

CIVIL SERVICE RETIREMENT STABILITY BENEFIT

Proposed by Garland Fire Fighters Association

**Garland City Council
2017-18 Proposed Budget
August 24, 2017**



Definitions and Clarifications

- **Civil Service Employees – Police and Fire sworn positions**
Fall under Chapter 143 of the Local Government Code
- **General Schedule – for purposes of presentation “All Other Employees”**
- **Texas Municipal Retirement System – primary retirement benefit**
Provides 14:7 match for all general schedule and civil service employees
- **Lincoln Financial 457(b) – currently available with no City contributions**
Maximum contribution of \$18,000 a year – no City matching fund
- **Proposal is from Garland Fire Fighter Association (GFFA) – does not represent civil service employees in Police.**
- **GFFA’s request was for Fire personnel only – all calculations are based on extending equal benefits to Police.**



Issue and GFFA Proposal

Issue:

Comparability of Retirement Benefits

- Garland general schedule employees have mandated Social Security retirement benefits while civil service employees are not currently eligible for coverage.
- Cities with uncovered employees often provide a supplemental retirement plan that is funded by both City and employee contributions.
- Garland does not currently contribute to a supplemental retirement plan for civil service employees unlike its peer cities.



Issue and GFFA Proposal

GFFA Proposal:

Creation of a Civil Service Retirement Stability Benefit (RSB)

- RSB funded with 3% (of gross pay) City contribution and a 4% employee contribution. Contributions would be made into individually owned 457(b) accounts.
- Participation optional but a 4% contribution is required if a civil service employee chooses to participate.
- Based on GFFA's actuaries, total contributions of 7% into a 457(b) would approximate Social Security retirement benefits. (Note 1)

Percentage of Gross Pay	
City contribution	3%
Employee contribution	4%
Total 457(b) Funding Contribution	7%

Note (1) City Administration does not possess or has it reviewed the actuarial work performed for GFFA.



Council Deliberations Past and Present

Previous Council Deliberations:

Council considered an RSB proposal in 2012 and 2014.
Administrative Services Committee in 2012.

Lenses (perspectives) to View RSB:

- (1) Historical – How We Got Here
- (2) Internal Equity
- (3) Competitiveness with Other Cities
- (4) Affordability
- (5) Competing Priorities



Historical Lens

Social Security Timeline

- 1) **1935 - Social Security Act** – excluded local government employees from coverage.
- 2) **1950 - SSA Amended** – to allow coverage for local government employees – except for Police and Fire if they were covered under a separate retirement plan.
- 3) **1959 - Coverage Extended** – to General schedule employees only.
- 4) **1964 - SSA Amended** – allowed coverage to be extended to Police and Fire.
- 5) **1964 - Council Approved a Civil Service Referendum** – allowing Police and Fire to vote on opting into coverage. Both Police and Fire voted not to opt into Social Security.
- 6) **1981 – City Filed to Remove General Schedule Employees** – SSA froze all requests.
- 7) **1983 - Social Security Closes Option** – for employers to opt out of coverage.



Historical Lens

Social Security Options

- **Mandated Social Security Coverage** - for all general schedule employees. Exiting the system is no longer an option.
- **Civil Service Referendum** - would allow each civil service employee the choice to opt into Social Security coverage on an individual basis.
- **Referendum Triggers Mandatory Coverage** – for all new civil service employees at a future cost of approximately \$3.3 million. Not a desirable option for City or employees.
- **No Acceptable Solution through Social Security**

Internal Equity Lens

General and Civil Service Current

	General Schedule	Civil Service
TMRS - Primary retirement benefit	14% : 7%	14% : 7%
Social Security – City paid	6.2%	-
Social Security – Employee withholding <small>(note (1))</small>	6.2%	-
Employee Participation	Mandatory	-

Notes:

(1) Take home pay is 6.2% greater for Civil Service due to not having Social Security withholding.

Internal Equity Lens

General and Civil Service Proposed

	General Schedule	Civil Service
TMRS - Primary retirement benefit	14% : 7%	14% : 7%
Social Security/RSB – City paid	6.2%	3%
Social Security/RSB – Employee paid <small>(note 1)</small>	6.2%	4%
Employee Participation in SS/RSB	Mandatory	Optional
Legal status of funds <small>(note 2)</small>	Entitlement	Owner
Retirement Benefit <small>(note 3)</small>	=	=

Notes:

- (1) Take home pay is 2.2% greater for Civil Service due to differences in employee withholding rates of 6.2% v 4%.
- (2) Upon death of employee – Social Security payments are discontinued, under 457(b) the balance is paid to beneficiaries.
- (3) Social Security and 7% RSB produce comparable retirement benefits per GFFA.



Internal Equity Lens

Actuarial Differences

- How close could civil service employees come to replicating Social Security retirement benefits if they contributed their additional take home pay of 6.2% into a 457(b) account?

Based 2012 GRS actuarial analysis, civil service employees would receive 63% of the benefit level provided by Social Security.

- Actuarial work performed for GFFA indicates that a 7% contribution into a 457(b) account would approximate Social Security benefits.

