-Groups | FY 2019 | FY 2020 | Year - 1 | Net | Year - 2 | Net | Year - 3 | Net | Total |
|------------------------------------|---------------------|------------|------------|------------------|------------|------------------|------------|----------------|------------------|
| | Actual (un-audited) | Budget | FY2020 | Change | FY2021 | Change | FY2022 | Change | Impact |
| Annual Base Salary | 14,369,060 | 15,022,817 | 15,022,817 | 0 | 15,353,163 | 330,347 | 15,779,503 | 756,686 | 1,087,032 |
| Personal Days | | 0 | (133,074) | (133,074) | (135,735) | (135,735) | (138,450) | (138,450) | (407,258) |
| Subtotal - Annual Base Salary | 14,369,060 | 15,022,817 | 14,889,743 | (133,074) | 15,217,428 | 194,612 | 15,641,053 | 618,236 | 679,774 |
| Holiday Pay | 974,011 | 931,515 | 864,978 | (66,537) | 882,277 | (49,237) | 899,923 | (31,592) | (147,366) |
| Unused Sick & Payout | 1,540,770 | 424,000 | 253,700 | (170,300) | 153,903 | (270,097) | 148,501 | (275,499) | (715,897) |
| Reduction of Pension ARC (Holiday) | 19,538,653 | 20,480,108 | 20,368,991 | (111,117) | 20,371,213 | (108,895) | 20,373,391 | (106,717) | (326,728) |
| Impact on Overtime & Fringe | 3,709,474 | 3,634,340 | 3,501,895 | (132,445) | 3,678,310 | 43,970 | 3,837,176 | 202,836 | 114,361 |
| Total by Fiscal Year | | | | (613,473) | | (189,647) | | 407,264 | (395,856) |

In addition to the items listed here, it should be noted that the unfunded liability of the Fire I & Fire II Pension funds will have their unfunded actuarial assumed liability reduced by a combined \$1,153,398 based on the changes with regards to holidays within the tentative agreement.

To offset future healthcare costs, future firefighter hires will contribute 2% of pay each year into an OPEB Trust. For a typical firefighter, these contributions (and their earnings) are projected to offset gross retiree healthcare costs by an estimated average of 30% per year.

In year-3 of the tentative agreement, a number of employees are hitting a new threshold with regards to step increases, which is a contractual expense which added to the overall growth in Annual Base Salary in Fiscal Year 2022.



December 5, 2019

Mr. Brian M. Silvia
 Finance Director
 City of Warwick - City Hall
 3275 Post Road
 Warwick, RI 02886

Re: City of Warwick, Rhode Island– Impact of Changes to Holiday Pay Schedule for Active and Retired Firefighters

Dear Brian:

As requested, we have analyzed the impact of actives having one less holiday pay as part of their compensation and retirees being paid one less holiday pay as part of their pensions. We have assumed all current active and retired firefighters would be impacted by this change. Based on data received from the City, we estimate the gross impact to be approximately a 0.45% reduction from current salaries and 0.30% reduction in current benefits. This change would impact the Police Fire I and the Fire II Pension Plans. The following two exhibits provide the impact to the UAAL, Funded Ratio, Actuarially Determined Contribution, Actual City Contribution, Compensation, and Annual Benefit Payments from the Plans.

| Police/Fire I | | | |
|---|--------------|---------------------|-------------|
| | Current | With 1 Less Holiday | Impact |
| Compensation | \$705,610 | \$702,435 | (\$3,175) |
| Annual Benefit Payments | 23,280,192 | 23,223,679 | (\$56,513) |
| UAAL | 228,271,714 | 227,479,054 | (\$792,660) |
| Funded Ratio | 24.2% | 24.3% | 0.1% |
| Estimated Actuarially Determined Contribution for FY21 | \$19,140,981 | \$19,076,508 | (\$64,473) |
| Estimated Actual Fiscal Year Contribution per Funding Policy for FY21 | \$19,455,048 | \$19,455,048 | \$0 |

| Fire II | | | |
|---|--------------|---------------------|-------------|
| | Current | With 1 Less Holiday | Impact |
| Compensation | \$15,114,478 | \$15,046,463 | (\$68,015) |
| Annual Benefit Payments | 1,082,722 | 1,079,473 | (\$3,249) |
| UAAL | 12,711,163 | 12,350,425 | (\$360,738) |
| Funded Ratio | 85.3% | 85.6% | 0.3% |
| Estimated City Contribution Rate for FY21 | 27.19% | 27.03% | (0.16%) |
| Estimated City Contribution for FY21 | \$4,503,151 | \$4,456,507 | (\$46,644) |

As shown, the total reduction in UAAL would be \$1,153,398, with a reduction in Fiscal Year 2021 contributions of \$46,644. Please note that the funding policy for Police/Fire I has a mechanism to increase the contribution by 2.75% per year and is not impacted by this change. However, because the UAAL is smaller and benefit payments are smaller, long term costs to the City would be lower even though shorter term costs are not impacted.

