The New Police and Firefighter Contracts – Here We Go Again!

- Two years after their last contracts expired, new labor contracts have finally been proposed for police and firefighters that will run for two more years if they are approved by the RTM.
- As presented, the annual average cost per police officer and firefighter will rise from **$115,310** and **$119,956** in 2012-13, respectively, to **$125,030** and **$130,300** in 2016-17.[1]
- Both contracts grant salary increases of **2.5%** in each of the four years covered by the new contracts, and both contracts assume that future healthcare costs will increase at **8%** annually.
- The average annual increase in total compensation for police and firefighters over the four-year period is represented as **2.05%** and **2.09%**, respectively. However, just as Attorney Don Houston understated last November the impact of salary increases granted to teachers by subtracting healthcare-cost concessions without including total healthcare costs in the base, these annual increase numbers for police and fire understate the real impact of these new contracts:
    - By subtracting OPEB- and Pension-cost concessions from salary and healthcare costs without including OPEB and Pension costs in the base; and
    - By including in the analysis the benefit of actual healthcare-cost experience over the last two years that was much more favorable than the 8% trend that is assumed for the future.
- **The only year for which the data as presented show the real impact of the new contracts is 2016-17, which shows police up 2.9% and fire up 3.0%.**
- A 3% annual increase would be slightly less than the 3.2%-3.6% annual increases for the next three years that were recently granted to teachers and school administrators, **<u>but all of these increases are simply unsustainable in the current economic environment.</u>**
- With Fairfield's **tax base** growing slowly if at all, and with **labor costs** representing 70%-80% of total Town spending, **the only way we can keep our tax increases at or below the rate of inflation is to hold increases in public employee compensation to the rate of inflation, which is currently around 1.5%; instead they continue to grow at more than twice that rate.**
- According to the Bureau of Labor Statistics, public employees now make 40% more than private sector employees, with wages and salaries 24% higher and benefit costs 50% higher. Benefit costs are so much higher because, **unlike the vast majority of the taxpayers who must pay for their services**, many public sector workers are still covered under expensive defined-benefit pension plans (instead of defined-contribution plans like 401k's) and many receive exceptionally generous healthcare plans, both before and after retirement, and they generally pay very little of the cost of either of these benefits.
- **Fairfield Taxpayer believes that it is essential to elect people to public office at the local and state levels who acknowledge the problem of excessive public employee compensation and are willing to do something about it.**
- Municipal elections are coming up in November.

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[1] These averages (**<u>which do not include OPEB or Pension costs</u>**) are based on the numbers provided in the "Documents for Collective Bargaining Agreements" that are included in the RTM Packet available at: http://www.fairfieldct.org/filestorage/79/193/22994/26190/julybackup.pdf

<u>We Have a Big Problem</u>

The Town continues to grant compensation increases that ensure that labor costs – which represent at least 70% of total spending[2] – will continue to increase substantially more than the rate of inflation, which means that – in what continues to be a tough general economic environment – our property taxes are likely to continue to increase substantially more than inflation. Spending and taxes in Fairfield have increased 2.5x-3.0x the rate of inflation over the last 17 years **NOT** because we added substantially more and/or better public services, but because the cost of public labor has escalated sharply due to increasingly generous wages, benefits and work rules.

Recent contracts approved by the Board of Education (BOE) for **teachers** and **school administrators** – which alone account for more than one-third of the Town's total spending – granted **3.2%-3.6%** annual increases for the next three years. Then **Department Heads** were granted comparable increases for the current fiscal year, and the **Board of Selectmen** granted themselves (or their successors, if they are not reelected in November) an increase in total compensation of more than 3%. Now the **Police** and **Firefighters** are getting what will be increases of 3%, the full impact of which has been masked primarily by the benefit of better healthcare cost experience in 2013-14 and 2014-15, which could just as easily reverse in the next two years.

No matter how much we love our teachers, administrators, department heads, firefighters, policemen and other Town employees, these continued high increases at the state and local level **<u>are simply not sustainable</u>**. According to the Bureau of Labor Statistics, as of March 2015, total compensation for state and local government workers is already 40% higher ($44.25 per hour) than for workers in private industry ($31.45), with wages and salaries 24% higher and benefit costs 50% higher.[3]

High taxes are driving more and more people and companies out of our Town and our State. It is very discouraging that neither the Town nor the State has been able to even acknowledge the problem of excessive public employee compensation, let alone address it. Fairfield Taxpayer believes that it is essential to elect people to public office at the local and state levels who acknowledge the problem of excessive public employee compensation and are willing to do something about it.

