

Second Report

Of the

Ad Hoc Fiscal Task Force

Submitted to the Board of Selectmen Oct. 30, 2009

In response to the task force's interim report issued in July, the Board of Selectmen identified several topics that it asked the task force to investigate further. Issues relating to the town's long-term compensation policies were the top item on the Selectmen's list. As we understand it, the Selectmen's request was that the task force look beyond our recommendation in our interim report, calling for maximum restraint of total employee compensation during the next few years, to offer advice concerning the approach that the town ought to take to compensation of its employees over the longer run.

In response to that request, the task force has held several meetings over the last couple of months, in which we have reviewed the current policies and approaches for employee compensation on the part of both the school department and the municipal departments and have sought to educate ourselves about the issues relating to compensation. On the basis of these explorations, we have sought to identify conclusions and recommendations on which the members of the task force, who represent a wide range of perspectives and approaches, could reach consensus. Although these points of consensus are probably inadequate to ground a full-blown compensation policy, we believe that they may help to provide a foundation on which any such policy should rest.

Our consensus conclusions and recommendations are:

1. The task force explicitly recognizes the essential role of municipal and school employees in providing the skilled, high-quality services the community values so highly. All members of the workforce, and their leaders, are, and must be, involved in determining solutions to the common problems discussed here.

2. Health-benefits costs are escalating at a much faster rate than Lexington's revenues as a whole – problematically so. Slowing the growth in current costs of health-benefit programs and controlling their future inflation are of the highest priority for Lexington's near-term and long-term financial position. We urge as the highest fiscal priority that town management and bargaining-unit leadership promptly agree on ways to effect substantial, lasting, and pervasive savings in employee healthcare benefit costs. We can envision no likely financial scenario in the near-term future or beyond which enables

us to maintain services and our public workforce at current levels without such significant changes.

3. It is essential that the community come together in concerted, focused efforts to address the escalation of total employee compensation costs (of which health benefits are a component of particular concern), in mutually beneficial ways that recognize fully both employees' needs to provide for their families and residents' payment for the services those employees provide so well – in the interests of sustaining quality services now and in the longer term. The success of those efforts will necessarily depend on the quality of both:

- the process of negotiating over the components of compensation (wages and benefits); and

- the information and analyses brought to bear on those negotiations.

4. At present, both town and school compensation policies look beyond salaries to some, but not all, employee benefits in making comparisons to other communities and calculating rates of growth in "total compensation." The task force recommends that both town and schools focus on a true measure of the economic cost of all employee compensation, including salaries, leave and vacation benefits, healthcare and pensions, etc., and use this true measure of total compensation costs for comparisons to other communities and calculation of rates of growth in employee compensation.

5. The task force recognizes that the current division between coalition bargaining over health benefits and unit-by-unit bargaining over other elements of compensation – with the two subjects kept rigidly divided – makes it exceedingly difficult to arrive at agreements for changes in health benefits, even if such changes might be mutually beneficial to town and employees if coordinated with changes in other elements of compensation. In light of the real and increasing problem of health-benefits costs, the task force recommends that the town and the employee bargaining units seek advice from all available sources to devise and use strategic solutions within existing law to coordinate the two aspects of bargaining over compensation. The task force also recommends that the town work with state-level organizations, our legislative delegation, the employee unions, and other interested parties to seek prompt revisions to state law, aimed at eliminating this impediment to linking wage and benefit bargaining in the context of overall negotiations about compensation.

6. During a period of recession, reduced state aid, and likely use of and the subsequent need to replenish town financial reserves, the task force advises the Selectmen not to seek a Proposition 2½ override for regular town and school operating costs until the town has reached agreement with employees on health benefits – such agreement intended to keep the growth of total compensation (as defined above) in line with inflation and the growth in town resources. To the extent that the need for such an override is attributable to growth in health-benefit costs not offset elsewhere in total

compensation, the task force believes that it would be difficult to muster public support for such a measure.

7. In light of the complexity of the strategies available to control health-care costs, and the uncertainty of some of the data necessary to evaluate them, we recommend that the Selectmen continue to make aggressive efforts to obtain and, as appropriate, to disseminate the best possible information on available options.