

2017 REPORT

OF THE

GOVERNOR'S APPOINTEES TO THE POLICE AND FIRE

PUBLIC INTEREST

ARBITRATION IMPACT TASK FORCE

September 26, 2017

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**GOVERNOR'S APPOINTEES TO THE
POLICE AND FIRE PUBLIC INTEREST
ARBITRATION IMPACT TASK FORCE**

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Executive Summary

Pursuant to N.J.S.A. 34:13A-16.8, the Legislature established the Police and Fire Public Interest Arbitration Impact Task Force. The Task Force is comprised of eight members, four appointed by the Governor, two appointed by the Senate President and two appointed by the Speaker of the General Assembly. The Chair of the Public Employment Relations Commission served as non-voting Executive Director.

The Task Force was charged with studying the effect and impact of the P.L. 2010, c.105 and P.L. 2014, c.11 amendments on arbitration awards, property taxes, government expenditures, collective negotiation agreements, police salaries, personnel, and crime. Over the course of six years of study, the Task Force issued three annual reports and a March 19, 2014 final report. In its March 19, 2014 final report, the Task Force made certain recommendations regarding the interest arbitration process and the cornerstone of the 2010 interest arbitration amendments, the 2% base salary cap in interest arbitration. This proposed Final Report was introduced at a meeting of the Task Force held on September 25, 2017, in Trenton, New Jersey.¹ Following discussion, a motion was heard to adopt this Final Report and issue it to the Governor and Legislature pursuant to N.J.S.A. 34:13A-16.8. The vote was deadlocked, with all four Governor Appointees voting in favor of this Final Report, and all four Appointees of the Legislature voting against. It is the view of the Governor's Appointees that the data set forth herein, gathered from numerous sources and consistent with all prior reports of the Task Force, is too important to be kept from the public. Accordingly, the Governor's Appointees hereby issue this Report for consideration by the Governor, the Legislature and the public.

The principal goal of the 2010 and 2014 amendments was to provide public employers with the tools they needed to comply with the more stringent 2% tax levy cap. Without these reforms, public employers were placed in the untenable position of having to limit their budgets to the 2% tax levy cap, while at the same time having little control over one of the largest line items in their budget – police and fire salaries. The data reviewed by the Task Force confirms that the 2010 and 2014 amendments have provided the necessary tools for public employers to meaningfully comply with the 2% tax levy cap.

Overall, the data shows a continual trend of reducing the number of petitions filed for interest arbitration, a reduction in the number of open interest arbitration matters, and a reduction in the number of appeals to PERC and the courts following an interest arbitration award. In short, the amendments have had a profound effect on limiting interest arbitration to a procedure of last resort, leaving it to the parties to settle labor contracts through direct negotiation and within budgetary constraints. In those cases in which one or both parties pursues interest arbitration, the data confirms that the amendments have provided for an efficient and cost-effective procedure to settle labor contracts.

Of course, in order to enable public employers to restrain increased costs within the 2% tax levy cap, public employers needed a tool to restrain increases to police and fire salaries, especially when labor disputes are submitted to interest arbitration. The data reviewed by the Task Force confirms that the 2% cap has provided that tool. Since the inception of the law, the average annual base salary increase provided in interest arbitration awards subject to the 2% cap is 1.85%. Even in voluntary settlements to which the 2% cap does not apply, the data confirms that the cap law has had a profound effect. Indeed, the data shows

¹ Certain changes have been made to this Report from the version introduced to the Task Force, primarily to reflect that this Report is being issued by the Governor's Appointees, as opposed to the Task Force.

that for interest arbitration cases subject to the 2% cap settled before an interest arbitration award was issued, the average annual increase to base salary was 1.80%. These numbers are a stark contrast to the average annual increases that were reported to PERC prior to the effective date of the 2010 amendments.² Not surprisingly, with the right reforms in place, the rate of property tax growth in New Jersey has declined significantly.

While the cap law significantly reduced the growth of labor costs, the Governor Appointees have not uncovered any evidence that these reductions have negatively impacted crime rates or the ability of public employers to recruit qualified candidates for police and fire positions. In summary, the Governor Appointees conclude that the 2010 and 2014 amendments to interest arbitration have effectively addressed the concerns that were at the heart of this bi-partisan legislation. Accordingly, its recommendations set forth herein include the permanent continuation of the most critical elements of those amendments – namely, the procedural changes requiring expeditious resolution of all interest arbitration proceedings and the 2% cap – to ensure that the progress made over the last five years is not lost.

