



Office of the Internal Auditor

Memorandum

To: City Council Members
From: Matthew M. Clarkin, Jr., Internal Auditor *MMC*
Date: September 20, 2011
Re: Review of Tentative Agreement with Lodge #3 - Fraternal Order of Police

The Tentative Agreement between the City and the Providence Lodge #3, Fraternal Order of Police (FOP) currently before the City Council covers three separate Collective Bargaining Agreements: July 1, 2007 to June 30, 2010 (FY2008-2010); July 1, 2010 to June 30, 2012 (FY2011-2012); and July 1, 2012 to June 30, 2015 (FY2013-2015). Below is a summary of the major components of the Tentative Agreement.

BUDGET SAVINGS & LAYOFFS

Summary:

The Administration's goal is to realize a minimum of \$6.0 million in "Budgetary Savings" in the police department budget in both fiscal years 2012 and 2013. The Tentative Agreement defines the process of determining budgetary savings as follows: "*Budgetary Savings shall be calculated by subtracting all actual expenditures for salary (except overtime) and benefits for bargaining unit personnel from the sum of all salary lines in the FY '12 budget (except overtime lines) for bargaining unit personnel plus all benefits lines for bargaining unit personnel.*" In addition, the Agreement states that the costs associated with the hiring of police officers that bring the department's manpower to greater than 428 will not be considered in the calculation of Budgetary Savings.

The Administration and FOP have agreed that there will be no police layoffs through June 30, 2015 should there be a minimum of thirty (30) retirements to take effect by October 31, 2011 or a minimum of \$6 .0 million is Budgetary Savings is realized for fiscal 2012.

Findings:

The language in Section I (3) "Conditional Freeze on Police Layoffs" in the Tentative Agreement regarding the conditions that must be met before other savings options, including police layoffs, can occur is unclear. One can read this section to mean that the City must wait to see how many officers take advantage of the retirement incentive and then wait to determine if \$6.0 million in savings was realized in the fiscal 2012 police budget. This interpretation would result in savings from layoffs or other initiatives would not be possible until fiscal 2013.

A baseline budget that the Budgetary Savings is calculated against should be agreed upon between the Administration and the FOP before the contract is approved by the City Council. This will avoid a misunderstanding at the end of fiscal years 2012 and 2013 when the actual Budgetary Savings are determined.

RETIREMENT INCENTIVE

Summary:

Members of the FOP and non-bargaining Police Majors who have accrued 18 or more years of service (including any service buy-backs for military time, etc.) have been offered a retirement incentive. Eligible officers who wish to accept the Retirement Incentive must submit a letter of commitment, no later than September 30, 2011, to the Retirement Office stating that they will retire no later than October 31, 2011.

The major components or highlights of this Retirement Incentive are as follows:

- Up to two (2) years of additional years of service are credited for accrual percentage purposes.
- COLA payments begin after 5 years in lieu of after 3 years.
- Healthcare co-shares are frozen at the current \$600/individual & \$1,200/family.
- Healthcare co-shares are waived for the first two (2) years of retirement.
- Any Salary Stipend effective as of 6/30/13 is included in the calculation of the pension base, without retroactive payments.
- Severance payments (sick and vacation payouts) will be paid as follows: first 25% upon retirement; second 37.5% as of 7/1/12; and the third 37.5% as of 7/1/13.

Findings:

The goal is to achieve a minimum of thirty (30) retirements through the Retirement Incentive Program. Assuming this goal is achieved and zero positions are backfilled, this Incentive will result in the following savings:

Fiscal Year	Projected Net Savings (millions)
FY2012	\$1.10
FY2013	\$1.66
FY2014	\$1.75
FY2015	\$2.44
	<u>\$6.96</u>

The Tentative Agreement mandates that members who take advantage of the Retirement Incentive Program receive their benefit payments no later than the 1st day of the month subsequent to 30 days after the member has retired, even if this requires that pension checks are hand-written. This is an extremely aggressive schedule for the retirement office to comply with, in light of the large number of retirements that resulted from the Local 1033 Retirement Incentive. The issuance of hand-written checks is not a good practice and should be avoided. Therefore, it would be wise to extend the deadline from 30 to 60 days.

