

Riddles Are Amusing . . . But Not When They Mislead the Public

In his comments to the Board of Finance (BOF) at its Public Forum on Saturday, March 19th, one of the first speakers noted that recent Board of Education (BOE) and Town labor contracts have granted unsustainable 3%-4% annual increases, in part due to inexcusable confusion about their full cost to the Town. He urged the BOF to get involved and use its financial expertise to ensure that the full cost of any new labor contract is presented clearly and accurately to the Town boards and officials responsible for approving them.

Two subsequent speakers at the Forum claimed that the labor costs for their unions (Teachers and Firefighters) were increasing only 2% annually. This disagreement on these critically important numbers demonstrates the importance of getting the BOF involved.

We will illustrate the problem with two riddles.

Riddle #1, which dates back to the 1930s, is offered as an example of how easy it is to misdirect how people think about a set of simple numbers. Riddle #2 looks at how misdirection was an important factor in the more complex consideration of the cost of one recent labor contract that happens to determine about one-third of Fairfield's total spending.

RIDDLE #1: Three men check into a hotel, and the manager charges them \$30 for a room. They split the cost evenly, ten dollars each. Later the manager discovers that the room costs only \$25, and gives the bellboy \$5 to return to the men. The bellboy, decides it is much easier to divide \$3 than \$5 evenly, so he keeps \$2 as a tip and gives \$1 to each of the men. Now each of the men has paid \$9 to stay in the room . . . $3 \times \$9 = \27 . . . the bellboy has \$2 . . . and $\$27 + \$2 = \$29$. So where is the missing \$1?

SOLUTION #1: The confusion results from misdirecting the listener into thinking that the \$2 tip was not part of the \$27 that the three men paid. The three men paid \$27 . . . \$25 of which went to the hotel and \$2 went to the bellhop. It's that simple when explained properly. There was no missing dollar.

RIDDLE #2: The Town grants its Teachers 3.0% annual salary increases, and their healthcare insurance costs are rising 6.5% annually. So, the weighted average annual increase is 3.6%. And yet the President of the Teachers' Union claims in a public meeting – as did others at the time the new contract was approved – that it would cost the taxpayers less than 2.0% each year. Where is the missing 1.6%?

SOLUTION #2: The increased cost to the Town of the new Teachers' contract was first misrepresented by the BOE labor attorney and the BOE Chairman, who told the BOE and the RTM that the savings from union concessions on healthcare costs should be subtracted from the increased cost of higher salaries, on which basis the net increase would be only 1.7% per year. In other words, instead of looking at what would happen to the combined cost to the Town of salaries and healthcare over the life of the contract, the "misdirectors" presented only what the net increase in salary costs would be if one nonsensically subtracted the amount by which healthcare costs would have been even higher without the Union's agreement to share more of those costs. The RTM proceeded to approve the new contract, with some members actually expressing amusement that the rapid-fired numbers from the labor attorney were so complex. The more recent misrepresentation by the President of the Teachers Union at the BOF Public Forum that Teachers were getting only 2% increases was presumably based on the same faulty analysis, ignoring the underlying high rate of inflation in healthcare costs. By the way, in both cases, the increased costs to the Town of "step increases" are also ignored, which pay Teachers more for longevity and for obtaining graduate degrees, both of which may or may not enhance their performance.

Given that labor costs represent 75% of the Town's total spending of almost \$300 million, *it is inexcusable that every responsible Town official, board and body does not know exactly what the cost to the Town will be of any proposed new contract for our public employees.* Our detailed analysis of the Teachers' contract is provided in the Appendix.

RECOMMENDATIONS

So, what can we do to fix this problem? All members of the Town bodies responsible for approving labor contracts (i.e., the BOE for most school system employees, the First Selectman for Town employees, and the RTM for both) clearly MUST be well-informed before voting on them. All recent contract reviews have been problematic for a number of reasons: the information presented was misleading, the data were not clearly laid out, there were often last-minute revisions to the numbers, and the time was inadequate for everyone to understand fully the impact of the contract provisions.

Fairfield Taxpayer makes the following recommendations to the RTM and the BOF:

1. Create a special, bipartisan, standing committee with the responsibility to become experts on the Town's labor contracts, and to present a clear analysis of any proposed contract.
2. Ask this Special Committee to create a standard format in which the most important information about any new labor contract will be presented on a consistent basis, including any changes in salaries, benefits and work rules.

3. Require a waiting period on any labor contract approval by the RTM of at least 21 days.

The objective of the third recommendation is to give RTM members (and the public) enough time to analyze and understand any proposed contract so they can exercise sound judgment when they vote. The exact timing of when new contracts come before the RTM cannot be controlled, but the RTM is allowed 30 days before it is presumed (under State law) to have approved the contract by default. ***This 30-day period should be used to exercise the in-depth due diligence that should be expected of RTM members.*** This may sometimes require scheduling a special meeting for the final vote, but Fairfield Taxpayer believes it would be well worth the cost of a few extra meetings to make sure that the RTM actually understands whether the Town's commitments under these three- or four-year contracts is appropriate. Once again, remember that labor costs represent 75% of our total spending, which has increased over the last 18 years at 2.5x the rate of inflation, which in turn has driven increases in our tax levy at 3.0x the rate of inflation. With our tax base shrinking (down 1.8% based on the 2015 revaluation, and down 7.5% over the last ten years), and with taxpayer incomes flat in nominal terms and down in real terms since 2008,¹ we need to get public labor costs under control.

