

FOP Deal 2015 - 2018

Narrative Summary

The contract with the FOP can only address one part of the city's financial equation by reducing the total cost per officer. This contract does that both on an annual basis and over the life of the deal. By itself, the \$1.3 million annual reduction to the MMO payment covers the scheduled pay increases and the other elements (healthcare contributions, ending the 4% early retirement incentive, and slight increases to clothing). Netting the scheduled pay increases, these pension reforms still provide over \$1 million annually in expense relief.

This deal also accomplishes a few milestones.

- The 4% early retirement incentive was eliminated. Future considerations for layoffs will not be impacted by this policy.
- Police will now contribute to healthcare premiums for the first time ever with gradual increases scheduled each year.
- The retirement age for new hires was raised by 5 years.
- Current retirees committed to pension reform netting millions in credits helping to pay down the unfunded liability.

The \$5 million relief coming from current retirees is not included in the above cost out as it will be applied directly to our unfunded liability/past due MMO payments. But that is \$5 million that the general fund will not have to spend to bring those payments current. Since we budget on a cash basis, most of what is needed to bring the MMO current is included in the 2015 budget. The Police MMO payment was originally calculated as \$4.2 million and cannot be reduced below \$0. The difference between \$6.5 million in 2015 credits and the \$4.2 will be applied to the unfunded liability as an actuarial gain. The \$2 million that is still budgeted in this line item will be used to pay off the 2013 police MMO balance first and then pay down the current 2014 obligation.

Please note, the 2015 action will not be represented in the 1/1/15 valuation report. So it will take until the 2017 report to really see the net effect of all of these adjustments. MMO payments are currently behind but this contract goes a long way towards helping us to get caught up by 2016/2017. The pension fund is currently at a 58% funding status now. Coupled with continued market gains, our goal is to reach a 70% funding status by 2017 removing the distressed pension status.

This contract is the first step to reducing the cost per officer, but then the rest of the cost savings will come from reducing the total number of officers. I am confident that if we gradually reduce the number of officers through attrition, we will balance the equation. Right now the total number of officers is 103. We know at least 5 are leaving within the first 6 months of 2015. And from previous experience, we believe that additional officers will

leave over the next 2 years as a result of the uncertainty of the position cuts, coupled with an aging force, and the eligibility to retire. So we expect to be at 95 officers by year end.

Staying at 95 officers would be a stop gap measure. Hopefully we reach that goal through attrition but we are not prohibited from future cuts/layoffs if need be.

Beyond that, it is hard to quantify the value of the training provided to the relatively new officers. The City makes a substantial investment into the academy and on the job training for the new guys. Layoffs mean losing that investment and should be factored into the cost analysis as well.

FOP Deal 2015 - 2018
Long Term Savings
Summary

Current Retirees Pension Reform - one time MMO adjustment. Combined credits cannot exceed \$4.2 million (current MIMO). Balance applied to unfunded liability as actuarial gain

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Active Employee Pension Reform	1,323,330	1,323,330	1,323,330	1,323,330	1,323,330	1,323,330	1,323,330	1,323,330	1,323,330	1,323,330
Employee Healthcare Contributions	29,250	39,000	48,750	58,500	-	-	-	-	-	-
Scheduled Pay Raises (If we retain all officers for the life of the contract)	(181,211)	(370,337)	(566,510)	(767,988)	-	-	-	-	-	-

6,368,303	991,993	805,570	613,842	1,323,330	1,323,330	1,323,330	1,323,330	1,323,330	1,323,330	1,323,330
Cumulative credit to the City										<u>\$ 16,719,688</u>

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Line Item Impact
2015 Budget

	Description	Original	Adjusted	Reduction	Addition
Expense-General Fund					
Police	10-500-40010-00000	\$ 5,477,029	\$ 7,573,724		\$ 2,096,695
	Salary/Wages				
Police	10-500-40030-00000	550,000	450,000	(100,000)	
	Overtime				
Police	10-500-41010-00000	113,410	148,214		34,804
	FICA				
Police	10-500-41021-00000	-	(2,209,362)	(2,209,362)	
	Police Pension-Credit*				
Police	Internal Allocations	3,830,816	4,150,965		320,149
	Allocations**				
		9,971,255	10,113,542	(2,309,362)	2,451,648
Expense-Internal Services					
Risk Management	70-202-40150-00000	4,877,560	5,293,360		415,800
	Health/Dental/Vision Pd. Claims				
Risk Management	70-202-41100-00000	550,000	185,000	(365,000)	
	Unemployment Insurance				
		5,427,560	5,478,360	(365,000)	415,800
Revenue-Internal Services					
Risk Management	70-202-39020-00170	-	(29,250)		(29,250)
	Employee/Health Reimbursements-FOP				
		-	(29,250)	-	(29,250)
		<u>\$ 15,398,815</u>	<u>\$ 15,562,652</u>	<u>\$ (2,674,362)</u>	<u>\$ 2,838,198</u>

*Pension-Credit is \$1.3 million from Active Employees plus \$800k from the \$5.1 million credit from current retirees

**Allocations for other General Fund Departments were reduced