² One of the historical problems in collecting and reporting police and fire contracts was due to the practice that the reported salary data did not include increments or longevity payments. The Task Force developed, and PERC implemented, a system that documents the total cost increase to base salary as defined by P.L. 2014, c.11 and posted on its website, www.state.nj.us/perc. With this new system, hidden costs such as increments and longevity payments are accounted for providing a much more accurate calculation of the true costs of a labor contract or interest arbitration award. Thus, while the data demonstrates a significant reduction in the growth of labor costs as a result of the cap law, the actual reductions are likely far greater.

2017 REPORT

OF THE GOVERNOR'S APPOINTEES TO THE

POLICE AND FIRE

PUBLIC INTEREST ARBITRATION IMPACT

TASK FORCE

Introduction

The creation of the Police and Fire Public Interest Arbitration Impact Task Force (“Task Force”)³ was part of P.L. 2010, c.105 (“2010 amendments”), which took effect on January 1, 2011. The P.L. 2014, c.11 amendments (“2014 amendments,” sometimes collectively referred to as the “Cap Law”) reauthorized the Task Force and its responsibilities. The legislation provided that the Task Force shall be comprised of eight members appointed as follows:

- (1) four to be appointed by the Governor;
- (2) two to be appointed by the Senate President; and
- (3) two to be appointed by the Speaker of the General Assembly.

A chairperson is selected from among the appointees of the Governor and a vice chairperson from among the appointees of the Legislature. The Chair of the Public Employment Relations Commission (“PERC”) shall serve as a non-voting executive director of the Task Force.

Role of the Task Force

It shall be the duty of the task force to study the effect and impact of the arbitration award cap upon local property taxes; collective bargaining agreements; arbitration awards; municipal services; municipal expenditures; municipal public safety services, particularly changes in crime rates and response times to emergency situations; police and fire recruitment, hiring and retention; the professional profile of police and fire departments, particularly with regard to age, experience, and staffing levels; and such other matters as the members deem appropriate and necessary to evaluate the effects and impact of the arbitration award cap. Specifically, the task force shall study total compensation rates, including factors subject to the arbitration award cap and factors exempt from the arbitration award cap, of police and fire personnel throughout the state and make recommendations thereon. The task force also shall study the interest arbitration process and make recommendations concerning its continued use in connection with police and fire labor contracts disputes.

³ This report reflects data through December 31, 2016.

The task force shall make findings as to the relative growth in total compensation cost attributable to factors subject to the arbitration award cap and to factors exempt from the arbitration award cap, for both collective bargaining agreements and arbitration awards.

[N.J.S.A. 34:13A-16.8(e).]

The Task Force is required to report its findings, along with any recommendations it may have, to the Governor and the Legislature. A Final Report of the Task Force is to include, in addition to any other findings and recommendations, a specific recommendation for any amendments to the arbitration award cap. Upon the filing of its Final Report, the Task Force shall expire.

A. Trends in Interest Arbitration and Impact of N.J.S.A. 34:13A-14, et seq., as amended by P.L. 2014, c. 11

1. Petitions Filed for Interest Arbitration

The Task Force has continued to track the number of Petitions to Initiate Interest Arbitration. The attached chart, see **Tab 1**, indicates the number of cases submitted for interest arbitration from calendar year 2006 through 2016. With the exception of 2014, this chart shows a remarkable reduction in the number of cases filed after the adoption of the law. In 2010, PERC received 121 interest arbitration petitions as compared to 23 in 2011.

In 2014, there was a spike in the number of interest arbitration petitions filed. In its April 19, 2016 annual report, the Task Force concluded that this spike was attributable to the April 1, 2014 expiration of the initial 2% interest arbitration cap law, P.L. 2010, c.105. After the 2014 amendments were enacted, the downward trend in the number of petitions to initiate interest arbitration continued. Given that history, one of the recommendations of the Governor's Appointees is that the Legislature act to permanently impose the 2% cap well in advance of the

current December 31, 2017 expiration. Absent such action, the Governor's Appointees anticipate another significant increase in the number of interest arbitration petitions filed by the end of 2017 given the inevitable uncertainty inaction would cause.

