

**To the Mayor and Members of the City Council****May 5, 2020**

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SUBJECT: HISTORY REGARDING THE INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS, LOCAL 440 VEBA TRUST TO BE FUNDED BY THE CITY IN THE AMOUNT OF \$1,600,000

The purpose of this Informal Report is to provide a better understanding of the history surrounding the elimination of the subsidy for Retiree Health Insurance for those hired on or after January 1, 2009 and the proposed transfer of \$1.6 million to the Fort Worth Fire Fighters Health Care Trust.

In July 2004, the Governmental Accounting Standards Board passed Statement 45 which required that beginning October 1, 2007, the City must account for non-pension Other Post-Employment Benefits (OPEB), such as retiree health subsidies, in its financial statements. GASB 45 and its successor GASB 75 require employers to recognize the cost of OPEB benefits in the period when services were received, provide information on the actuarial liabilities for the promised benefits, and provide information useful in assessing potential demands on future cash flows.

As a result of this statement, the City worked with actuaries to determine the Unfunded Actuarial Accrued Liability (UAAL) and the Annual Required Contribution (ARC) which would be necessary to pay for future non-pension retiree benefits. In October 2006, the City's UAAL was determined to be \$858M and the ARC was \$89.1M. Should the subsidy continue, it was projected that the 30 year UAAL would be \$4.30B and the ARC would be \$420.63M by 2037. Elimination of the subsidy reduced the UAAL to \$295M and the ARC to \$17.9M by 2037. GASB 75 has replaced GASB 45. The City's UAAL as of September 30, 2019 is \$867M.

As a result of this situation, on September 16, 2008, Ordinance number 18287-09-2008 was passed. The purpose of this Ordinance was to amend Chapter 2, "Administration" Article V "Human resources" of the Code of the City of Fort Worth, Texas (1986) and add section 2-190, Retired Employee Health Coverage. Section d of the amendment reads "The city will not contribute to the cost of health benefits for employees and their dependents upon the retirement of the employee if the employee was hired on or after January 1, 2009."

On April 13, 2010, the City Council approved a Collective Bargaining Agreement (CBA) between the City of Fort Worth, Texas and IAFF Local 440. Article 15 of the CBA, Retiree Health Insurance, confirmed the elimination of the subsidy for the members of the 440 hired on or after January 1, 2009. Additionally, in Article 15, Section 3, the City and the 440 agreed to create a Voluntary Employee Beneficiary Association (VEBA) Trust under Section 501(c)(9) of the Internal Revenue Code of 1986 to help provide subsidies for health care of firefighters hired on or after January 1, 2009. The City agreed to a one-time set aside equal to 2% of firefighters' wages at the time, or \$1.6M, to fund this trust. While at that time a Trust was not established, the \$1.6M commitment was reaffirmed in the CBA approved on October 21, 2014 and again in the CBA approved on June 18, 2019.



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When the IAFF Local 440 opted to develop their own health insurance plan, they created an applicable trust that is acceptable to receive the \$1.6M. As a result, it is now requested the City provide the Trust with the set aside \$1.6M for health benefits for retired firefighters who were hired on or after January 1, 2009.

If you have any additional questions, please contact Brian Dickerson at 817-392-7783.

**David Cooke
City Manager**