SALARIES

Summary:

Fiscal 2012 and 2013: There is not an across-the-board increase to salaries in fiscal years 2012 or 2013. There is a provision in the Agreement that allows for "salary stipends" to be paid should total savings in the police department's budget exceed \$6,000,000 in fiscal 2012 and/or 2013. For each \$330,000 above the \$6.0 million in baseline budget savings, an across-the-board stipend equal to one-percent (1.0%) will be paid. The stipend will be paid up to a maximum of \$1.65 million in savings above the \$6.0 million, which allows for a maximum stipend paid of 5.0%. Savings above \$7.65 million will accrue to the City.

The salary stipend paid to active members as of June 30, 2013 will be included in the calculation of the Pension Payment Base of all retired FOP members who retired after July 1, 2007. There will not be retroactive pension payments made to the retiree.

Findings:

Fiscal 2014 and 2015: A four-percent (4.0%) across-the-board salary increase is scheduled for all members of the FOP effective July 1, 2013 (FY2014) and another four-percent (4.0%) across-the-board salary increase is scheduled for all members of the FOP effective July 1, 2014 (FY2015). Based upon a beginning baseline salary of \$33.3 million for bargaining unit members and the assumption of 30 retirements through the Retirement Incentive, these salary increases will result in additional cost of \$1.25 million in FY2014 and \$2.5 million in FY2015.

<u>Effective Date</u>	<u>\$33,300,000</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
7/1/2007	0.00%	-	-	-	-
7/1/2008	0.00%	-	-	-	-
7/1/2009	0.00%	-	-	-	-
7/1/2010	0.00%	-	-	-	-
7/1/2011	0.00%	*	*	-	-
7/1/2012	0.00%	*	*	-	-
7/1/2013	4.00%	-	-	\$1,249,680	\$1,249,680
7/1/2014	4.00%	-	-	-	\$1,299,667
Total		\$0	\$0	\$1,249,680	\$2,549,347

*Potential "Salary Stipend" based upon budget savings.

NIGHT RELIEF SALARY INCREMENTS

Summary:

Article XIII, Section 1, Subsection (B) of the current Collective Bargaining Agreement requires that any member who works at least two (2) tours of duty (shifts) between the hours of 3:00pm and 8:00am in a regular workweek will receive as salary an additional \$75.00 per week Night Relief Salary Increment.

This Tentative Agreement amends the Night Relief Salary Increment provision so that the \$75.00/week Night Relief Salary Increment is paid when an officer works four (4) full tours of duty in between 3:00pm and 8:00am in a work week.

Findings:

The Police Chief has the ability to control the number of officers who work four full tours of duty between the above-mentioned hours. Since May 1, 2011, the number of officers qualified for the Night Relief Salary Increment has been reduced by twenty-three (23). For the purposes of this analysis, it is assumed that an additional twenty-one (21) officers will have their schedules adjusted and therefore no longer be eligible for the Night Relief Salary Increment. The reduction of the additional 23 officers is projected save approximately \$189,000 in fiscal 2012.

ATTENDANCE BONUS

Summary:

Article IX, Section 5 of the current Collective Bargaining Agreement requires that the City pay an attendance bonus in the amount of \$500.00 to any FOP member who uses zero sick leave days in any calendar year. The FOP has agreed to permanently delete this bonus payment.

Findings:

In fiscal 2011, the police department paid a total of \$89,500 in Attendance Bonuses to FOP members. Therefore, it is assumed that the annual savings from the deletion of the Attendance Bonus will be \$89,500 annually for a total of \$358,000 over the duration of the new CBA.

SICK LEAVE

Summary:

Article IX, Section 2 (b) of the current Collective Bargaining Agreement requires that FOP members be provided fifteen (15) sick days per calendar year. The number of sick days accrued during the period July 1, 2011 through June 30, 2012 (FY2012) will accrue at annual total of ten (10) days.

Findings:

The accrual of five (5) fewer sick days during fiscal 2012 will result in savings in severance pay as officers covered under this Tentative Agreement during July 1, 2011 through June 30, 2012 retire, but it will not have an impact on the police department's FY2012 budget. Savings are assumed to begin in fiscal 2013 and to total approximately \$70,000 over the last three years of the Agreement.

HOLIDAY PAY

Summary:

Article VII, Section 5 of the current Collective Bargaining Agreement requires that the City pay members of the FOP for a total of thirteen (13) holidays. The FOP agrees to waive the holiday payment for Columbus Day for the contract year July 1, 2011 through June 30, 2012 (FY2012).

Findings:

The one-year waiver of holiday payments for Columbus Day 2011 results in savings of approximately \$110,000 in fiscal 2012.

