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CONNECTICUT PUBLIC EMPLOYER LABOR RELATIONS ASSOCIATION

ANNUAL COLLECTIVE BARGAINING WORKSHOP FOR MUNICIPAL AND SCHOOL DISTRICT EMPLOYERS

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I. WHERE HAVE WE BEEN: THE ECONOMIC DOWNTURN AND ITS IMPACT ON PUBLIC SECTOR LABOR NEGOTIATIONS

A. Perspectives on the National Economy:

i. The national economy continues to be in an exceedingly precarious position.

ii. The national unemployment rate stands at 7.8 percent, after rising to as high as 10 percent during the economic downturn.[i] As many as 15.4 million Americans were unemployed, as the deepest and most enduring recession since the 1930s battered America's workforce.[ii] Many economists say it could take at least until 2015 for the unemployment rate to drop down to a historically more normal 5.5%.

iii. The only thing constant about the current housing market is its volatility. During the economic downturn, residential foreclosures skyrocketed. At the height of the recession, more than 10 percent of homeowners missed at least one mortgage payment during the quarter. There are a large number of foreclosures that the housing market still needs to absorb.[iii]

iv. The real estate market remains weak. Housing prices have begun to rise slightly, after having fallen steeply, often by double-digit percentages, during the economic downturn.[iv] Additionally, the building of new homes has essentially halted. The current pace of construction spending and building activity on a national level remains below historic norms. [v] After hitting a two year high in July of last year, the annual pace of new home sales dipped in August. [vi]

v. Consumer spending has also shown ongoing weakness and has improved less than anticipated in recent months after prolonged declines.[vii] This is particularly problematic because consumer spending accounts for 70% of total economic activity. Economists are concerned that consumers could derail the recovery if they save a high percentage of their incomes.

vi. Consumer spending is depressed in part because the credit markets have been hard hit by the recession and loans remain elusive.[viii] The consumer credit markets declined for twenty straight months during the economic downturn.[ix]

vii. Nationally, the impact of the economic downturn on individuals has been severe and far-reaching. The recession claimed nearly 40% of the wealth of Americans, with new figures showing that Americans' net worth has plunged to what it was in 1992.[x]

viii. As federal government attempts to spur growth in the unexpectedly stubborn economy, the federal deficit continues to increase.[xi] The national debt now exceeds $16 trillion, with $1 trillion being added in each of the past 3 years. [xii] Even with repayment at remarkably low interest rates, this large debt carries with it $200 billion per year in interest payments, which is more than the nation spends annually on military operations in Afghanistan, or on Medicaid. [xiii]

ix. The mounting deficit, along with the threat of rapid inflation and the need for the federal government to engage in short-term borrowing and interest rates which will rise, will further dampen economic recovery.[xiv] It is estimated that within the next decade, the federal government's debt service may exceed $700 billion annually.

x. While some people claim that the recession is technically over, recovery is predicted to be slow. The chance of the United States re-entering a recession is at 15%.[xv] With unprecedented demands on their limited finances, Americans will not be able to spend enough to stimulate the economy, and recovery will likely be slower than in prior recessions.

B. Connecticut's Economy:

i. The economic downturn pummeled Connecticut. Connecticut's economy was particularly hard hit due to several factors.

ii. Connecticut's strong ties to the financial sector meant that the State was particularly hard hit when the financial markets declined rapidly and the financial services industry suffered.[xvi] Tens of thousands of jobs were lost, and the State's income tax revenues declined sharply.

iii. In fact, Connecticut experienced massive layoffs in virtually all sectors of the economy and in a wide variety of industries. Many of the State's largest companies conducted significant layoffs.[xvii] Businesses also closed in record numbers.[xviii]

iv. Like all Americans, Connecticut residents have suffered. Unemployment has skyrocketed. Unemployment nearly doubled, to 9 percent, during the economic downturn.[xix] The number of jobless workers seeking compensation jumped from 40,000 in 2007 to 130,000.[xx] The state's unemployment trust fund has been depleted. Personal income declined more in Connecticut than any other state. [xxi] Median household income fell 6.1% from 2009-2010.

