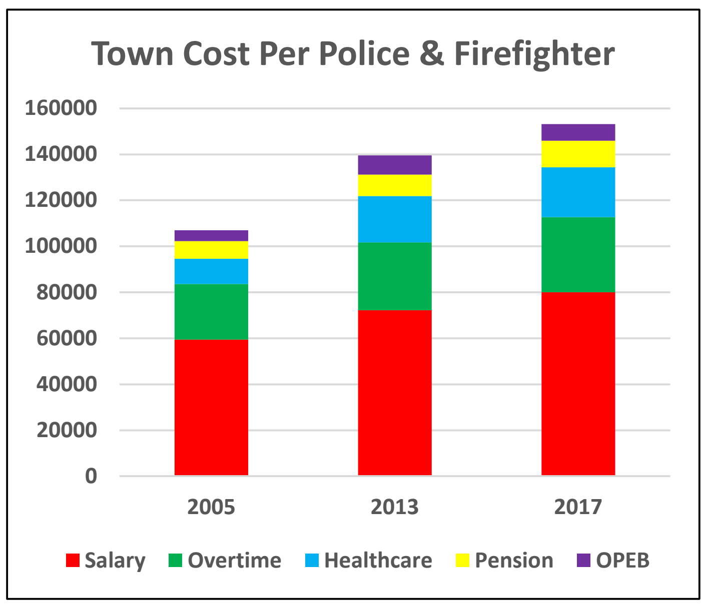
Police and Fire Contracts Approved – Why We Should Worry

On July 27, 2015, the RTM approved new labor contracts for police officers and firefighters. It was standing room only for those who showed up to see what would happen, as it has been at recent RTM meetings to approve new labor contracts for teachers (November 24th) and school administrators (March 19th), and the fiscal 2016 budget (May 4th). **There are several reasons why Fairfield taxpayers should be concerned.**

First, we should worry that the standing-room-only crowds that are showing up at these meetings and who are cheering and applauding when the RTM votes to approve, are not a representative sample of the general public. Instead, they are largely direct beneficiaries of the contracts and budgets being approved, many of whom (70% in the case of police and fire) don't live or pay taxes in Fairfield. The *Fairfield Citizen* described the room on Monday as "packed" with "firefighters and police officers."[1]

Second, we should worry because some of the police officers and firefighters at the meeting on Monday night were on active duty, and some of them reportedly thought it was appropriate to come to the meeting in Fairfield fire trucks.

Third, we should worry because our RTM representatives, who were earlier misled into believing that the annual cost of the new teachers' contract would be only **1.7%** (instead of an actual **3.6%** per year),[2] did not challenge the assertion that with 2.5% annual increases in salaries and with 8% trendline growth in healthcare costs, the cost of the new police and fire contracts could be only **2.05%** and **2.09%** (later revised to **2.24%** and **2.30%**), respectively. In fact, these cost numbers were understated by a fortuitous drop in healthcare and OPEB (Other Post-Retirement Benefits) costs over the past two years (which are also the first two years of this long overdue contract), both of which could easily reverse over the next two years. Excluding these non-recurring windfalls, the annual cost to the Town is **3.35%**, right in line with the recent **3.2%-3.6%** increases for teachers, school administrators and department heads.



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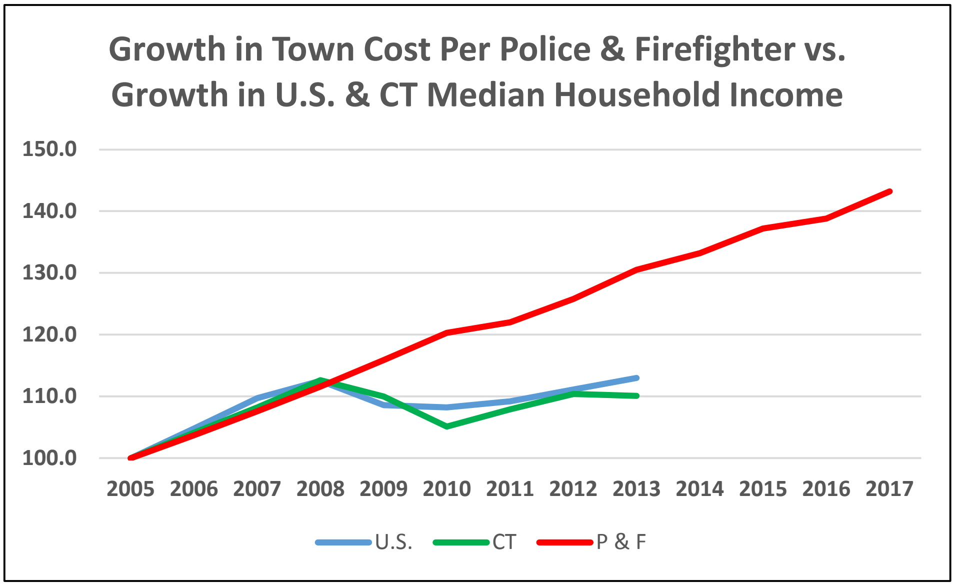
[1] http://www.fairfieldcitizenonline.com/news/article/Amid-bickering-and-abstentions-RTM-OKs-police-6409330.php