CLOTHING ALLOWANCE

Summary:

Article VIII, Section 2 of the current Collective Bargaining Agreement requires the City to provide bargaining unit members with an annual \$1,000 "Clothing and Equipment Maintenance Allowance". The FOP agrees to waive this payment for the period July 1, 2011 through June 30, 2012 (FY2012).

Findings:

The waiver of the "Clothing and Equipment Maintenance Allowance" is projected to save \$468,000 in fiscal 2012.

HEALTHCARE CO-SHARES

Summary:

- Currently, FOP member's annual, healthcare co-share payments are \$600 for individual health plans and \$1,200 for family health plans. These co-share amounts will increase effective July 1, 2012 (FY2013) should members receive a 3% salary stipend as of June 30, 2012. This stipend is dependent upon the city realizing a total of \$6.99 million in savings in the police budget.
- Effective July 1, 2013, healthcare co-shares will increase to \$900 individual health plans and \$1,800 for family health plans.
- Effective July 1, 2014, healthcare co-shares will increase to \$1,075 individual health plans and \$2,150 for family health plans.

Findings:

Based upon this analysis, a 3.0% salary stipend is very unlikely, and therefore, savings from medical co-share increases in fiscal 2013 has not been assumed. The increases in co-share in fiscal years 2014 and 2015 will result in savings of \$219,000 and \$354,000 respectively.

	FY2012	FY2013	FY14	FY15
Individual Plans	\$0	\$0	\$13,350	\$28,925
Family Plans	\$0	\$0	\$205,200	\$324,900
	\$0	\$0	\$218,550	\$353,825

PENSION CONTRIBUTION

Based upon Buck Consultants' analysis of the Retirement Incentive and an assumption of thirty (30) retirements, the city's pension contribution will increase by approximately \$81,000 in fiscal 2012 and a total of \$697,000 over the period of the Agreement. Buck Consultants also estimates that five years will be needed at a zero backfill percentage to break-even when it comes to the increase to the city's unfunded liability.

COORDINATION OF BENEFITS

Summary:

Savings in the police department's medical budget resulting from a Coordination of Benefits (COB) plan is a significant portion of the total savings projected in the Tentative Agreement. The Administration's plan calls for retired police officers who have access to medical coverage from a current employer to rely on that medical coverage their "active plan". The active plan is the primary policy that will pay medical claims. The city will pay the cost for what is not covered by the retiree's current or active medical plan. In addition, spouses of active police officers who have medical coverage available to them through their employer will be required to make that medical coverage their active plan. The city will pay only the cost for what is not covered by the spouse's medical plan.

Findings:

The Administration has projected that approximately \$1.5 million in medical costs will be saved annually from to the COB for retired and active police officers. These savings are based on the following assumptions:

Retirees:

- 282 pre-Plan 65 retired police officers are on the City's healthcare plan
- 33% of the 282 retirees are employed in a job that offers health benefits
- 81% of these retirees have family coverage
- 80% reduction to the City's cost for these retirees medical benefits
- \$1,205,697 in annual savings (fiscal 2012)

Spouses of Active Officers:

- 333 spouses of police officers
- 25% of the 333 spouses are employed in a job that offers health benefits
- 80% reduction to the City's cost for these spouses of active officers
- \$465,696 in annual savings (fiscal 2012)

In order to realize savings from the COB, the city must send affidavits on an annual basis to all retired and active police officers. Retirees and spouses of active officers must certify whether they have access to health coverage from another employer. If health coverage through another employer is available, the retiree or spouse will be required to provide the city with their insurance company's name and policy number. If a retiree or spouse refuses to comply, the retiree or the spouse's city health benefits will be terminated.

It is estimated that this process will be completed for January 1, 2012. Therefore, actual medical savings for fiscal 2012 is estimated to be approximately \$834,000 of the Administration's annual projection. The savings for the remaining years of the Agreement are based on a 5.0% increase in medical costs.

There are many assumptions made with regards to the Administration's COB plan.

Fiscal Year	Projected Net Savings (millions)
FY2012	\$0.84
FY2013	\$1.75
FY2014	\$1.84
FY2015	\$1.93
	<u>\$6.38</u>

BUDGETARY SAVINGS (MANAGEMENT RIGHTS)

The Administration has other budget savings opportunities and strategies within the police department's budget that they plan to utilize in their attempt to reach their savings goal of \$6.0 million. While the items described below will result in savings in the police department's budget, they are management rights and not a direct result of the negotiations.