v. Connecticut is in a budget crisis. [xxii]. Its general revenue declined by 14.94%;[xxiii] and there was a $3.6 billion budget deficit projected for 2012. [xxiv]

vi. Connecticut paid its full annual pension contribution just three times from 2005 to 2010 and the state has fallen short by $48 billion in setting aside money for paying these pensions. The Pew Center on the States ranks Connecticut's management of its long-term liabilities for pensions and retiree health care as "cause for serious concern" placing us among the "worst of the worst" in the United States. [xxv]

vii. Connecticut's housing market has remained weak and may be a sign of continued pressure on Connecticut's households. Connecticut is leading the nation in declining home prices. [xxvi] Additionally, Connecticut faces a foreclosure backlog with foreclosure filings increasing 139% in July 2012 as compared with a year earlier. [xxvii] A number of Connecticut mortgages falling into delinquent status is *increasing*, defying the sharply declining national trend.[xxviii]

viii. Connecticut's economy is expected to continue to suffer. Economists project that the next 18 months will be dismal for Connecticut's economy in another period of so-called "un-recovery." (Board Book 1, Ex. 74, pg. 1). [xxix] The State has not "seen job creation for 20 years."[xxx] The State has a "shrinking labor force of declining quality . . . [which] is part of a long-term erosion." Id. What's more, some of the jobs that were eliminated during the downturn will not return even once the economy rebounds.[xxxi]

ix. Experts predict that Connecticut will be slow to emerge from the recession and that when the economy finally begins to recover, there will be a "new normal" for the State financially.[xxxii]

C. Town and Municipal Budgets Have Been Hard Hit

i. Connecticut cities and towns have been especially burdened by the economic downturn. Towns and municipalities have suffered on many fronts. Grand lists have been stagnant, real estate values and property values have dropped, other revenue sources (e.g., building permits) are down sharply, and state aid has been reduced.[xxxiii]

ii. These pressures have forced municipal leaders and residents to consider raising taxes or cutting services.[xxxiv] They have been forced to slash jobs, raise taxes and fees, while limiting access to public facilities such as parks and libraries.[xxxv]

iii. To make matters worse, towns and municipalities are forced to finance unfunded state mandates with "money ... they ...can't afford and don't want to spend."[xxxvi] While it is acknowledged that many unfunded mandates were created "with a good public policy intent," cities have been forced to make difficult choices between "paying for mandates [or] . . . taking away from other services." Id.

iv. In addition, school budgets, protected locally by the State's Minimum Budget Requirement, have suffered. School districts have had to endure modest appropriations from cash-strapped municipalities. School budgets have also been propped up with one-time funding, as noted above. There is currently a 14 percent hole in Connecticut's Education Cost Sharing ("ECS") grant. Education budgets are also dependent on other one-time federal funding, including $110 million in one-time federal Education Jobs funding which will expire at the end of the next fiscal year.

v. These economic constraints come at a time when school districts face other pressures. At a time when special education costs are increasing for school districts, the State's Excess Cost Grant for special education was reduced from 100 percent funding to 83 percent during the 2010 fiscal year. In addition, increased entitlements for special education provided under ARRA expired at the end of the 2011 fiscal year. Some districts used this funding to cover the shortfall in the State's Excess Cost Grant payments. School districts must also implement several state and federal mandates, including many which were part of the new education reform law passed last year, Public Act. 12-116.

D. The (Only) "Good" News: The Impact of the Economy on Labor Negotiations

i. Despite the strain that the economy has placed on the private sector, it has provided a negotiating environment more favorable to employers' positions than in recent years.

ii. The impact of the economic downturn on labor negotiations has been significant. Arbitrators in Connecticut have recognized the dire state of public sector finances in cases under both the Teacher Negotiations Act and under MERA. Recent examples include two teacher cases:

Norwalk Board of Education and Norwalk Federation of Teachers (Award Date: 11/12/12) (Arbitration Panel: Foy, Romanow, Gesmonde).