Our analysis was prepared based on member data, financial information, and the actuarial assumptions and methods used in preparing the June 30, 2018, actuarial valuation report, the most recently completed one, and is subject to all of the disclosures contained therein.

The undersigned are independent actuaries and consultants. Joseph P. Newton and Paul T. Wood are Members of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries. Finally, both of the undersigned are experienced in performing valuations for large public retirement systems.

We are available to answer any questions in connection with this valuation of the plan or the information presented in this report.

Sincerely,



Joseph P. Newton, FSA, EA, MAAA



Paul T. Wood, ASA, FCA, MAAA



December 5, 2019

Mr. Brian M. Silvia
 Finance Director
 City of Warwick - City Hall
 3275 Post Road
 Warwick, RI 02886

Re: City of Warwick, Rhode Island Fire II Pension Fund – Impact of Implementing Tier 2 Benefits for New Firefighters

Dear Brian:

As requested, we have analyzed the impact of implementing Tier 2 benefits for new firefighters. As this is a change that only impact future members, it will have no impact on current funding results or contribution amounts, thus we are providing projected results to show the delta as future members are hired into the new Tier. Exhibit I, which shows the projected results assuming all current and future members are in Tier 1, and Exhibit II, which shows the projected results assuming current members are in Tier 1 and all future members are in Tier 2, at the end of this letter provide the detailed projections. The table below summarizes the change in the estimated employer contributions and the unfunded actuarial accrued liability (UAAL) for various years.

| Valuation as of June 30, | Estimated Employer Contributions (in 000s) | | | Unfunded Actuarial Accrued Liability | | |
|--------------------------|--|-----------------------|---------|--------------------------------------|-----------------------|---------|
| | All Members in Tier 1 | New Members in Tier 2 | Change | All Members in Tier 1 | New Members in Tier 2 | Change |
| 2018 | \$ 3,644 | \$ 3,644 | \$ - | \$ 12,711 | \$ 12,711 | \$ - |
| 2022 | 4,852 | 4,744 | (108) | 12,602 | 12,352 | (250) |
| 2027 | 5,361 | 4,922 | (439) | 8,674 | 7,923 | (751) |
| 2032 | 5,575 | 4,690 | (885) | 3,175 | 2,030 | (1,145) |
| 2037 | 5,629 | 4,271 | (1,358) | (1,443) | (2,242) | (799) |

As shown, if future members are granted Tier 2 benefits instead of Tier 1 benefits, then there will be cost savings that will materialize over time. For example, by 2037, the estimated employer contributions assuming new members have Tier 2 benefits are projected to be \$4,271, which is a reduction in contributions of approximately 24%. There is also some reduction in the projected UAAL as the new members are accruing a lower level of benefit.

Mr. Brian M. Silvia
December 5, 2019
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Our analysis was prepared based on member data, financial information, and the actuarial assumptions and methods used in preparing the June 30, 2018, actuarial valuation report, the most recently completed one, and is subject to all of the disclosures contained therein.

The undersigned are independent actuaries and consultants. Joseph P. Newton and Paul T. Wood are Members of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries. Finally, both of the undersigned are experienced in performing valuations for large public retirement systems.

We are available to answer any questions in connection with this valuation of the plan or the information presented in this report.

Sincerely,



Joseph P. Newton, FSA, EA, MAAA



Paul T. Wood, ASA, FCA, MAAA

Exhibit I - City of Warwick - Fire II - All Current and New Members in Tier 1
Projection Results Based on the June 30, 2018 Actuarial Valuation
Investment Return: 6.90% each year