In addition to leading the RTM's analysis of any proposed labor contract, the Special Committee could also provide an annual report on the impact of union contracts on our spending and taxes, both in the past and in the future. This education process would help the RTM understand what is really at stake and provide a basis for more thoughtful deliberations about what the Town can afford to pay.

Without better information and insight, RTM members are likely to continue to defer to the "experts," and to yield to the usual warnings that a rejection of a proposed contract will simply result in high legal costs with low chances of gaining any further concessions. ***These warnings are, in fact, simply another way of saying that the RTM should just endorse the labor contracts that come to them for approval without any further analysis or judgment – in other words, that they should not do the job they were elected to do.***

Only a well-informed RTM that is willing to act can help the Town gain more than the usual modest concessions in union benefits, which continue to be far more generous than those in the private sector. If we are ever going to control the growth in our spending and taxes, we need to get in front of the labor-contract approval process. Continuing the process as we have in the past will only end up with the RTM being a rubber stamp for contracts that continue to drive unsustainable increases in spending and taxes. We hope the RTM and the BOF will give these proposals serious consideration, and we urge all taxpayers to write to our elected representatives and ask them to address this critical problem.

¹ <http://www.deptofnumbers.com/income/connecticut/#household>

APPENDIX – FINANCIAL ANALYSIS OF TEACHERS’ CONTRACT (All \$ Million)

Seeking the RTM’s approval of a new Teachers’ contract on November 24, 2014, Attorney Donald Houston told RTM members (and BOE Chairman Phil Dwyer confirmed), that although teacher salaries would rise 3% annually under the proposed three-year contract, concessions on healthcare insurance costs would reduce the annual increase to only **1.7%**. The RTM proceeded to approve the new contract by a vote of 37 to 7, with one abstention. The same contract was previously approved by the BOE by a vote of 5 to 4, presumably based on the same data and the same assurances that the net increase was only **1.7%** per year. Here are the data upon which the RTM (and presumably the BOE) relied.

The actual three-year increase in total costs based on these numbers is \$8.8 (\$99.1 minus \$90.3). This represents an increase of 9.8%, which is equivalent to a compounded annual increase of **3.2%**. So

	Cost to the Town (\$ million)					
	Before Concessions			After Concessions		
	Salaries	Health Care	Total	Salaries	Health Care	Total
2014/15 Base	\$75.8	\$14.6	\$90.3	\$75.8	\$14.6	\$90.3
2017/18	<u>82.8</u>	<u>18.3</u>	<u>101.1</u>	<u>82.8</u>	<u>16.3</u>	<u>99.1</u>
3-Year Increase	\$7.0	\$3.7	\$10.8	\$7.0	\$1.8	\$8.8
% Change	9.3%	25.6%	11.9%	9.3%	12.3%	9.8%
CAGR	3.0%	7.9%	3.8%	3.0%	3.9%	3.2%

how did Attorney Houston get to **1.7%**? He started with the three-year increase in Salaries (\$7.0), subtracted an amount by which he claimed Healthcare costs would have increased even more without the concessions (\$3.1), added back the Cadillac Tax (\$0.7), and derived what he claimed was a net three-year increase of \$4.6. He then noted that this number represented 5.1% – or 1.7% per year – of the total compensation base of \$90.3. **However, it is nonsensical to subtract the savings on Healthcare costs from the increase in Salary costs and ignore what is happening to Healthcare costs.**

All this is bad enough, but this story gets even worse. The \$14.5 figure that was used for Healthcare costs in the base year (2014/15) was inaccurate – \$14.5 is what the benefit-cost consultant, Aon, projected the cost of Healthcare would have been, without any concessions, in **2015/16** (the first year of the new contract). Using the correct base number of \$13.5, as indicated in the table below, results in a three-year increase of 11.1%, which is equivalent to a

compounded annual increase of **3.6%**. So, at a time when private sector incomes have been flat to down and our tax base is declining, the RTM approved annual increases in teacher compensation of **3.6%**.

	Cost to the Town (\$ million)					
	Before Concessions			After Concessions		
	Salaries	Health Care	Total	Salaries	Health Care	Total
2014/15 Base	\$75.8	\$13.5	\$89.2	\$75.8	\$13.5	\$89.2
2017/18	<u>\$82.8</u>	<u>\$18.3</u>	<u>\$101.1</u>	<u>\$82.8</u>	<u>\$16.3</u>	<u>\$99.1</u>
3-Year Increase	\$7.0	\$4.8	\$11.8	\$7.0	\$2.9	\$9.9
% Change	9.3%	35.6%	13.3%	9.3%	21.2%	11.1%
CAGR	3.0%	10.7%	4.3%	3.0%	6.6%	3.6%