The Norwalk teachers were one of a handful of teacher bargaining units that had not had a year with a hard freeze during the recession. The arbitrators "corrected" that by awarding the Board's salary offer of a hard freeze for the first year of the 2013-14 contract. The Federation prevailed for the second year, with a relatively high cost award of a 2.5% general wage increase plus steps - a total of over 4%. The Board, however, prevailed in getting a salary reopener for the third year. In making that award, the panel stated that "the dysfunctional nature of the current salary structure, and longevity benefits, the generosity of which is unprecedented in the state, are worthy subjects of negotiation in the reopener.

Newtown Board of Education and Newtown Federation of Teachers (Award Date: 12/3/12) (Arbitration Panel: Kosinski, Romanow, Doyle)

The most notable aspect of the decision in the Newtown case is that the arbitration panel chair gave the Board "credit" for the carryover or roll-out of delayed increases, not once but twice. In awarding the Board's offer for 2013-14 of 1% with no step movement, the award calculates the total cost for 2013-14 as 2.3% - taking into consideration the effect in 2013-14 of a mid-year increase that had been granted in 2012-13. Similarly, the panel awarded the Board's 1.5% salary increase, with no step movement, for 2015-16 and in doing so took into account the impact of its decision to award step increases in the second year of the contract on a delayed basis - thus lowering the cash cost in 2014-15, but having full impact in 2015-16.

There have been only seven reported MERA arbitration awards since 1/1/12. Here are the highlights:

City of Norwalk and AFSCME, Public Works (2/28/12)

Wages:

- 2.0% GWI on July 1, 2009 (City LBO)
- 0.0% GWI on July 1, 2010 (City LBO)
- 2.75% GWI on July 1, 2011 (City LBO)

Insurance:

- Increase of 1% (8% to 9%) on employee's health insurance contribution effective July 1, 2009. (City LBO)
- Increase of 1% (9% to 10%) on employee's health insurance contribution effective July 1, 2011. (City LBO)
- Increases not retroactive. (Union LBO)

Town of Westport and AFSCME, Public Works (3/20/12)

Wages:

- 0.0% GWI on July 1, 2009 (Town LBO)
- 2.0% GWI, not retroactive, on July 1, 2010 (Town LBO)
- 2.5% GWI plus step on July 1, 2011 (Union LBO)
- 2.5% GWI on July 1, 2012 (Town LBO)

Insurance - All Town LBOS adopted, including:

- Employee Contribution - 7% 7/1/09 (not retroactive); 9% 7/1/10 (not retroactive); 11% 7/1/11 (retroactive); 11% 7/1/12
- Plan design changes in the PPO, including increase in office visit co-pay to $20.

Pension:

- Defined Contribution Plan for all employees hired on or after the issuance of the award with 5% employer contribution

Town of Manchester and AFSCME Council 15, Police (5/9/12

The Town's offers were all awarded; all were the same as the terms of a tentative agreement that had been rejected by the Union.

The wage increases awarded were:

- 1.75% GWI on July 1, 2010
- 1.50% GWI on July 1, 2011
- 1.50% GWI on July 1, 2012
- 1.00% GWI on July 1, 2013

Town of Thompson and AFSCME, Highway and Town Hall and Sanitation (7/30/12)

This was a one issue case on the proposal by the Town to adopt a defined contribution plan for those hired on or after 7/1/11. The Town prevailed. The terms of the plan call for the employee to contribute a minimum of 4% of annual base pay, with the ability to voluntarily contribute up to the legal maximum, and the Town matching up to 5% employee contributions.

City of Meriden and IAFF (8/20/12)

Wages were the only issues in this case, with the award as follows:

- 0.00% GWI on July 1, 2011 (City LBO)
- 1.75% GWI on July 1, 2012 (City LBO)
- 2.50% GWI on July 1, 2013 (Union LBO)

West Hartford Board of Education, Custodians (9/25/2012)

Insurance:
For the HDHP-HSA Plan, each employee shall pay the following cost of the medical coverage by payroll deduction:

- 8% on July 1, 2013 (Identical LBOs)
- 9% on July 1, 2013 (Identical LBOs)
- 9% on July 1, 2013 (Union LBO)

Pension:

- For hires after 1/1/12- Normal retirement at 30 years of service or age 55. An employee who wishes to retire prior to normal retirement may do so if has at least 25 years of service. The adjustment factor for early retirement is be six percent (6%) for each year prior to normal retirement. (City LBO)

- No automatic post retirement adjustments for new hires. (City LBO)

City of Danbury and IAFF (10/16/12)

This is another "TA" case and the arbitrators awarded what had been in the tentative agreement on all issues.