Would indicate that a City contribution of 0.8% plus the employees' 6.2% in additional take home pay would yield comparable benefits to Social Security.

Assumptions used for GFFA's actuarial work needed in order to reconcile.

Notes:

Do not have a copy of GFFA's actuarial analysis. Would prefer to use one annuity analysis in presenting data to Council if GFFA is amenable to providing a copy.

Competitiveness with Other Cities Lens

Garland's Retirement Benefits v. Peer Cities

Five of Garland's peer cities do not fund Social Security benefits for all classes of employees.

City	Mandatory Optional	Employee Contribution	City Contribution
Lewisville	Optional	4.0% Min	3.76%
Plano	Mandatory	0%	3%
Arlington (50% Match)	Optional	Max 6%	Max 3%
Carrollton	Mandatory	4.65%	2.35%
Irving – Police and General Only	Mandatory	2.5%	2.14%
Garland	NA	0%	0%

- (1) All five peer cities provide some form of supplemental retirement benefits.
- (2) Three of the five require mandatory participation by employees.
- (3) City contribution rates range from 2.14% to 3.76% - average of 2.9%.

Competitiveness with Other Cities Lens

Ability to Attract Candidates

Police Exam Statistics Past Three Years

Exam Year	Exam Applicants	Passed > 70%	Passed > 80%	Leave Within 1 Yr.
2014	245	147	71	2
2015	242	185	118	1
2016	195	133	70	17
Totals	682	465	259	20
Percent		68%	38%	

Passing Applicants Per Position Filled **10:1**

Notes:

- (1) Total entry-level positions filled from 2014-2016 = 45
- (2) Recruiting difficulties in Police are not unique to Garland.

Competitiveness with Other Cities Lens

Ability to Attract Candidates

Fire Exam Statistics Past Three Years

Exam Year	Exam Applicants	Passed > 70%	Passed > 80%	Leave Within 1 Yr.
2014	436	436	171	2
2015	619	464	67	0
2016	571	492	338	2
Totals	1,626	1,392	576	4
Percent		86%	35%	

Passing Applicants Per Position Filled **46:1**

Notes:

- (1) No Fire exams in 2012 or 2013 due to lack of vacancies.
- (2) Total number of entry-level positions filled 2014-16 = 30

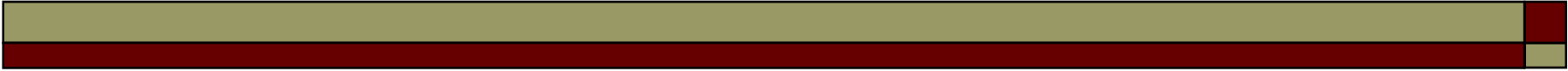
Affordability Lens

Annual Cost of Retirement Stability Benefit

**Retirement Stability Benefit
Annual Cost
3% City Contribution Level**

Participate %	Added Revenue Funded	Funded with Cuts
100%	1,944,000	1,796,000
80%	1,555,000	1,437,000

- (1) Based on voluntary participation rates in other cities, 80% is a reasonable assumption. If RSB becomes a mandatory program, the 100% annual cost numbers would apply.
- (2) Difference in cost between funding with Revenue v Cuts is due to fund balance requirements of 8.22% on increases in total expenditures.
- (3) Revenue funding could be in the form of tax rate or fee increases.



Affordability Lens

Cost Equivalency (Examples Only)

- Tax Rate increase necessary to fund RSB - 1.2 cents
- Growth tax base required to fund RSB - \$365 million
- 16 Police Officers - \$1.36 million
- 24 Neighborhood Code Inspectors - \$1.41 million
- 5 Residential street reconstructions
- 10 Residential alley reconstructions
- 26 Lane mile of asphalt overlays

These examples are to provide a perspective of what \$1.4 million will fund. Should not be interpreted as representing items that would be funded if RSB were not. RSB would most likely be funded by eliminating items currently funded in the Proposed Budget.

Affordability Lens

2017-18 Budget

2017-18 Budget Backing Out One-Time Funds

Budget Categories	On-Going Funds Changes
Ongoing Revenue Increase	9,289,000
<u>Base Budget:</u>	
Salary and benefit increase	4,901,000
Streets/Library - cash funding increase	919,000
Landfill sinking fund for cell dev/closure increase	346,000
Support service and transfer increase	960,000
Total Increase in Base Budget	7,098,000
Available Funds for On-Going Expenses	2,191,000



Fully funding RSB in 2017-18 would use 2/3 of the available funding and leave \$754,000 for all other needs.

Affordability Lens

2017-18 Budget

2017-18 Budget Backing Out One-Time Funds

Budget Categories	On-Going Funds Changes
Available Funds for On-Going Expenses	2,191,000
<u>Funded Requests:</u>	
Police and Fire positions and operating cost	1,134,000
OPEB contribution for retiree healthcare	500,000
Landfill positions and operating cost (critical)	165,000
Parks position, operating cost and downtown events	188,000
Nine other department requests	204,000
Total Funded Requests	2,191,000

Fully funding RSB in 2017-18 is difficult without impacting Public Safety and OPEB.



