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Testimony of the Boston Municipal Research Bureau

Before the Boston City Council's Committee of the Whole

December 2, 2013

Regarding: Docket #1597 and Docket #1598 - Funding the JLMC Arbitration Award related to the Boston Police Patrolmen's Association Contract for Fiscal 2014

Mr. Chairman, I am Samuel R. Tyler, President of the Boston Municipal Research Bureau, and I am here to testify in opposition to Docket #1597 and Docket #1598 because we believe that the City Council should not approve the funding for the Boston Police Patrolmen's Association arbitration award as issued by the Arbitration Panel on September 27, 2013 and submitted by the Mayor to the Council on October 3, 2013. Ensuring the City of Boston's financial health is a priority of the Research Bureau and for that reason we bring a whole-city perspective to every financial matter. The Research Bureau is concerned about the current and long-term financial implications of this award for the City. We support a reasonable salary increase for the police patrolmen beyond the City's standard package, but believe that 25.4% is too high. Therefore, we recommend that the City Council not approve the transfer and supplementary appropriation orders before it so that the two parties would be required to return to the bargaining table to negotiate a more appropriate financial agreement in this time of fiscal uncertainty.

Arbitration Award

With salary increases and other compensation factors, this award provides a 25.4% increase in salaries over the six years from July 1, 2010 to June 30, 2016 for a total cost estimated by the Administration at \$87 million. The salary increase of 25.4% is twice as large as the standard salary negotiated with 31 other unions for the same period. The general wage increase is estimated at 13.9% and the arbitrator's efforts to achieve pensionable earnings parity with firefighters resulted in compensation increases for a one-time parity adjustment, more longevity awards, educational incentives to add on to existing Quinn Bill provisions for eligible officers and other increases for those officers not eligible, all of which brought the total salary increase to the higher 25.4%. These will also increase the cost of overtime for the contract term.

Trying to move the patrolmen toward pensionable wage parity with the firefighters is the prime reason the salary increase awarded is so high since it added several cost features beyond the general wage increase. This definition contrasts with the 2010 firefighters' arbitration award that defined parity as

total compensation including overtime and paid detail. The City and public safety unions should decide wage parity over time, not by one arbitration decision that could also cause an escalation of costs in next year's firefighter contract or arbitration award and other contracts in 2016.

Funding the Award - The Administration plans to fund the fiscal 2014 cost of this award with a supplemental budget request of \$16,525,236. Funding of the supplemental will consist of the transfer from the collective bargaining budgeted reserve of \$9,158,530 which represents funds set aside based on the City's offer to the BPPA. The balance of \$7,366,706 will come from other available funds such as additional state aid beyond the budget estimate.

What the City Received - The City Council should also assess what the City received in return for the added compensation provided in the award. The language changes involving union release time and revisions in the compensatory time provisions will be helpful but are not significant changes. Installation of GPS devices in BPD vehicles just follows what has already been negotiated with other city unions. Switching the BPPA members from a 7-day work period to a 28-day work period is consistent with the federal Fair Labor Standards Act (FLSA) and moves the BPPA to the same schedule the other three police unions have been using for several years. Providing for the assignment to Safe Street Teams to be made by the Commissioner based on qualifications and abilities rather than seniority is an improvement, but the arbitrator's decision that SST members will be eligible for paid details and non-SST overtime through Area F (citywide units) is less attractive to the members because they are leftover details with more limited pay potential. That change could influence a patrolman's willingness to serve on Safe Street Teams. Altogether, the contract changes provide some benefits for the City, but they are not commensurate with \$87 million in salaries the taxpayers are asked to pay.

Vacation Buy Back - In addition, the arbitrator increased the vacation buy-back feature from one week to three weeks for officers earning fewer than five weeks vacation and four weeks for officers earning five or more weeks of vacation. Vacation days bought back in a year are considered pensionable income which will increase an officer's pension upon retirement. This provision is consistent with the vacation buy back language in the Detectives' contracts so the BPPA award is focused on parity on two fronts which will only result in the further escalation of future contract costs.

Other Financial Considerations

Beyond the direct costs of this award, the City Council should evaluate other factors that will be influenced by the award.

Impact on Other Contracts - The 25.4% salary increase in this award will have a ripple effect with the contracts with the two Detectives unions, the Superior Officers union as well as the firefighters' union. Prior to this BPPA award, equilibrium of sorts had existed between police officers and firefighters in term of total compensation. The Administration indicated that in 2012, the average BPPA officer earned \$109,847 and the average firefighter earned \$109,090 including details and overtime. A Research Bureau analysis using a slightly difference sample produced similar results. This arbitration award now destabilizes that equilibrium and will likely cause salaries with the other three police union contracts yet to be settled to escalate as well the firefighters' contract still in negotiations.