Wages for the first two years of the contract were not in dispute; only the last two years were in dispute. The final contract includes:

- 0.00% GWI on July 1, 2011
- 2.25% GWI on July 1, 2012
- 2.75% GWI on July 1, 2013
- 2.75% GWI on July 1, 204

The contract also includes a new defined benefit pension plan for those hired on or after January 1, 2012. Among other features, the new plan has requires more years of service to retire and reach the maximum pension, has more steep early retirement reduction factors and provides no automatic post retirement adjustments (which the current plan does).

iii. Economic realities have influenced contract settlements. These settlements had been substantially lower than in years past during 2009-2012, but are rising again. Over the past four years, many contracts have included at least one year of a "hard zero" (no general wage increase and no step movement). This impact continues to be observed, with contract settlements this year trending lower than last year. The impact of the economy on contract settlements can best be evaluated by comparing the pre- and post-downturn settlements, as set forth below.

iv. Average Wage Settlements and Arbitrated Awards Under the Teacher Negotiations Act.

1. Average settlements and/or arbitration awards (so far) during the 2012-2013 negotiation cycle included average general wage increases as follows:

    a. 1.64% in 2013-2014 (avg. total cost 2.69%);

    b. 1.64% in 2014-2015 (avg. total cost 2.84%);

    c. 1.66% in 2015-2016 (avg. total cost 2.87%);

    d. Average general wage increase over three years of 4.94% (total cost 8.4%).

2. Average settlements and/or arbitration awards during the 2011-2012 negotiation cycle included average general wage increases as follows:

    a. 0.27% in 2012-2013 (avg. total cost 0.93%);

    b. 1.26% in 2013-2014 (avg. total cost 2.53%);

c. 1.77% in 2014-2015 (avg. total cost 2.82%);

d. Average general wage increase over three years of 3.30% (total cost .28%).

3. Compare the average general wage increases included in settlements and/or awards during the 2008-2009 negotiation cycle:

   a. 2.31% in 2009-2010 (avg. total cost 3.91%);

   b. 2.24% in 2010-2011 (avg. total cost 4.15%);

   c. 2.40% in 2011-2012 (avg. total cost 4.26%);

   d. Average wage increase over three years of 6.95% (total 12.32%).

4. Prevalence of "hard zeros" during the recent negotiation cycles:

   a. A total of 35 of the 61 (57.4%) settlements during the 2010-2011 negotiation cycle included a "hard zero" for the 2011-2012 contract year.

   b. Comparatively, no hard zeros have been negotiated for the 2013-2014 contract year during the 2012-2013 negotiation cycle, which illustrates that there seems to be a sense that the economy is beginning to improve.

5. Of the four arbitration awards to date, only one has awarded a hard freeze for 2013-2014; the remaining awards were 2.3%, 1.25% (stipulated arbitration award) and 1% (stipulated arbitration award).

v. Average Wage Settlements and Arbitrated Awards: Administrator Units

1. Average settlements and/or arbitration awards during the 2012-2013 negotiation cycle included average general wage increases as follows:

   a. 1.33% in 2013-2014 (avg. total cost 1.59%);

   b. 1.83% in 2014-2015 (avg. total cost 2.16%);

   c. 1.89% in 2015-2016 (avg. total cost 2.19%);

   d. Average general wage increase over three years of 5.05% (total cost 5.94%).

2. Average settlements and/or arbitration awards during the 2011-2012 negotiation cycle included average general wage increases as follows:

    a. 0.74% in 2012-2013 (avg. total cost 0.96%);

    b. 1.59% in 2013-2014 (avg. total cost 1.80%);

    c. 1.98% in 2014-2015 (avg. total cost 2.12%);

    d. Average wage increase over three years of 4.31% (total cost 4.88%).

3. Compare the average general wage increases included in settlements and/or awards during the 2008-2009 negotiation cycle:

    a. 3.15% in 2009-2010 (avg. total cost 3.51%);

    b. 3.24% in 2010-2011 (avg. total cost 3.56%);

    c. 3.36% in 2011-2012 (avg. total cost 3.62%);

    d. Average wage increase over three years of 9.75% (total cost 0.69%).