2. Interest Arbitration Cases Disposed During Calendar Year

One of the main concerns that had been expressed to PERC prior to the change in the law was the amount of time and cost of an interest arbitration proceeding. Prior to 2010, there were deadlines for interest arbitrators to issue their awards and PERC had limited tools available to achieve a more expeditious resolution of outstanding cases. Without any limitations, it could take years for an interest arbitration award to be issued.⁴ In the five years before the amendments took effect, the average length of time for an interest arbitration matter to be resolved was as follows:

2006 – 693 days

2007 – 566 days

2008 – 716 days

2009 – 744 days

2010 – 775 days

Under the 2010 amendments, arbitrators were required to issue interest arbitration awards within 45 days of appointment and parties were required to file any appeal with PERC within seven days of the issuance of the award. At the recommendation of the Task Force, the 2014

⁴ The Governor's Appointees recognize that the arbitrators were often not the reason for the delays; instead, delays could be caused by the arbitrators or one or both parties to the proceeding.

amendments increased those limitations to 90 days for the issuance of an award and 14 days for the filing of an appeal with PERC.

The effect of these new timelines and PERC's efforts has been remarkable. In calendar year 2011, interest arbitrators disposed of 124 cases, the highest rate of disposal in the prior five years. In calendar year 2012, arbitrators disposed of 74 cases; in 2013, 57 cases; in 2014, 80 cases; in 2015, 40 cases; and in 2016, 22 cases. At the start of calendar year 2011, PERC had 187 open interest arbitration cases, many of which had been initiated prior to the new law's 45-day deadline for completion. At the start of 2012, that number dropped substantially to 85. By the start of 2014, that number dropped further to 37 and by 2017 to a remarkable 6 despite the relaxation of the 45-day timeline to 90 days adopted by the 2014 amendments.⁵ See **Tab 3**. Tellingly, the average length of time for an interest arbitration to be resolved was 80 days in 2015 and 90 days in 2016. These trends in reducing the backlog of open interest arbitration cases was achieved through PERC's improved case management, efforts to achieve resolution of long outstanding cases, and ultimately, the stringent timelines imposed by the 2010 and 2014 amendments.

3. Interest Arbitration Award Appeals to the Commission

From 2010 through 2012, there was an increase in the number of appeals to PERC from interest arbitration awards. See **Tab 4**. From 2013 through 2016, however, that number dropped dramatically, from a high of 22 in 2012 to 3 in 2016. The initial increase in the number of appeals is understandable given the inevitable disputes that arise with any significant change in

⁵ This number includes some cases filed prior to the 45-day completion deadline and all pending appeals before PERC and the Appellate Division.

legislation. It appears, however, that as the legislation matured and critical guidance provided by PERC and the courts has been provided, the number of appeals has drastically decreased.

This decrease in the number of appeals serves another critical goal of the cap law – finality. The appeal process of an interest arbitration award elongates the collective negotiations process, increases potential back pay liability for public employers, and delays stability among labor and management. This data shows a clear overall reduction in the number of appeals to the Commission from the enactment of the 2010 amendments to the present, bringing finality and stability to all parties involved. In short, the strict timelines for filing appeals of interest arbitration awards are working.

B. Reporting of Data

1. Filing Contracts with PERC

Early on, the Task Force addressed one of its concerns about the lack of contract reporting and availability of information. In our 2011 report, we made recommendations to PERC regarding the compilation and reporting of interest arbitration awards. The Division of Local Government Services (“DLGS”) in the Department of Community Affairs has circulated notices to every municipality, county and other public employers within their jurisdiction to remind them of their obligation to provide PERC with electronic copies of their current agreements and summary forms. While this obligation already existed for all public-sector labor agreements pursuant to N.J.S.A. 34:13A-8.2, the Legislature reinforced the obligation with respect to police and fire departments pursuant to N.J.S.A. 34:13A-16.8(d)(2)⁶, and the above-

⁶ “In order to facilitate the work of the task force, the Public Employment Relations Commission shall post on its website all collective negotiations agreements and interest arbitration awards entered or awarded after the date of enactment, including a summary of contract or arbitration award terms in a standard format developed by the Public

mentioned efforts by DLGS will help achieve greater compliance with this reporting requirement. By having this information on its website, parties will readily have available comparative information from many public employers as they prepare for negotiations or in the event of an interest arbitration filing in their jurisdiction.

Today, on PERC's website, www.state.nj.us/perc, the list of public sector labor agreements has expanded as a result of these efforts. PERC currently has 712 police/fire contracts in its database for contract terms beginning in 2010 to present.