The ripple effect will carry over to other contracts beyond the City's public safety contracts. The wide disparity of compensation between the police officers and civilian employees in other unions with lower paying positions will incent the non-public safety unions to demand higher and salaries and more benefits in the next round of negotiations. The Boston Teachers Union agreed to the City's standard salary package of 12.3% for the six years, but will be expected to demand higher salaries when negotiations begin in 2016 to make up ground.

Impact on Employee Levels – The possible long-term consequences of the high cost of this award can be seen in the employee trends that have resulted from the City managing through tight fiscal times over the past 11 years and even the last four years. Both time frames show declining employee levels, but a larger percentage of the cut in service areas outside of school and public safety. In the 11 years from January 1, 2002 to January 1, 2013, the number of city-funded employees declined by 1,038 or 6%. The employee levels in the Departments of School, Police and Fire declined by 2.9% but the reduction in the other 44 departments was 15% in aggregate. These three departments represented 77% of the total city-funded payroll as of January 1, 2013, but accounted for only 36% of the total employee loss since 2002. Thus, the other 44 city departments represented 23% of the total workforce but accounted for 64% of the employee loss.

Over the last four years from January 1, 2009 to January 1, 2013, city-funded employee numbers decreased by 746 or 4%. The three largest departments experienced a 3.5% decrease while the other departments in aggregate produced a 7% employee decrease. Also over the last four years, the number of externally funded positions decreased by 2.3% which required some positions to be absorbed in departmental budgets, adding more pressure to their budgets.

State Aid Trends – The City Council must give consideration to how the City will fund this award going forward and those public safety and other contracts that will be decided following this award and in subsequent years. The net property tax and state aid represent 81.5% of the City's total operating budget of \$2.6 billion in fiscal 2014. However, because of the limited growth of state aid and the increase in state assessments, primarily due to the growth of charter school tuition assessments, net state aid available for operations has become a smaller share of the total operating budget. In the past nine years, available net state aid for Boston has decreased from 16.6% of total operating revenues in fiscal 2006 to 9.2% in fiscal 2013 and 8.1% in the fiscal 2014 budget. Thus, the City's second largest revenue source will not be a reliable source to help fund the increasing costs of collective bargaining.

Federal Fund Loss – The decline of federal funds for city operations, especially in the School Department is a factor the City Council should include in its calculations. The School Department experienced a loss of \$19.4 million of external grants in its fiscal 2014 budget, most of which were federal funds for schools with low student performance and/or serving a high percentage of students in poverty. Increased city appropriations for the School Department this year helped mitigate the cuts, but reduced budget flexibility elsewhere.

Fiscal 2015 City Budget – The estimated operating budget for fiscal 2015 prepared by the Administration indicates that next year will be a tight budget with little flexibility even before the BPPA

award was released. Based on estimated expenditure growth for services now provided and estimated revenues, the Administration projected a \$30 million budget shortfall. That shortfall is based on the City's contract offer, not the arbitration award which will increase the shortfall further. The Administration has estimated that the arbitration award will increase the cost for the patrolmen's contract in fiscal 2015 by \$13 million over what had been estimated in the original shortfall projection. The same award for the contracts for the three other police unions is estimated to increase by approximately \$7 million over original estimates, bringing the total additional increase of the award in fiscal 2015 over what was expected to \$20 million.

Thus, the additional \$20 million in fiscal 2014 will carry over to fiscal 2015 and increase the total estimated budget shortfall in fiscal 2015 to approximately \$50 million. With a \$2.6 billion operating budget that will grow in fiscal 2015, this shortfall can be managed, but the size of the estimate does indicate that the next Mayor will have little revenue flexibility in preparing his budget and this award as it now stands will restrict that flexibility even further for fiscal 2015 and beyond.

Conclusion

If the City Council approves the arbitration award, the City will be able to fund the award in fiscal 2015 from reserves and other available revenue. In the next two fiscal years, the cost of the award will be built into the operating budgets. In a tight budget environment with spending for employees representing almost 70% of the total operating budget, a reduction of employees will be one of the few options directly available to Mayor Walsh to fund these contract costs in those years. Few of those cuts would likely come from the public safety uniformed forces. As a condition for federal COPS grants, the City is required to maintain the City's uniform force at 2,185 into 2016. Also the firefighters' contract has established a minimum manning level to be maintained. Thus, the trend established over the 11 years from January 1, 2002 to January 1, 2013 can be expected to continue over the next few years with disproportionate reductions in employee levels in service areas outside of education and public safety.

For all the reasons explained in this statement, the Research Bureau recommends that the City Council not approve Docket #1597 and Docket #1598 so that the parties will be required to return to the bargaining table to reach agreement on a more financially realistic contract consistent with the City's current financial position.