<u>We Can Deny Reality and Even Ignore Reality, but We Can't Escape Reality</u>

The most important new reality is that six years after the Great Recession, the economy, jobs and personal incomes are still growing only slowly in the U.S., and even slower, if at all, in Connecticut. This is a big change from the way things were over the lifetimes of most American adults, upon which basis everyone formed their understanding of the world. For 60 years after WW II, notwithstanding some cyclical ups and downs, things just kept getting better as the United States increasingly dominated the global economy and generated lots of good-paying jobs in the process. Virtually everyone enjoyed remarkable increases in income, and even greater increases in material well-being and living standards (thanks to the benefits of technology, free trade, and lower distribution costs). In the most recent period before the Great Recession, when incomes leveled off, the benefits of technology, free trade and lower distribution costs continued to boost purchasing power, allowing standards of living to continue

[2] Arguably, labor costs are more than 70% of total spending if one includes: professional fees and services; other labor-related costs like "Contingency," which includes an allowance for retroactive wage increases; 70% of the annual contribution to the Surplus; the Supplemental Risk Management contributions to cover labor-related costs; and the labor portion of paving costs. Overall, labor is probably 80% of total spending.

[3] http://www.bls.gov/news.release/ecec.nr0.htm

to rise. And even in the period after the Great Recession, historically low interest rates allowed homeowners to refinance their mortgages and increase their discretionary income.

During this extraordinary, extended period of rising affluence, we unfortunately developed some bad habits that will not serve us well in the new economic reality we face. For example, as long as the rising tide of general prosperity was lifting all ships (and all home values), it didn't seem to matter that we granted more and more generous compensation packages to public employees, and it didn't seem to matter that the Town bodies responsible for approving these contracts did so without considering their longer-term consequences. As a result, as noted above, Fairfield's spending and taxes increased at 2.5x-3.0x the rate of inflation over the past 17 years, NOT because we added substantially more and/or better public services, but because the cost of public labor escalated sharply due to increasingly generous wages, benefits and work rules, as strong, well-organized public-employee unions (aided by legislation they promulgated like binding arbitration, prevailing wages on public construction projects, and constitutional pension protections) dominated outcomes at the bargaining table against weak, short-sighted, politically motivated government negotiators who were supposed to be representing the taxpayers on the other side. Again as noted above, public-sector employees now make 40% more than private-sector employees, not including the protections they enjoy from a web of restrictive work rules that insulate them from the demands for higher productivity that apply to everyone in the private sector.

As long as things kept getting better, neither the politicians nor the voters who elected them were forced to accept responsibility for the long-term consequences of their actions (or inactions). And when things did get bad enough in some towns, cities, regions and states, people were happy to simply "vote with their feet" by moving somewhere else, which is exactly what more and more of our neighbors are doing.

<u>The New Police and Firefighter Contracts</u>

The new contracts for the 94 members of the Firefighters Union and the 101 members of the Police Union provide retroactive annual salary increases of 2.5% for the two years since the last contract expired, and 2.5% increases for the current year and next year. Some concessions on benefit costs that become effective in the current year (i.e., not retroactively), and the substantial benefit over the last two years of reduced healthcare claims, result in lower increases in "total compensation" (i.e., salary plus overtime plus healthcare cost minus employee contributions for healthcare, OPEBs and Pension), **but the underlying trend in healthcare costs is still presumed to be 8%, which means that going forward the underlying trend in total compensation cost is around 3%**. Meanwhile, the Town remains completely at risk for the future cost of generous pension benefits that, for example, allow retirement at age 51 or 25 years after date of hire, with a pension equivalent to 70%-80% of ending salary, with up to a 3% annual cost-of-living increase, and with full healthcare benefits. **With life expectancies continuing to expand, this means the Town could easily be paying firefighters and police for more years after they retire than the number of years they served on active duty.**

The specific concessions on benefit costs were:

- **higher co-pays** (but still **no deductible**, and **no coinsurance**);
- **higher <u>active</u> employee healthcare insurance premium cost share** (13% up from 8.5%, but still way below private-sector cost sharing at 25%-33%, and **no premium cost share for retirees**);

- **higher <u>active</u> employee contributions for so-called OPEBs (Other Post-Employment Benefits)** (2.5% in the current year and 3.25% next year up from 1.5%, but still **no premium cost share for retirees**); and
- **higher <u>active</u> employee pension contributions** (4.75% up from 4.5%, but **no mandatory change from a defined benefit plan to a defined contribution plan [401a] for new employees**).