| Valuation as of June 30, | Fiscal Year Ending June 30, | Market Return for Fiscal Year | Projected Payroll (in 000s) | Estimated Contribution Rate | Estimated Employer Contributions (in 000s) | Benefit Payments | Actuarial Accrued Liability (AAL, in 000s) | Actuarial Value of Assets (AVA, in 000s) | Unfunded Actuarial Accrued Liability (UAAL, in 000s) | Funded Ratio |
|--------------------------|-----------------------------|-------------------------------|-----------------------------|-----------------------------|--|------------------|--|--|--|--------------|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) |
| 2018 | 2019 | 6.90% | \$ 15,687 | 23.2% | \$ 3,644 | \$ (1,457) | \$ 86,275 | \$ 73,564 | \$ 12,711 | 85.3% |
| 2019 | 2020 | 6.90% | 16,119 | 26.8% | 4,313 | (1,717) | 96,188 | 82,774 | 13,414 | 86.1% |
| 2020 | 2021 | 6.90% | 16,562 | 27.2% | 4,503 | (2,052) | 106,693 | 93,389 | 13,304 | 87.5% |
| 2021 | 2022 | 6.90% | 17,017 | 27.5% | 4,675 | (2,447) | 117,714 | 104,681 | 13,033 | 88.9% |
| 2022 | 2023 | 6.90% | 17,485 | 27.8% | 4,852 | (2,928) | 129,205 | 116,603 | 12,602 | 90.2% |
| 2023 | 2024 | 6.90% | 17,966 | 27.6% | 4,955 | (3,434) | 141,107 | 129,128 | 11,979 | 91.5% |
| 2024 | 2025 | 6.90% | 18,460 | 27.4% | 5,056 | (3,996) | 153,450 | 142,150 | 11,300 | 92.6% |
| 2025 | 2026 | 6.90% | 18,968 | 27.2% | 5,161 | (4,640) | 166,166 | 155,649 | 10,517 | 93.7% |
| 2026 | 2027 | 6.90% | 19,489 | 27.0% | 5,260 | (5,280) | 179,203 | 169,573 | 9,630 | 94.6% |
| 2027 | 2028 | 6.90% | 20,025 | 26.8% | 5,361 | (5,920) | 192,625 | 183,951 | 8,674 | 95.5% |
| 2028 | 2029 | 6.90% | 20,576 | 26.6% | 5,465 | (6,686) | 206,475 | 198,814 | 7,661 | 96.3% |
| 2029 | 2030 | 6.90% | 21,142 | 26.4% | 5,571 | (7,425) | 220,603 | 214,072 | 6,531 | 97.0% |
| 2030 | 2031 | 6.90% | 21,723 | 26.1% | 5,678 | (8,239) | 235,117 | 229,782 | 5,335 | 97.7% |
| 2031 | 2032 | 6.90% | 22,321 | 24.5% | 5,471 | (9,028) | 249,941 | 245,900 | 4,041 | 98.4% |
| 2032 | 2033 | 6.90% | 22,934 | 24.3% | 5,575 | (9,974) | 265,167 | 261,992 | 3,175 | 98.8% |
| 2033 | 2034 | 6.90% | 23,565 | 24.1% | 5,679 | (10,887) | 280,571 | 278,378 | 2,193 | 99.2% |
| 2034 | 2035 | 6.90% | 24,213 | 23.9% | 5,785 | (11,876) | 296,291 | 295,110 | 1,181 | 99.6% |
| 2035 | 2036 | 6.90% | 24,879 | 23.7% | 5,891 | (12,853) | 312,235 | 312,136 | 99 | 100.0% |
| 2036 | 2037 | 6.90% | 25,563 | 21.6% | 5,509 | (13,902) | 328,477 | 329,493 | (1,016) | 100.3% |
| 2037 | 2038 | 6.90% | 26,266 | 21.4% | 5,629 | (14,928) | 344,926 | 346,369 | (1,443) | 100.4% |



Exhibit II - City of Warwick - Fire II - All Current Members in Tier 1 and New Members in Tier 2
Projection Results Based on the June 30, 2018 Actuarial Valuation
Investment Return: 6.90% each year

