

May 2010

Can Boston Afford the Firefighters' Arbitration Award?

Cost of four-year contract can be covered but implications for the fifth year raise concerns

The paramount issue before the Boston City Council regarding the arbitration award for the firefighters' contract is the extent that the award carries over costs into the fifth year and sets a higher base for the next round of police officer, firefighter and teacher contracts that the City cannot support in this fiscal climate. Whether the City has the resources to pay the cost of the four-year contract ending June 30, 2010 is less of a problem.

The additional 2.5% awarded on the last day of the firefighters' contract, which is also the last day of the fiscal year, carries the payment of those costs over to FY11 which, in essence, create a new starting base for the first year of new contracts starting July 1, 2010 that will be negotiated with the four police unions, the teachers' union and other bargaining units. The Menino Administration included less than 1% for salary increases for other unions in the collective bargaining reserve in its recommended FY11 budget. This dynamic creates a situation, in practical terms, that puts the Mayor's FY11 recommended budget out of balance.

The Administration has estimated that if the members of the four police unions and the teachers' union received a 2.5% raise, the annual cost would increase by \$16M.

What also should weigh heavily in this situation is the fact that the City of Boston is heading into two years of financial uncertainty. In this state election year, the approximate level of local aid cuts is known

based on the House's approved FY11 budget. However, the Senate has yet to act and municipal officials are concerned about the possibility of additional aid reductions in 2011. Fiscal 2012 is expected to bring deeper local aid cuts as far less than the approximately \$2B in one-time revenues planned for the state budget in FY11 will be available in FY12. Notably, federal ARRA stimulus funds for operations will be depleted.

The City has appropriated collective bargaining reserves for the firefighters' contract in each of the four years totaling \$47.8M. Additional reserves for FY11 bring that total to \$68.7M which is \$4.9M less than the Administration's total cost estimate for five years of \$73.6M. That number will decrease slightly when the estimated savings from the firefighters paying 5% more for their health insurance premiums are taken. Not included in these calculations is the increase in pension costs that will result from the higher firefighter earnings.

The 19% salary increase in the arbitration award for four years compares to a negotiated 14% increase for police officers and teachers, a difference of 5% over the same period. This difference will raise the expectations of other unions negotiating new contracts in FY11. The City Council has the fiduciary responsibility to evaluate the new additional costs of the award in FY11 and their financial impact on future employee spending in this economy before acting on the contract.