4. Prevalence of "hard zeros" during recent negotiation cycles:

    a. 24 of the 43 administrator contract settlements or awards in the 2010-2011 negotiation cycle included a "hard zero" for the 2011- contract year.

    b. Today only 5 out of the 24 administrator contract settlements or awards in the 2012-2013 negotiation cycle included a "hard zero" for the 2013-2014 contract year.

FIGURE 1: Settlement Tables

<u>Teacher and Administrator Salary Settlements: 2011-2012 Season</u>

(Including Increment)

Year Effective	*Teachers*	*Administrators*
2012-13	0.93%	0.96%
2013-14	2.53%	1.80%
2014-15	2.82%	2.12%

Teacher and Administrator Salary Settlements: 2011-2012 Season
(Excluding Increment)

Year Effective	*Teachers*	*Administrators*
2012-13	0.27%	0.74%
2013-14	1.26%	1.59%
2014-15	1.77%	1.98%

Teacher and Administrator Salary Settlements: 2012-2013 Season
(Including Increment)

Year Effective	*Teachers*	*Administrators*
2013-14	2.69%	1.59%
2014-15	2.84%	2.16%
2015-16	2.87%	2.19%

Teacher and Administrator Salary Settlements: 2012-2013 Season
(Excluding Increment)

Year Effective	*Teachers*	*Administrators*
2013-14	1.64%	1.33%
2014-15	1.64%	1.83%
2015-16	1.66%	1.89%

vi. Average Wage Settlements and Arbitrated Awards under MERA.

1. Average settlements and/or arbitration awards during the past 12 months included average general wage increases as follows:

   a. .95% in 2011-2012;

   b. 1.33% in 2012-2013;

   c. 2.04% in 2013-2014.

MERA Salary Settlements Over the Past 12 Months

Year Effective	*BOE*	*Municipal**	*Police and Fire*	*Overall*
2010-11		0.63%	0.65%	1.28%
2011-12	0.95%	1.14%	1.16%	3.25%
2012-13	1.33%	1.77%	2.17%	5.27%
2013-14	2.04%	2.15%	2.25%	6.44%

Note: Settlement percentages for MERA negotiations do not include increment.

vii. Concessions: The economic downturn has provided opportunities to open many contracts for mid-term modification.

1. Employers should remember that they can ask, but cannot require, mid-term concession discussions or negotiations. General Rule: Neither party is required to reopen an already negotiated contract.

2. MERA provides for mid-term bargaining as follows:. . . within thirty days *after the date the parties to an existing collective bargaining agreement commence negotiations* to revise said agreement on any matter affecting wages, hours, and other conditions of employment, said board shall notify the municipal employer and municipal employee organization that . . . binding and final arbitration is now imposed on them, provided written notification of such imposition shall be sent by registered mail or certified mail, return receipt requested, to each party. Conn. Gen. Stat. §10-7-473c (b)(1).

3. The TNA provides for mid-term bargaining as follows: The local or regional board of education and the organization designated or elected as the exclusive representative for the appropriate unit, through designated officials or their representatives, which are parties to a collective bargaining agreement, and which, for the purpose of negotiating with respect to salaries, hours and other conditions of employment, *mutually agree to negotiate during the term of the agreement* or are ordered to negotiate said agreement by a body of competent jurisdiction, shall notify the commissioner of the date upon which negotiations commenced within five days after said commencement. If the parties are unable to reach settlement twenty-five days after the date of the commencement of negotiations, the parties shall notify the commissioner of the name of a mutually selected mediator and shall conduct mediation pursuant to the provisions of subsection (b) of this section, notwithstanding the mediation time schedule of subsection (b) of this section. On the fourth day next following the end of the mediation session or on the fiftieth day

following the date of the commencement of negotiations, whichever is sooner, if no settlement is reached the parties shall commence arbitration pursuant to the provisions of subsections (a), (c) and (d) of this section, notwithstanding the reference to the budget submission date. Conn. Gen. Stat. § 10-153f(e).

