Montgomery, Md., pension deal eases sacrifice for unions

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The politics of shrinking government spending can lead to tortured math and bureaucratic back flips. In one of the Washington area's wealthiest counties, recession has prompted a bout of creative bookkeeping and something called the "Phantom COLA."

As state and local officials from California to Miami have sought to cut payroll costs, officials in Montgomery County last year pressed government employees to forgo part of their negotiated pay raises. They did. But some of the county's powerful public employee unions also benefited from an unusual deal.

Employee pensions -- already a major cost -- will be calculated as if employees had received their full raises.

To manage that financial sleight of hand, county computer programmers must essentially set up two sets of books, one with employees' real salaries and another that includes what government documents refer to as the "phantom" cost-of-living adjustments.

Backers said the move, made in May, was necessary to close a large budget gap. It will cost Montgomery at least $5 million a year for the next 40 years to pay for higher pension costs on raises that never happened. Withholding those raises saves Montgomery taxpayers $29 million this year, officials said, and they argue that those savings will continue in the future. But those savings could also disappear if the size of raises bounces back.

Critics of the move say the deal is representative of an unreasonable deference given to public employee unions in Montgomery, where officials have been trying to eliminate a $600 million budget shortfall and unions have been pressing for higher salaries ahead of Monday's release of a new budget proposal.

"It makes no sense to base a pension on a salary that wasn't paid," said Montgomery County Council member Phil Andrews (D-Gaithersburg-Rockville), who cast the sole vote against the arrangement. "It's indefensible policy . . . and we can't afford it."

But the politics are not that simple in Montgomery, or elsewhere, as recession-squeezed budgets are forcing uncomfortable interactions between some Democrats and the party's allies in the labor movement, a significant electoral force. Rory Reid, son of Senate Majority Leader Harry M. Reid (D-Nevada) and a candidate for governor in Nevada, has questioned the sustainability of public-employee pay. Democratic leaders in Los Angeles have pushed for big layoffs.

In a recent newspaper column, Willie Brown, the former speaker of the California State Assembly and former San Francisco mayor, took on the state's "out of control civil service." "We politicians, pushed by our friends in labor, gradually expanded pay and benefits" and layered on "incredibly generous retirement packages," he wrote. "At some point, someone is going to have to get honest."

Union stronghold

Public employee unions are a political force in Montgomery County, a Democratic stronghold where President Obama netted more than 70 percent of the vote. Though pay increases were reduced last year and could be cut altogether this year, union negotiators in Montgomery have a history of effective advocacy.

It has not been uncommon in recent years for the county to give large numbers of employees annual raises of 7 percent or more. By way of comparison, private-sector raises averaged a little more than 4 percent, according to a survey conducted by the Human Resource Association of the National Capital Area and covering 2004 to 2008.

The effect of those raises on the budget has been compounded as the county has added employees. Montgomery's government grew by the equivalent of 1,400 full-time jobs over the past 10 years, and the county's public schools added more than twice that number. That's about a 17 percent increase, while the population rose about 11 percent.

In that time, total wage and salary costs for the county government and public schools has grown, after adjusting for inflation, by about a third, to more than $2 billion.

Greater still was the rate of growth in health and retirement benefits for government and school employees, which rose to $686 million in that same period, a 75 percent boost after adjusting for inflation.

The total county budget for the current fiscal year is $4.47 billion.

Even in wealthy communities such as Montgomery, decisions on benefits raise an important question: Can the spending be sustained?

"Sustainability is a funny word," said Susan Urahn, managing director of the Pew Center on the States, which has tallied trillions of dollars' worth of retirement promises made by state governments across the country. "They can certainly sustain it. But it means they can't pay for something else."

Phantom benefits

In the middle of a recession, Montgomery's labor contracts were reopened.

Schoolteachers agreed to go without their cost-of-living increase for this fiscal year. County police and general government unions made similar agreements, amounting to more than half of their negotiated raise.

Still, any raise at all was better than most were getting. Many other governments in the Washington area, including Fairfax County, had frozen salaries, and workers in Prince George's County saw smaller paychecks because of furloughs.

But the Montgomery firefighters union rejected a 3.5 percent raise for most of its members and held out for the contract's 7.5 percent.

County Executive Isiah Leggett (D) took a hard line. Deals with other unions could have come undone, and potential savings of more than $100 million could be lost, he said. So he crafted a budget without the higher raises, and he sent it to the County Council, which makes final spending decisions. The firefighters challenged the move with a county labor arbitrator, but they lost.

Soon the firefighters agreed to forgo part of their raise. The county's agreement to pretend, for retirement purposes, that the firefighters got the full amount was part of what they got in return. (The firefighters also negotiated unlimited free passes to county gyms and swimming pools.)

"On behalf of the 1,200 firefighters who didn't get their pay raise that was negotiated, I don't find it excessive at all," said John Sparks, head of their union. The agreement said the parties would "postpone" the raise. Police and general government employees got the same pension deal. School unions did not.

Such arrangements are unusual. In Fairfax, there was no "phantom" COLA. "Because your salary didn't go up, your retirement contribution stays flat as well," said Susan Woodruff, Fairfax's human resources director. "It tracks what you actually earned, not what you should have earned."

Anne Arundel County officials gave a one-year "phantom" bump to pensions, not one that lasts for decades as in Montgomery. A financial adviser to Montgomery pushed for such an approach, which would have been dramatically cheaper, but the County Council rejected it. "This is not Montgomery County," said Anne Arundel budget officer John Hammond. "The electorate in Anne Arundel is very fiscally conservative."

Montgomery County Council member George L. Leventhal (D-At Large) said that firefighters made "significant sacrifices" and that the council balked at some benefits negotiated by employee unions after contracts were reopened. "I don't recollect that being a big issue," he said of the "ghost COLAs."

Leggett said he has taken a tougher approach than his predecessors. Refusing to fund an existing labor agreement was unheard of, he said. "No county executive has ever done what I've done," he said.

The retirement increases were a fair trade-off, he said: "It's not as though we're adding something in. Any way you look at it, we're taking something away."