2. Collecting Contract Summary Information

While having access to the contracts themselves is useful, one of the most valuable but difficult items to assess is the additional cost of a new contract. As referenced in its June 17, 2011 annual report, the Task Force recommended critical changes to the summary form public employers previously completed with respect to new police and fire contracts. The prior version of the summary form can be seen on Tab F of the 2014 Final Report of the Task Force.⁷ As shown therein, the numbers compiled from the old summary form were unreliable, in part, because the form did not require public employers to break out "hidden" costs in the contract, including the costs of increment and longevity payments.

So the Task Force developed, and PERC implemented, a system that reports, as closely as possible, the total cost increase to base salary consistent with the statutory definition. Attached hereto at **Tab 5** is the summary form (revised in August 2016) that public employers are required to complete when they reach a new police/fire labor agreement in accordance with

Employment Relations Commission to facilitate comparisons. All collective negotiations agreements shall be submitted to the Public Employment Relations Commission within 15 days of contract expiration.”

⁷ See: <http://www.nj.gov/perc/IATaskForceFinalReport.pdf>

its legislative mandate.⁸ That revised form requires public employers to provide the specific cost increase information necessary for making relevant comparisons among settlements and interest arbitration awards. While it appears there has been compliance with this new mandate (based on the 22 properly completed forms received in approximately six months) there is currently no compliance mechanism by which PERC can enforce the reporting requirements of N.J.S.A. 34:13A-16.8(d)(2). Accordingly, the rate of compliance with these reporting requirements is unknown.

3. Impasse Procedures and Voluntary Settlements

The Task Force also has reviewed the effect of the cap law on the agreements reached voluntarily by the parties and has reviewed trends regarding the utilization of PERC's impasse procedures.

The 2% cap does not apply to voluntary settlements. To determine whether the existence of the 2% cap on arbitration awards has had an impact on voluntary settlements, PERC compiled data on voluntary settlements that otherwise would have been subject to the 2% base salary cap had they proceeded to interest arbitration. As reported to PERC, the 221 reported voluntary settlements since 2012 provided for an average annual increase in base salary of 2.21%. See **Tab 7**. That number represents a significant reduction in the average salary increases provided in voluntary settlements over the five-year period immediately preceding the implementation of

⁸ This information, as well as the instruction sheet and completed sample, are available on PERC's website: www.state.nj.us/perc. The summary form was revised in order to gather additional information that is valuable to the parties and allows PERC to provide accurate information when it publishes its salary increase analysis. For example, back in 2009, it reported that the average salary increase from interest arbitration awards that year was 3.75% and the average salary increase in voluntary settlements was 3.60%. Those numbers, however, did not report, in most instances, the total percentage increase to base salary costs resulting from the inclusion of step increments and longevity payments. One purpose of the new law was to better identify and recognize those often hidden, but significant, increases to the public employer's budget.

the 2% cap. By comparison, from 2006 to 2010, the average annual salary increase ranged from a low of 2.65% in 2010, to a high of 4.09% in 2006. **Tab 12.**

While those numbers show a significant reduction in salary increases, as noted above in section B.2, they likely do not account for all increased labor costs. Tellingly, since the implementation of the new summary forms, there have been 22 voluntary settlements reported. As reported on the new forms, the average annual base salary increase in those settlements was 4.12%. Again, it is unlikely that there has been such a drastic increase in average annual salary increases; instead, that apparent increase likely represents the uncovering of costs that previously had been undisclosed. Accordingly, the Governor's Appointees cannot conclusively determine the extent that the 2% cap has impacted salary increases for voluntary settlements reached outside the interest arbitration process. That, by itself, confirms the need for mandatory reporting on the new summary forms for all public employers. See **Tab 7.**

As referenced in earlier reports, the Task Force also has reviewed data regarding the use of PERC's intermediate impasse procedures such as mediation and fact-finding. That data shows that the number of parties filing for mediation or fact-finding since the passage of N.J.S.A. 34-13A-14, et. seq., as amended by P.L. 2014, c.11, has continued to be minimal. See **Tab 6.** Filing for impasse allows the parties to utilize the services of a neutral mediator or fact-finder to help them voluntarily reach an agreement prior to resorting to binding interest arbitration.⁹

A summation of the Task Force Interest Arbitration Data can be found at **Tab 8.**

⁹ Under the 2014 amendments, an interest arbitrator must hold a mediation session before formal arbitration in an effort to reach a voluntary resolution of the impasse. That reform is even more critical given the low numbers of parties voluntarily utilizing PERC's impasse procedures.