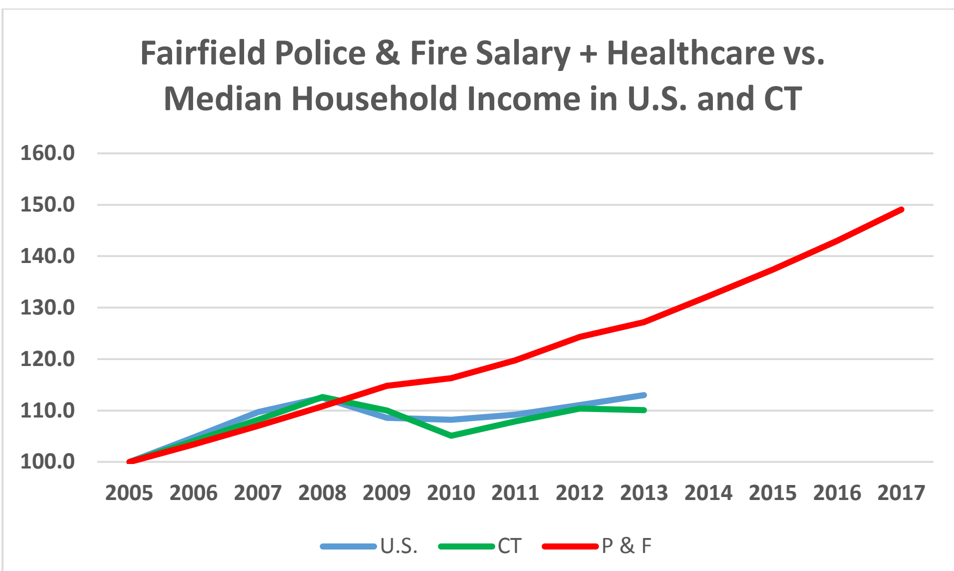
<u>What's Going On in the Real World?</u>

In the real world, private-sector incomes remain under pressure. According to one source, Nominal Median Income in CT is down 2% since 2008,[4] and Real Median Income in CT is down 10% since 2008.[5]

Median Household Income

	Nominal		Real	
	US	**CT**	**US**	**CT**
2013	$52,250	**$67,098**	$52,250	**$67,098**
2012	51,371	67,276	52,117	68,253
2011	50,502	65,753	52,306	68,102
2010	50,046	64,032	53,469	68,411
2009	50,221	67,034	54,541	72,801
2008	52,029	**$68,595**	56,290	**$74,213**
2007	50,740	65,967	57,006	74,113
2006	48,451	63,422	55,978	73,275
2005	46,242	60,941	55,178	72,717

If we assume a 6.5% upward trend in healthcare costs and apply the salary increases that have been granted to police and firefighters since 2005, the graph look like this:



[4] http://www.deptofnumbers.com/income/connecticut/#household
[5] Ibid.

In the real world, average 2013 private-sector **healthcare premium costs** in Connecticut were **$6,002** for a single person and **$16,874** for a family.[6] In contrast, the average 2012-2013 cost of healthcare coverage for police and firefighters (which includes both single and family coverage) in Fairfield was **$21,723** and **$23,047**, respectively.

In the real world, average 2013 private-sector **employee contributions to healthcare premium costs** in Connecticut was **25%** for a single person, and **33%** for a family.[7] In contrast, Fairfield police and firefighters in 2012-13 contributed only **8.5%** of the cost of their healthcare premiums, and in 2015-16 this will increase to only **13%**.

In the real world, average 2013 private-sector **healthcare plan deductibles** in Connecticut was **$1,598** for a single person and **$2,476** for a family.[8] In contrast, Fairfield police and firefighters in 2012-2013 and under the new contracts that extend through 2016-17, have **<u>no deductibles</u>**

<u>Conclusion</u>

As noted earlier, with Fairfield's **tax base** growing slowly if at all, and with **labor costs** representing 70%-80% of total Town spending, **the only way we can keep our tax increases at or below the rate of inflation is to hold increases in public employee compensation to the rate of inflation, which is currently around 1.5%; instead they continue to grow at more than twice that rate. If healthcare costs continue to rise 8% annually and represent almost 20% of total compensation, then the only way to hold the increase in total labor costs at or below 1.5% is with <u>zero</u> salary increases.**

[6] http://www.commonwealthfund.org/~/media/files/publications/issue-brief/2015/jan/1798_schoen_state_trends_2003_2013.pdf
[7] Ibid.
[8] Ibid.