Testimony of Leo Paul

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on Behalf of the Connecticut Council of Small Towns

Before the Labor Committee

of the Connecticut General Assembly

March 10, 2011

Good afternoon, Senator Prague, Representative Zalaski and members of the Committee. My name is Leo Paul, and I'm the First Selectman of the Town of Litchfield. I'm testifying today in my capacity as member of the Board of Directors of the Connecticut Council of Small Towns and as Chairman of the Litchfield Hills Council of Elected Officials. COST represents the interests of Connecticut's suburban and rural communities under 30,000 in population.

Connecticut's small towns and cities are once again facing enormous pressure to hold the line on local budget and property tax increases although local pension and benefit costs are escalating at an alarming rate. While we recognize that the state is not in a position to increase municipal aid, it can act now to relieve some of the burdens on our small towns and cities by addressing long-standing concerns with unfunded mandates.

The big driver of local budgets is negotiated union contracts with both educational and municipal employees – an area over which local government and citizens have little control. An increasingly unmanageable portion of the local union contract budgets are salaries and benefits. Unfortunately, under the current binding arbitration mandate, towns have very few options with which to negotiate any savings.

In order to enact meaningful mandate relief, the legislature must address changes in our binding arbitration laws to create a more balanced process that ensures that towns can negotiate salary and benefit packages that are fair and consistent with other community needs.

We therefore applaud the committee in raising the following bills:

1. SB-989 - AN ACT CONCERNING RESERVE FUND BALANCES AND CHANGES TO MUNICIPAL BINDING ARBITRATION.

COST ***strongly supports*** **SB-989**, which will provide that a town's fund balance is not taken into consideration in determining binding arbitration awards.

The original purpose of the binding arbitration laws was to avoid and prevent strikes by public sector employees. It has since morphed into a system that is extremely expensive and unfair to the taxpayers for resolving negotiations.

Although the law requires some consideration of a town's ability to pay, it is given more weight than it should in the arbitration process. Towns make a conscious effort to maintain a healthy reserve fund balance, not so we have the ability to pay in arbitration cases; we manage our fund balance to save money that tax payers are asked to pay in debt service cost for those towns which carry debt. For those Towns who do not carry debt, the reserved fund balance is their way of setting aside monies that they anticipate will be needed for upcoming capital projects, they pay for their capital projects through pay-as-you-go by removing the funds they've worked hard to save over years – considering fund balance as an "ability to pay" completely undermines the process of saving for future capital needs. Reserved fund balances serve a purpose other than paying its union employees – it's there and maintained at as high a level as possible, and within reason, because it is a critical factor in determining bond ratings. Litchfield, the town for which I am its First Selectman currently holds a reserve fund balance of 13.7%. We do carry debt and as recent as this past month issued short-term debt (Bond Anticipation Notes), at .67%, something we would not have been able to do but for our healthy fund balance and an outstanding bond rating. The bond rating and fund balance, along with other factors, go hand-in-hand; fund balance being a critical part of the equation. Continuing the practice of allowing an arbitration board and union representatives to site fund balance as justification for higher awards, undermines the efforts of the Town to offer lower debt service cost to taxpayers or limits the ability of municipalities to save cash for pay-as-you-go capital projects.

Towns maintain adequate fund balances in order to ensure fiscal stability. Under the current binding arbitration process, towns are penalized for this practice because union representatives point to the town's fund balance and argue that it demonstrates that a town can indeed afford an increased award. Siphoning off the fund balance to pay for increased employee benefits can adversely affect a municipality's bond rating, which will then result in increased interest costs for towns and their taxpayers. In addition, by restricting the town's ability to either save a reserved fund balance for pay-as-you-go capital projects or maintaining a reasonable reserved fund balance to achieve the best bond rating possible, could have a detrimental effect on a town's capital infrastructure.

By requiring arbitrators to disregard a community's fund balance, SB-989 would be an important step forward in ensuring that the law truly reflects the purpose of reserved fund balance.

2. HB-6409 - AN ACT REQUIRING NEUTRAL MUNICIPAL ARBITRATORS BE MEMBERS OF THE AMERICAN ARBITRATION ASSOCIATION.

COST also ***strongly supports*** **HB-6409**, which will simply require arbitrators to be AAA certified.

The law requires the appointment of neutral arbitrators. However, in practice, some of these so-called neutral arbitrators are anything but. To enhance the integrity of the binding arbitration process, we believe all arbitrators should be certified by a professional and unbiased neutral organization, such as the American Arbitration Association (AAA). AAA-assigned arbitrators should come from outside of the State and have no prior knowledge of the circumstances at issue.

This will ensure greater fairness and respect throughout the process and give everyone at the table greater confidence in a balanced outcome.