C. Salary Analysis of Interest Arbitration Awards and Voluntary Settlements

A primary focus of the Task Force continues to be reviewing the economic impact of the cap law on both interest arbitration awards and voluntary settlements that occurred during the interest arbitration process. From January 1, 2012 until December 31, 2016, PERC received 90 interest arbitration awards. Thirty-six of those awards were subject to the 2% cap, with an average awarded salary increase of 1.85%. See **Tab 9**. Those towns and counties with awards subject to the 2% cap are listed at **Tab 10**. Sixteen of the 90 interest arbitration awards were not subject to the 2% cap and reported an average award salary increase of 1.6%. See **Tab 9**.

Over the same time period, there were 46 voluntary settlements reached after a petition to initiate interest arbitration had been filed, but before an award which would have been subject to the 2% cap was issued. The average increase of those settlements was 1.80%. See **Tab 9**. Those towns are listed at **Tab 11**. This data confirms that the cap law had a significant downward impact on the growth of salary increases in both voluntary settlements and interest arbitration awards subject to the 2% cap. See **Tab 13**.

D. Interest Arbitration 2% Cap Impact on Step Increases and Longevity Payments

Historically, across-the-board increases negotiated between the parties or awarded in interest arbitration were the only salary increases generally reported by public employers. However, the percentage increases to salaries set forth in a law enforcement contract are but one of many reasons for an employee's "base salary" to increase while remaining in the same position. Indeed, calculations regarding the costs of increments (i.e., step increases provided pursuant to a salary guide) and longevity payments were often overlooked by employers, unions, interest arbitrators and the public.

For example, assume an employee earns \$50,000 and is on Step 1 of a contractual salary guide with ten steps going up to \$80,000 in annual \$3,000 increments. Then, on July 1, the parties negotiate a 2% across-the-board increase. Therefore, the Step 1 salary increases to \$51,000 and Step 2 (which had been \$53,000) increases to \$54,060. Assume also that July 1 is the employee's anniversary date and the employee moves to Step 2, or \$54,060, on the guide. Thus, in that year, the employee's salary has risen from \$50,000 to \$54,060, which is an 8.12% increase to the employee's salary, not just the 2% "across-the-board" that was negotiated. Longevity payments operate similarly. While the top step of the salary guide may be \$80,000, parties often negotiate certain longevity payments received by senior officers upon certain anniversary dates. To illustrate using the example above, assume the contract has a provision providing for an additional 2% longevity payment for all officers with 15 years of service. If an officer at step 10 reaches 15 years of service when the 2% across-the-board increase is applied, that officer's base salary would have increased from \$80,000 to \$83,232 (\$81,600 in salary and \$1,632 in a longevity payment). That \$3,232 increase would represent a 4.04% increase in base salary – more than double the negotiated across-the-board increase.

In New Jersey, these increments and longevity payments were commonly negotiated into labor contracts and once negotiated, typically remained in effect in each successor agreement. Even after the expiration of the contract, salary increments, which often exceed the 2% cap, would continue to be paid due to a concept known as the "dynamic status quo" which permitted automatic payment without them being a negotiated increase. Eliminating the dynamic status quo will encourage the parties to negotiate those increases thereby eliminating recoupment if the parties resort to interest arbitration.

In order for the 2% salary cap on interest arbitration awards to help public employers stay within the constraints of the 2% tax levy cap, it was imperative that all increases to base salary, including the increments and longevity payments referenced above, be accounted for. Accordingly, one of the most important aspects of the 2010 amendments was to establish a comprehensive definition of base salary that more accurately reflects the costs that public employers face. As codified at N.J.S.A. 34:13A-16.7(a), base salary is now defined as “the salary provided pursuant to a salary guide or table and any amount provided pursuant to a salary increment, including any amount provided for longevity or length of service. It also shall include any other item agreed to by the parties, or any other item that was included in the base salary as understood by the parties in the prior contract. Base salary shall not include non-salary economic issues, pension and health and medical insurance costs.” The provision of a uniform definition of base salary to be used by all involved in police and fire collective negotiations has greatly increased transparency regarding the true costs of a labor contract and is essential for public employers to comply with the 2% tax levy cap.