4. Many unions – notably the Connecticut Education Association -- were resistant to concessions talks, and many units refused to participate in mid-term concession talks, consistent with their rights under State law.

5. Concession agreements in Connecticut vary widely in nature, but include agreements for: furlough days; delay in bargained-for wage increases; insurance cost increases; wage cuts; extension of contracts; revision of health insurance plans; make changes to the work year; waiver of stipends and other allowances.

6. Some agreements have included "no layoff" provisions, though this is not the norm.

7. At the State level, significant concessions were negotiated in the spring of 2009 with the State Employee Bargaining Agent Coalition ("SEBAC"). These concessions resulted in substantial (approximately $637 million over two years) in savings in employee wage and benefit costs. Concessions included changes in retiree health eligibility and funding, health insurance cost sharing by active employees, a one year hard freeze and furlough days. The agreement with SEBAC also included a "no layoff" clause and an Early Retirement Incentive Program that has cost the State millions of dollars to implement, but promises future benefits.

8. In 2011, SEBAC and the individual State employee bargaining units were asked by Governor Malloy to return to the table for further mid-term concessions. The final "pattern" for individual contracts which was worked out by SEBAC and the Governor was a five-year agreement that included:

    A hard zero in 2011-12 (which meant that previously bargained 2.5% increases were given back.

    A hard zero in 2012-13.

    3% general wage increases, plus steps and top step bonuses for each of the three years 2013-2016.

Other economic concessions (e.g., shift differentials frozen for five years, no longevity for new hires).

No layoffs for four years - 2011-2015.

The pension and health care agreement with SEBAC also included Health benefit plan design changes and concessions on retiree medical and pension.

9. Among other considerations, employers should evaluate the relative "pros and cons" of asking for concessions, rather than waiting for the regular negotiation cycle. There are many pros and cons, but the following should be considered:

    a. The risks of "opening up" the contract: Though an employer may wish to only negotiate salary and benefits, for example, a union could raise other issues for negotiation, resulting in more complex negotiations and the possibility of binding interest arbitration. Employers may fare worse in arbitration conducted mid-term.

    b. The relative bargaining position of the parties: An employer may be in a less favorable bargaining position during mid-term concession talks than the employer would be in during regular negotiations, particularly in the current economic climate.

    c. The political implications: Town legislative bodies may desire deeper concessions and could reject any proposed settlement.

    d. The "good will" created by concessions: Unions agreeing to concessions may expect to be "paid back" during next contract negotiation and may have a more favorable case in front of an arbitrator.

viii. Other Elements of Negotiated Agreements in the Current Negotiating Environment.

1. Employers have been able to achieve significant changes to contractual provisions regarding health insurance and other benefits. Common cost-saving approaches include:

    a. Increasing employees' premium cost shares. An employer's ability to achieve increased premium contributions from employees must be considered in light of the prevailing economic conditions, which include 0% wage increases or modest wage increases.

b. Increasing co-pays and deductibles on medical plans. Employers should understand that the actual "savings" from some changes will be minimal. In preparing for and conducting negotiations, employers must need to have a good handle on the changes that are likely to have the greatest impact on costs.

c. Modifying prescription drug plans: Increase co-payments under the existing formulary structure (noting that in order to achieve maximum savings in three-tier structures, there should generally be a $15 difference between tiers); attempting to put a dollar limit (e.g., $2,000) into place. Note that because drug expenses in excess of the maximum will "roll over" to the out-of-network benefit on the medical plan, there will likely be an increase in the medical plan rates.

d. Addressing issues regarding insurance carriers: Employers should ensure that they have strong language concerning the ability to change insurance carriers/plan administrators and should consider putting their insurance proposals out to bid.

e. Implementation of consumer-driven health plans, such as High Deductible Health Plans (HDHP). Previously, trends toward HDHP plans as the primary offering were seen with a number of teacher bargaining units throughout the state, but recently we are seeing this with municipal groups, including public safety groups. For example, Danbury Fire recently moved to an HSA plan as the sole plan, effective January 1, 2013. We are seeing this proposed in other municipalities as well. Other trends in HDHP's include increased deductibles, decreased municipal contributions, and adding a prescription drug rider upon reaching the deductible.