| Valuation as of June 30, | Fiscal Year Ending June 30, | Market Return for Fiscal Year | Projected Payroll (in 000s) | Estimated Contribution Rate | Estimated Employer Contributions (in 000s) | Benefit Payments | Actuarial Liability (AAL, in 000s) | Actuarial Value of Assets (AVA, in 000s) | Unfunded Actuarial Accrued Liability (UAAL, in 000s) | Funded Ratio |
|--------------------------|-----------------------------|-------------------------------|-----------------------------|-----------------------------|--|------------------|------------------------------------|--|--|--------------|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) |
| 2018 | 2019 | 6.90% | \$ 15,687 | 23.2% | \$ 3,644 | \$ (1,457) | \$ 86,275 | \$ 73,564 | \$ 12,711 | 85.3% |
| 2019 | 2020 | 6.90% | 16,119 | 26.8% | 4,313 | (1,717) | 96,165 | 82,774 | 13,391 | 86.1% |
| 2020 | 2021 | 6.90% | 16,562 | 27.0% | 4,473 | (2,052) | 106,604 | 93,389 | 13,215 | 87.6% |
| 2021 | 2022 | 6.90% | 17,017 | 27.1% | 4,610 | (2,447) | 117,505 | 104,636 | 12,869 | 89.0% |
| 2022 | 2023 | 6.90% | 17,485 | 27.1% | 4,744 | (2,927) | 128,809 | 116,457 | 12,352 | 90.4% |
| 2023 | 2024 | 6.90% | 17,966 | 26.7% | 4,795 | (3,432) | 140,439 | 128,804 | 11,635 | 91.7% |
| 2024 | 2025 | 6.90% | 18,460 | 26.2% | 4,837 | (3,992) | 152,414 | 141,558 | 10,856 | 92.9% |
| 2025 | 2026 | 6.90% | 18,968 | 25.7% | 4,877 | (4,635) | 164,653 | 154,677 | 9,976 | 93.9% |
| 2026 | 2027 | 6.90% | 19,489 | 25.2% | 4,902 | (5,272) | 177,081 | 168,100 | 8,981 | 94.9% |
| 2027 | 2028 | 6.90% | 20,025 | 24.6% | 4,922 | (5,910) | 189,751 | 181,828 | 7,923 | 95.8% |
| 2028 | 2029 | 6.90% | 20,576 | 24.0% | 4,946 | (6,672) | 202,694 | 195,874 | 6,820 | 96.6% |
| 2029 | 2030 | 6.90% | 21,142 | 23.5% | 4,966 | (7,408) | 215,741 | 210,139 | 5,602 | 97.4% |
| 2030 | 2031 | 6.90% | 21,723 | 22.9% | 4,981 | (8,216) | 228,982 | 224,658 | 4,324 | 98.1% |
| 2031 | 2032 | 6.90% | 22,321 | 21.0% | 4,681 | (8,999) | 242,324 | 239,366 | 2,958 | 98.8% |
| 2032 | 2033 | 6.90% | 22,934 | 20.5% | 4,690 | (9,938) | 255,842 | 253,812 | 2,030 | 99.2% |
| 2033 | 2034 | 6.90% | 23,565 | 19.9% | 4,687 | (10,842) | 269,284 | 268,299 | 985 | 99.6% |
| 2034 | 2035 | 6.90% | 24,213 | 19.3% | 4,680 | (11,820) | 282,764 | 282,843 | (79) | 100.0% |
| 2035 | 2036 | 6.90% | 24,879 | 17.1% | 4,257 | (12,784) | 296,167 | 297,368 | (1,201) | 100.4% |
| 2036 | 2037 | 6.90% | 25,563 | 16.7% | 4,269 | (13,817) | 309,546 | 311,243 | (1,697) | 100.5% |
| 2037 | 2038 | 6.90% | 26,266 | 16.3% | 4,271 | (14,825) | 322,783 | 325,025 | (2,242) | 100.7% |



**City of Warwick, Rhode Island
Fire Union Study
2% of Pay Contributions/Accumulation into an OPEB Trust Account**

The City of Warwick provides medical coverage to various active employee classes upon retirement, including Firefighters. Liabilities for this retiree medical coverage are required to be included on the City's financial statements each year (OPEB; Other Post-Employment Benefits), as required under Government Accounting Standards Board Statement Number 75 (GASB75).

To offset future retiree healthcare costs, future firefighter hires will contribute 2% of pay each year into an OPEB Trust. For a typical firefighter (see below), these contributions (and their earnings) are projected to offset gross retiree healthcare costs by an average of about 30% per year.

The study has been performed based on the various parameters:

Assumptions/specifications

6.9% investment return (the pension plan assumption)
3.0% salary increases
Current est. single premium: \$800/mo.
Healthcare inflation 6% per year, proj. premium: \$4,595/mo.
Tier 2 retirement eligibility: Age 50 and 25 years
2% of pay contribution per year

Sample/typical Firefighter description

Hired at age 25,
becomes a lieutenant at age 35,
becomes a captain at age 45,
retires at age 55.

Total pay levels for contributions

Firefighters currently average \$72,800
Lieutenants current average \$89,000
Captains current average \$98,000

This study has been performed based on the parameters above and data provided by the City of Warwick.

**Edward A. Echeverria, FCA, FSPA, MAAA, EA
Senior Actuary
Danziger & Markhoff LLP
December 2, 2019**