As evidence that the new definition is working, the 2% interest arbitration cap and the new definition of base salary has made it necessary for parties and arbitrators to revisit these costly increment and longevity schemes. For example, some arbitrators added steps in the salary guide, thereby reducing the amount between steps and extending the number of years it takes officers to reach the top step salary. In other instances, step advancement was frozen for one or more years because the cost of increments alone would have exceeded the 2% cap and prevented any other raises. Arbitrators faced with significant increment costs have sometimes maintained modest across-the-board raises by delaying them until halfway through the year. Arbitrators also have limited the cost of longevity payments by freezing them or reducing their amount, which

has sometimes included changing longevity from a percentage of regular salary to a flat dollar amount. Revisiting these increment and longevity schemes during negotiations is difficult when employees continue to automatically receive these payments after the collective negotiations agreement expires. Indeed, in those circumstances where these payments are continued post-contract expiration, it may be necessary to recoup payments made to employees when they exceed the 2% cap. Accordingly, one of the recommendations of the Governor's Appointees is to eliminate the "dynamic status quo" doctrine and to require that increment and longevity schemes cease upon the expiration of a collective negotiations agreement.

In short, the definition of base salary and imposition of the 2% cap has caused everyone involved in police and fire negotiations to include all true salary costs when negotiating and awarding labor contracts. By taking into account the true costs of a labor contract, the parties and interest arbitrators can ensure that the contract is affordable for the public employer and, ultimately, the taxpayer.

E. The Effect and the Impact of the 2% Interest Arbitration Cap on Property Taxes

The first duty assigned to the Task Force was "to study the effect and impact of the arbitration cap on local property taxes." This comes as no surprise. The interest arbitration cap was enacted to help municipalities and counties lower costs and comply with the 2% Property Tax Cap, P.L. 2010, c. 44. The Task Force Executive Director and staff from PERC, working with Christopher Wheeler, a Research Economist with the Department of Community Affairs, collected and analyzed the property tax data for this report. While it is impossible to cull out and quantify the precise impact of any single one of the major reforms enacted in 2010 and 2011, the

dramatic significance of the arbitration award and property tax caps is undeniable. See **Tabs 18 and 19.**

Increases in New Jersey taxpayers' average property taxes in dollars and percent change from years 2005 through 2015 can be found in the table called "Property Tax Averages and Growth, Pre- and Post-Caps." See **Tab 14.** The following **Tabs 15-20** display the **Tab 14** data in graphic form. The data is shown in terms of Average Property Taxes (including municipal, county, and school taxes) as well as Average Municipal Property taxes. The average annual percentage increase in property taxes in the five years before the cap (2005-2010) was 4.71% (an average of \$311 per year per taxpayer) compared to an average of 1.97% (an average of \$155 per year per taxpayer) in the five-year period that followed (2010-2015). See Line Graph at **Tab 15.** The downward effect of the interest arbitration reforms and property tax caps on controlling the growth of property taxes can be seen on the graph at **Tab 17.**

The data also shows that the average annual percentage increase in municipal property taxes in the five years before the cap (2005-2010) was 7.19% (an average of \$129 per year per taxpayer) compared to an average of 2.41% (an average of \$56 per year per taxpayer) in the five-year period that followed. See Line Graph at **Tab 16.** The trend in the five years post-cap mirrors the average salary increase percentage in interest arbitration awards post-cap which was 1.85%. See **Tabs 9 and 10.** The dramatic, positive impact of the arbitration cap, property tax cap and other reforms can be found on the graphs at **Tabs 18 and 19.**

Viewed another way, New Jersey taxpayers saw their municipal property taxes grow 41.48% (an average of \$644 per taxpayer) in the five pre-cap years, 2005-2010, while after the enactment of the 2010 tax levy cap legislation and the interest arbitration cap, municipal property

taxes grew by 12.66% (an average of \$278 per tax payer). Similarly, the 5-year growth in total property taxes (municipal, county and school) pre-cap was 25.8% (an average of \$1,554 per taxpayer) as compared to 10.26% (an average of \$777 per taxpayer) post-cap. See **Tab 20**. If the 2005-2010 pre-cap trend in property tax growth had continued¹⁰, New Jersey taxpayers would have paid an average of \$762 (9.2%) more in 2015, rising to over \$9,117 per taxpayer. After 2010, the average yearly increase in residential taxes would have been 3.77% instead of 1.97%.