f. Offering of wellness initiatives.

g. Less common strategies of "last resort": Reduction or elimination of employee health care benefits. With respect to retiree health benefits, this option is becoming more commonplace. The Patient Protection and Affordable Care Act complicates this approach with the addition of penalties when not providing health insurance benefits to defined classes of employees.

h. A potential and immediate concern resulting from the Patient Protection and Affordable Care Act is possible penalties for employers of greater than 50 full-time equivalents failing to provide basic adequate medical insurance coverage for full-time employees working 30 or more hours per week. Failure to comply could result under certain defined circumstances in as much as a $2,000 fine for each of the employer's employees, excluding the first 30 employees. This aspect of the Patient Protection and Affordable Care Act goes into effect on January 1, 2014.

i. Retiree medical becoming a thing of the past? There is a current trend toward the reduction or elimination of retiree medical benefits for municipal employees, even in some public safety groups. A prime example of this change is the Waterbury Police interest arbitration award, issued September 30, 2011. Other municipalities moving toward a reduction or elimination of retiree medical include Norwalk, Norwich, West Hartford, and Wethersfield, among others.

2. Employers have also been able to achieve pension changes. Some employers have been able to achieve moves from defined benefit plans to defined contribution plans. Note the July 31, 2012 Thompson interest arbitration case, which is another in a line of cases where Towns have been awarded language grandfathering defined benefit plans and provided new hires with defined contribution plans. In that case, the Town match was equal to five percent (5%) of a participating employee's annual earned wages. Consider potential limitations to such moves for public safety, including the lack of disability benefits. To address this issue, some municipalities are coupling the defined contribution plan with a long-term disability insurance benefits. Others, such as Danbury, are changing public safety defined benefit plans to make them less costly.

II. WHERE ARE WE HEADED

A. How Will the Economy Affect Labor Negotiations Going Forward?

1. The national economy seems to be improving, but the specter of the federal debt, the push to cut spending and the impact of the wind-down of the wars in Iraq and Afghanistan on defense spending cast large shadows. These issues and the apparent inability of the two parties in Congress to work together create uncertainty.

2. At the State level, the deficit may force the legislature to end treatment of municipal aid and education cost sharing as sacred cows. And the Connecticut economy in general has not improved to the same degree as the national economy: there is still nine

percent unemployment; job creation and economic growth are anemic compared to other states. Nor can the legislature continue to ignore the fact that its employee pension plan is, overall, among the worst funded in the country.

3. Local budgets will continue to have the most pervasive fiscal woes. This will likely mean looking for ways to "do more with less" and to economize through such measures as regionalization, shared services, partnerships and other tools.

4. Will these factors be enough to keep wage increases low?

B. What Other Factors Will Influence Negotiations?

1. Changes in the cost of living: The Consumer Price Index had negative growth in 2008-09, and a modest increase of 1.24% in 2009-10. There was a spike to 3.63% in 2010-11 which does not seem to have had a major influence on settlements or arbitration awards. For 2011-2012, the CPI increased by 1.41%. Will rising fuel and food costs mean more significant increases?

2. Rising health care costs and the impact of the Affordable Care Act: Costs continue to rise, and the tax on "Cadiallac" plans is not too far off; employers have to think ahead to 2018.

3. The arbitration statutes' provision for consideration of "other demands" on municipalities and school districts may get more attention than in the past. Consider the impact of Newtown alone: demands for greater police presence in schools as well as other security measures and even structural modifications to buildings; a cry for workers' compensation benefits for post traumatic stress for first responders. And the State mandates seem to never stop coming.

4. The high cost of maintaining pension plans and other post employment benefits will likely continue to pressure cities and towns to seek a paring down of benefits in these areas.

5. "Pent-up demand:" Some unions are saying "enough" - no more concessions, no more wage increases that are below the CPI, four years of that is enough.

[i] http://www.miamiherald.com/2011/02/21/2078202/men-bounce-back-faster-from-recessions.html
[ii] http://www.kansascity.com/2011/02/05/2634128/good-news-bad-news.html;
[iii] http://www.reuters.com/article/2012/10/09/usa-housing-corelogic-idUSL1E8L8A3J20121009;
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