DIFFERENTIAL PAYMENT

Summary:

Article XIII, Section 1 (c) of the Collective Bargaining Agreement requires that FOP members who work a forty hour work-week in specific divisions or bureaus are to be paid either a 9.0% or 12.0% salary increment or differential on top of their scheduled wages. A decision was made some years ago to change the work-week for officers and to pay either a 9.0% or 12.0% salary increment or differential on top of their scheduled wages not working in the divisions or bureaus specified in the above-mentioned section. This practice is being changed and is expected to impact 56 officers.

Findings:

The projected savings from strictly adhering to the current contract is projected to save approximately \$338,000 in fiscal 2012 and a total of \$1.4 million over the period of the Agreement.

OVERTIME

Summary:

The leadership of the police department is determined to reduce overtime and callback as much as possible. This effort is based solely on the management rights of the department leadership and not a change that was made through negotiations with the FOP.

Findings:

Through the first two months of fiscal 2012, total callback and overtime has been reduced by close to 59% from the 3-year average for the same period. Assuming that overtime and callback can be maintained at this level for the remainder of the fiscal year, it projected that the department will reduce overtime by approximately \$1.9 million in fiscal 2012 and \$9.1 million during the period of the Agreement.

Budget Savings (Tentative Agreement)

	Fiscal Year				2012-2015
	2012	2013	2014	2015	Total
<u>Retirement Incentive (30 retirements):</u>					
Compensation (Salary, Longevity, Holiday Pay, Health Benefits, Clothing Allowance)	(\$1,499,629)	(\$2,259,908)	(\$2,347,112)	(\$2,437,716)	(\$8,544,364)
Severance (Sick & Vacation)	\$380,850	\$571,260	\$571,260	\$0	\$1,523,370
Medical Co-Share Waiver	\$21,708	\$32,400	\$10,692	\$0	\$64,800
Total Retirement Incentive	(\$1,097,071)	(\$1,656,248)	(\$1,765,160)	(\$2,437,716)	(\$6,956,194)
<u>Salaries:</u>					
7/1/2013	-	-	\$1,249,680	\$1,249,680	
7/1/2014	-	-		\$1,299,667	
Total Salaries	\$0	\$0	\$1,249,680	\$2,549,347	\$3,799,027
Night Relief Salary Increment	(\$189,610)	(\$283,000)	(\$283,000)	(\$283,000)	(\$1,038,610)
Attendance Bonus *	(\$89,500)	(\$89,500)	(\$89,500)	(\$89,500)	(\$358,000)
Sick Leave	\$0	(\$22,404)	(\$23,300)	(\$24,232)	(\$69,937)
Holiday: Columbus Day	(\$110,000)	\$0	\$0	\$0	(\$110,000)
Clothing Allowance	(\$468,000)	\$0	\$0	\$0	(\$468,000)
Healthcare Co-shares	\$0	\$0	(\$218,550)	(\$353,825)	(\$572,375)
Pension Costs	\$81,224	\$162,570	\$204,810	\$247,985	\$696,589
Coordination of Benefits (COB):					
Retirees	(\$602,849)	(\$1,265,982)	(\$1,329,281)	(\$1,395,745)	(\$4,593,856)
Spouses	(\$232,848)	(\$488,980)	(\$513,429)	(\$539,100)	(\$1,774,356)
Total COB	(\$835,696)	(\$1,754,962)	(\$1,842,710)	(\$1,934,845)	(\$6,368,212)
Savings (Tentative Agreement)	(\$2,708,653)	(\$3,643,543)	(\$2,767,730)	(\$2,325,786)	(\$11,445,712)
<u>Budget Savings (Management Rights)</u>					
9.0% and 12% Differential	(\$338,500)	(\$338,500)	(\$352,040)	(\$366,122)	(\$1,395,162)
Overtime & Callback	(\$1,880,000)	(\$1,880,000)	(\$1,955,200)	(\$2,033,408)	(\$7,748,608)
Savings (Management Rights)	(\$2,218,500)	(\$2,218,500)	(\$2,307,240)	(\$2,399,530)	(\$9,143,770)
TOTAL SAVINGS	(\$4,927,153)	(\$5,862,043)	(\$5,074,970)	(\$4,725,316)	(\$20,589,482)
*Additional 15 Retirements	(\$548,535)	(\$828,124)	(\$882,580)	(\$1,218,858)	(\$3,478,097)