In the aggregate, based on the reduction in the growth of property taxes from 2010 through 2015, New Jersey taxpayers saved an estimated \$2.9 billion in property taxes, representing a savings of 9.5% in Total property taxes.

F. The Effect and the Impact of the 2% Interest Arbitration Cap on Police and Fire Compensation, Recruitment, Hiring, Retention, and Crime Rates

The Legislature also asked the Task Force to study the effect and impact of the arbitration award cap upon police and fire recruitment, hiring and retention, and municipal public safety services, particularly changes in the crime rates and response times to emergency situations. **Tab 21** shows the total number of full-time police officers in the state which includes municipal, county, university and college, State Police, and police at other state agencies.¹¹ From 2006 through 2011 there was a 7.2% reduction in the number of police officers. From 2011 through

¹⁰DCA projected property taxes without the caps by assuming the 2005-2010 trend in property tax growth would continue through 2016. A regression analysis was performed producing the line of best fit through the 2005-2010 annual increases. The slope of that line and its Y intercept were used to compute predicted property taxes for 2011-2016. The difference between these predicted taxes and actual taxes are the estimated savings. See **Tabs 15 - 18**.

¹¹ The list of police and fire titles in the Police and Firemen's Retirement System ("PFRS") and the types of municipal, county, state agency, and college/university employers of those titles can be found at: <http://www.nj.gov/treasury/pensions/pfrstitles.shtml>.

2016 that number was further reduced by 3.8%, a smaller loss despite a slowing rate of salary increases. Similar to the 7.2% reduction in the number of police officers throughout New Jersey in the years from 2006 through 2011, the number of full-time paid firefighters decreased by 8.9% during the pre-cap years. See **Tab 24**. However, in the five years after the Legislature passed both the 2% interest arbitration cap and the 2% property tax cap, the number of full-time firefighters increased by 3.2%.

These numbers, however, do not appear related to any recruitment concerns. The Task Force was provided data from the Civil Service Commission ("CSC") regarding the State-Wide Law Enforcement Exam ("LEE") administered by the CSC. The LEE is used to fill police officer positions for all civil service jurisdictions at the local, county and State levels across New Jersey. Despite the implementation of the 2% cap and the corresponding reduction in the increase to base salary of police officers, CSC data shows that there has been an increase in the number of individuals who have taken the LEE in recent years. Specifically, the data shows that in August 2010, the last time the LEE was offered prior to the effective date of the 2% cap, there were 26,066 applicants and 18,568 eligible candidates placed on the list. In August 2016, after five years under the 2% cap, there were 37,393 applicants for the LEE and 26,696 eligible candidates placed on the list. That represents a 43% increase on both the number of candidates who sat for the LEE and the number of eligible candidates placed on the list.

The data shows a similar trend for firefighters. In March 2010, there were 18,170 applicants for the Firefighters' Test with 6,392 eligible applicants placed on the list. In August 2015, four years after the 2% cap went into effect, the number of applicants increased to 19,075. Significantly, the number of eligible candidates placed on the list as a result of the August 2015

examination increased to 12,272 – over a 90% increase over the number of eligible applicants following the August 2010 list.

Importantly, the caliber of the candidates for these exams also has not suffered. In fact, while there were only 4,941 applicants with a Bachelor's Degree who sat for the 2010 LEE, there were 7,812 applicants with a Bachelor's Degree who sat for the 2016 LEE. For the Firefighter Test, there were 1,984 candidates with a Bachelor's Degree who sat in 2010. In 2015, that number increased to 2,988.

While these numbers are telling by themselves, it must be noted that the increases in the number and quality of candidates during this time coincides with decreasing rates of unemployment. In New Jersey, the annual unemployment rate in 2010 (the year immediately preceding the implementation of the 2% cap) was 9.5%.¹² By 2016, the annual unemployment rate in New Jersey dropped to 5%. Accordingly, while there are far fewer people unemployed in this State than there were when the cap was put into effect, there are far more people looking for police and fire jobs.

The Task Force also reviewed crime statistics. Pursuant to N.J.S.A. 52:17B-5.3, crime rates are submitted by all law enforcement agencies in the state to the New Jersey State Police, who collates them in their annual “Uniform Crime Report.”¹³ Crime rates before and after the implementation of the interest arbitration cap are listed in **Tab 22**. Pre-cap, from 2006 through 2011, New Jersey saw a 5.8% decrease in crime rates. Post-cap, from 2011 through 2016, crime rates decreased by an additional 22.3%. The data shows a continuous decline in the rate of crime irrespective of the arbitration cap law and despite a reduction in the number of police officers.