Affordability Lens

2017-18 Alternative Scenarios Being Evaluated

- Alt (1)** GFFA has submitted a number of items for consideration that would provide full funding of RSB in 2017-18 – being reviewed by Budget/Finance for impacts.

- Alt (2)** Council request to look at impact of allocating the necessary cuts across all General Fund departments to cushion the impact to any one department.

- Alt (3)**
 - (a) Council request to propose cuts in 2017-18 based on different City contribution rates such as 3%, 1.5% and 1%.
 - (b) Multi-year phase-in.

Additional funding alternatives are expected over the next several days.

Goal is to review submitted scenarios with Council at next Budget Work Session.

Affordability Lens

Future Impact of Funding RSB

- Funds necessary to meet RSB contribution will grow each year at the same rate as pay increases.

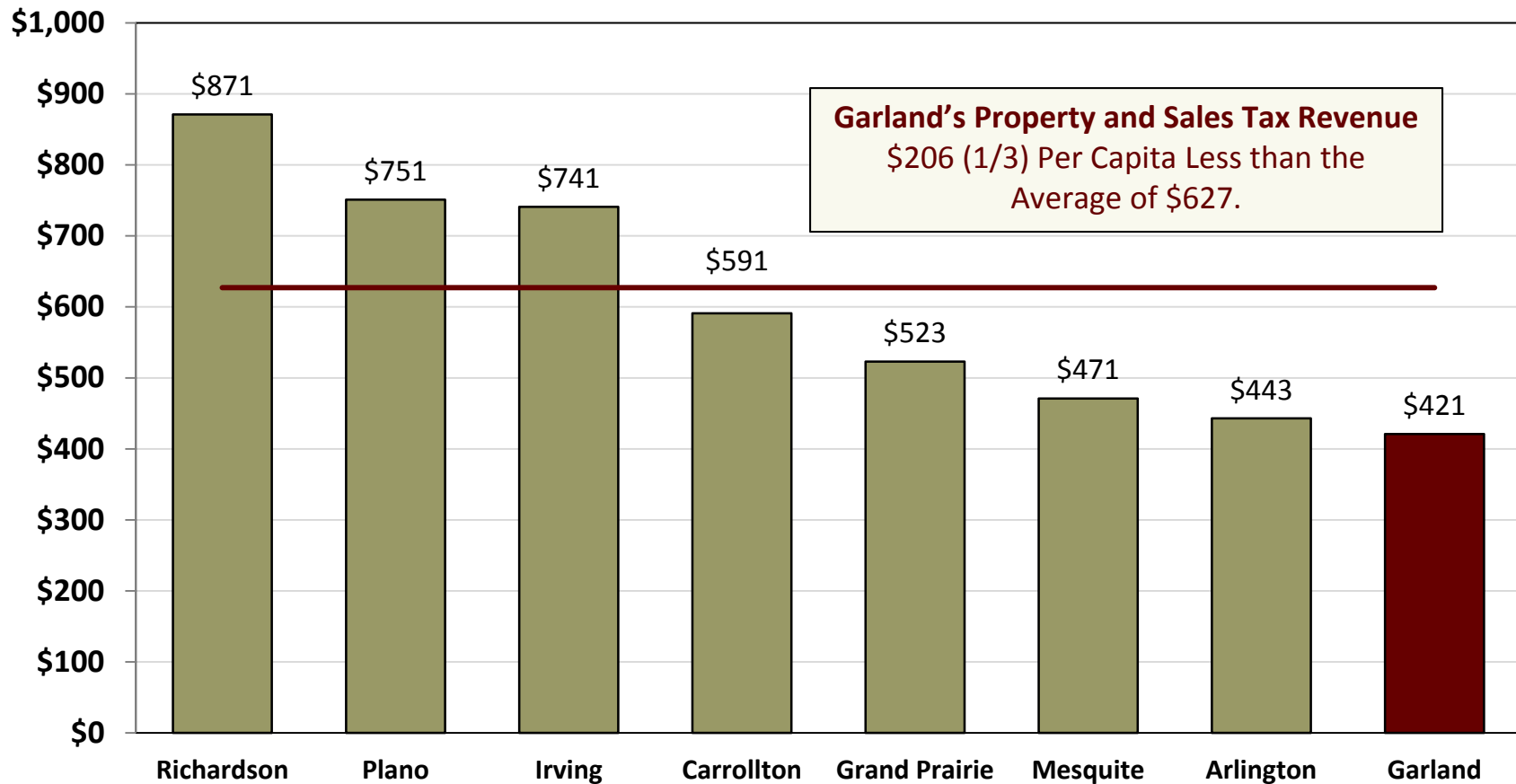
Required RSB Contributions Based on 3% Wage Increases

Excluding New Positions and FBR

Budget	RSB Contribution	Increase
Base Year	1,437,000	
2018-19	1,480,000	43,000
2019-20	1,525,000	88,000
2020-21	1,570,000	133,000
2021-22	1,617,000	180,000
2022-23	1,666,000	229,000

Affordability Lens

Garland's Property and Sales Tax Revenue per Capita



Underlying revenue base makes budget choices difficult in Garland.

Competing Priorities Lens

Many Needs Competing for Few Resources