[2] http://www.fairfieldtaxpayer.com/uploads/1/1/1/8/11185705/town_budget_approved_--_why_we_should_worry--_final.pdf

Fourth, we should worry because the RTM has approved yet another generous contract that will increase the cost of Public Employee compensation faster than taxpayers' incomes are growing. With a few notable exceptions, RTM members don't seem to understand that ***because labor costs are 70%-80% of total spending, if Fairfield continues to grant these generous labor contracts, our spending and taxes will continue to increase, as they have over the last 17 years, at 2.5x-3.0x the rate of inflation, which will drive more and more people to leave and hurt our property values.***



Fifth, we should worry because, as we have said before, Fairfield's government is run almost entirely by well-meaning volunteers who often don't have the time or expertise to understand the full consequences of the important decisions they are making, who often base their decisions on simplistic platitudes, and who are no match for the professionals who represent the public employee unions, particularly on the uneven playing field created by pro-union state laws like binding arbitration. The Police and Fire contracts provide yet another example of the RTM rushing to judgment and failing to take the time to understand the numbers and their long-term consequences for the Town.

Sixth, we should worry because, notwithstanding the fact that every rational private-sector and nonprofit company has already replaced their defined-benefit retirement plans with defined-contribution plans, the debate at the RTM continues to focus narrowly on the short-term cost of having to pay social security on both salary and overtime, ***and to ignore the potentially massive cost to the Town if investment returns are below the assumed rate of 7.5%***.[3] According to the Town's *Comprehensive Annual Financial Report* (CAFR)[4] even though our pension plans are almost fully funded (99%), ***<u>every one-percentage-point in lower investment return</u> would increase our net liability by a staggering $46 million***. A presentation by the Town's actuarial firm (Hooker & Holcombe, or "H&H") to the Board of Finance (dated 2/25/15 and 3/3/15)[5] indicates that as of 6/30/14, just a **0.5** percentage-point decline (from 7.5% to 7.0%) would increase our annual pension cost by **$3.36 million**, and a **1.5** percentage-point decline (from 7.5% to 6.0%) would increase the annual required contribution by **$10.8 million** (or 3.7% of our total budget of $291 million). Anyone familiar with the stock market knows that

[3] The Investment Return Assumption was reduced from 8.0% to 7.75% in 2011, and to 7.5% in 2012.

[4] http://www.fairfieldct.org/filestorage/10726/11032/12630/15712/2013-2014_Annual_Financial_Report.pdf – See page 63.

[5] http://www.fairfieldct.org/filestorage/10726/11032/12630/12632/27689/27700/PENSION_-_H%26H_Actualrial_Valuation_2.25.2015.pdf

the risk about which we should be concerned is not a one- or two-percentage-point drop, but a 20-percentage-point negative return (a.k.a., a Bear Market) followed by zero returns for an extended period.

Meanwhile, as of 6/30/14, the Town (including Police and Fire) also had a ***$102 million*** unfunded liability for Other Post-Employment Benefits (OPEB), which is primarily healthcare insurance for retirees. Although Fairfield, unlike many Connecticut towns, deserves full credit for having any long-term OPEB funding in place (and for funding its annual required contribution for both Pensions and OPEB), our total OPEB liability is only 17% funded. There is no "sensitivity analysis" in the CAFR or the H&H report that tells us what happens to our net OPEB liability with every one-percentage in lower investment returns, but the actuarial accrued OPEB liability is around **$123 million**, which is about one-third of the pension liability of **$356 million**, and both numbers are based on an assumed 7.5% annual return. So an educated guess would be that a relatively small 1.5-percentage-point decline in the rate-of-return assumption would increase the Town's combined annual cost by **$14.5 million**, or **5%** of our total spending.

Finally, we should care about all this because in November we can elect people who we think understand the problems confronting Fairfield and are willing to address them. This is particularly true for the critical office of First Selectman, the Town's only full-time elected official who can control its spending. In a government that relies primarily on part-time amateurs, if the First Selectman does not provide strong, professional leadership, Fairfield has little hope of being able to continue to prosper.

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NB: We would be happy to share our Excel spreadsheets on the Police and Firefighter contracts with anyone who is interested. Please send any requests to FairfieldTaxpayer@gmail.com.