¹² <http://lwd.dol.state.nj.us/labor/lpa/pub/emppress/pressrelease/prelease.pdf>

¹³ The Uniform Crime Reports can be found at: <http://www.njsp.org/ucr/uniform-crime-reports.shtml>.

This significant downward trend line for crime rates compared with the number of police officers is also depicted in a bar graph found at **Tab 23**.

With respect to response times to emergency situations, pursuant to N.J.S.A. 52:17B-5.3, this information is not required to be submitted to the State Police, nor is it submitted to the Department of Community Affairs; thus, it was unavailable to the Task Force for consideration and analysis.

The Legislature also asked the Task Force to study total compensation rates for police and fire personnel. Data from the New Jersey Division of Pensions shows the growth in the average annual pay for all municipal, county, university and college, State Police, and police at other state agencies. See **Tab 21**. In the pre-cap years 2006 through 2011, average annual police pay grew from \$75,301 to \$89,066, an increase of 18.3% over that five-year span. For the post-cap years 2011 through 2016, average annual police pay grew from \$89,066 to \$93,360, an increase of 4.8% over that five-year span. Thus, on an annual basis, the average increase in police compensation was 3.7% in the pre-cap years and was just under 1.0% (0.96%) in the post-cap years. This represents a significant reduction in compensation growth in the post-cap years. In fact, had police salaries continued to grow from 2011 through 2016 at the same rate they had grown from 2006 to 2011, the average salary of police officers would be \$105,365. Based on the current number of full-time police officers in New Jersey, the reduction in the growth of police salaries under the 2% cap has saved tax payers approximately **\$428,698,550**.¹⁴

¹⁴ The Task Force notes that often police and fire contracts set the "pattern" for other negotiations units within the same jurisdiction that do not have the right to proceed to interest arbitration. Thus, these savings which are limited to the increase in police and fire salaries, will generate additional savings in connection with other personnel costs not reflected in this data.

Reviewing police compensation nationally, we looked to the US Bureau of Labor Statistics (“BLS”), <https://www.bls.gov/oes/current/oes333051.htm#nat>. Since 2012 the BLS has reported the annual mean wage of police and sheriff officers by state. In 2012, 2013, and 2014, the recorded annual mean wage of police in New Jersey was the highest in the nation. In its latest reports from 2015 and 2016, New Jersey moved to second place after California. See **Tab 25**.¹⁵

To review the effect and impact of the cap law on firefighter compensation, we used data from the New Jersey Division of Pensions. See **Tab 24**. In the pre-cap years 2006 through 2011, average annual firefighter pay grew from \$78,079 to \$95,107, an increase of 21.8% over that five-year span. For the post-cap years 2011-2016, average annual firefighter pay grew from \$95,107 to \$99,674, an increase of 4.8% over that five-year span. Thus, on an annual basis, the average increase in firefighter compensation was 4.4% in the pre-cap years and was just under 1.0% (0.96%) in the post-cap years. This represents a significant reduction in compensation growth in the post-cap years. Again, had firefighter salaries continued to increase at the same rate as they had from 2006 to 2011, the average firefighter salary today would be \$115,840. Based on the current number of full-time firefighters across the State, the reduction in salary growth for firefighters has saved New Jersey taxpayers an additional **\$102,203,513**.

However, according to the BLS, <https://www.bls.gov/oes/current/oes332011.htm#st>, the recorded annual mean wage of firefighters in New Jersey in the years 2013, 2014, 2015, and 2016 has been the highest in nation. Even though the growth in firefighter compensation has

¹⁵ Note that the BLS mean wage rankings only include the occupational category of patrol officers and sheriff’s officers, but not police supervisors, corrections officers or supervisors, transit police, or detectives/investigators.

been reduced in the post-cap years, New Jersey salaries are still the highest in the nation. See

Tab 26.¹⁶

Overall, this compensation data demonstrates that the 2% interest arbitration cap had the effect of slowing down the rate of growth in both police and fire compensation. The retention and crime data demonstrate that despite a decline in the number of police officers in the five years prior to and the five years after the cap, the crime rate continued to drop irrespective of the number of police officers and the arbitration cap law.

¹⁶ Note that the BLS wage rankings only include the occupational category of firefighters, but not firefighter supervisors or fire inspectors/investigators.