



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 Actual (un-audited)	FY 2020 Budget	Year - 1 FY2020	Net Change	Year - 2 FY2021	Net Change	Year - 3 FY2022	Net Change	Total 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)

Mr. Brian M. Silvia
December 5, 2019
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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 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)	96,165	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**