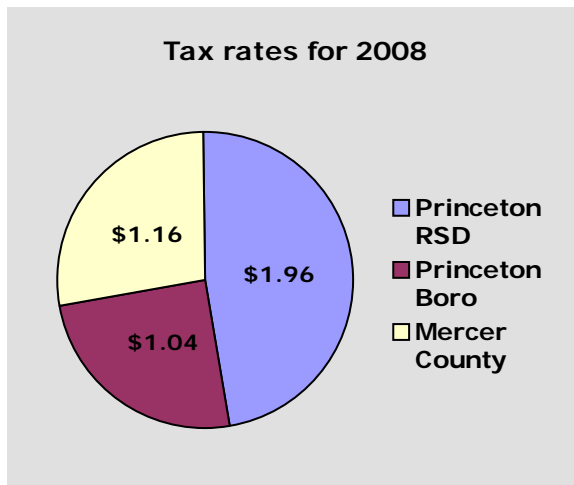


## Citizen Finance Advocacy Taskforce Princeton Borough Employee Benefits Analysis

The Borough spends over half of its \$25 million budget employing its workers, so it is logical for any conversation about cuts or freezes to begin with labor costs. The Borough compensates its employees with wages at or above both market value and the wages of local government workers in other states. Borough employees also participate in an attractive “Cadillac”<sup>1</sup> healthcare plan while paying very little in premiums, and they have the opportunity to participate in a state-run, defined-benefits pension program. Any private employer in the Borough’s current situation would surely look to secure serious concessions from workers in the next collective bargaining negotiations.

### Taxes and municipal spending in Princeton Borough



The average real estate tax bill for a homeowner in Princeton Borough rose from \$8,114 in 2000 to \$14,562 in 2008<sup>2</sup>, which represents an average increase 7.5 percent per year. This rate of increase far outstrips even the most optimistic estimates of the growth of household income. While the average Princeton Borough homeowner in 2000 paid 5.2 percent of total household income in property taxes, the average Borough homeowner in 2008 lost somewhere between 6.5 percent and 7.0 percent of household income to property taxes. Borough property taxes have also risen relative to other

municipalities in the state. In 2000, Princeton Borough residents paid the 21<sup>st</sup> highest tax bill of all municipalities with at least 500 residents; by 2008 the Borough had climbed to 12<sup>th</sup> in that category.

**Table: Effects of municipal and school spending cuts on Borough taxes**

	PRSD	Borough
Expenditures (2008)	\$80.8 m.	\$24.4 m.
Total savings from 1 percent cut	\$808,000	\$244,000
Cranbury savings	\$54,000	\$0
Township savings	\$507,000	\$0
Borough savings	\$247,000	\$244,000

While there is a widespread belief that real tax savings cannot occur due to the spending for education, this is not true. Real savings can occur with cuts in the Borough Municipal Government. The Borough draws on sources of revenue other than local taxes, and these would not necessarily be affected by cost-cutting measures. In fact, in 2007, local government spending exceeded school taxes for Princeton Borough<sup>3</sup>. A penny saved by

<sup>1</sup> Frederick J. Beaver, the Director of the State Division of Pensions and Benefits told the Senate State Government Committee in June, 2006 that “when compared to other employers, both public and private, the benefit plan designs of the SHBP are comparable to the Cadillac of health plans.”

<http://www.njleg.state.nj.us/legislativepub/pubhear/ssg061206.pdf>

<sup>2</sup> Tax information at Data Universe and

<http://www.starledger.com/str/indexpage/taxes/taxseg.asp?frmtown=60900>

<sup>3</sup> <http://www.starledger.com/str/indexpage/taxes/taxseg.asp?frmtown=60900>

Princeton Borough is a penny earned by Princeton Borough taxpayers, while a penny saved by Princeton Regional School District must be shared with taxpayers in the township and Cranbury. As the table shows, a 1 percent cut in school spending would not save Borough taxpayers much more than a 1 percent cut in municipal spending would.

More than 50 percent of Borough spending goes to employing the municipal workforce. Wages make up about 2/3 of labor costs. Health insurance, pension contributions, and supplemental pay all represent greater than 5 percent of total labor costs. Social security combined with workers compensation insurance represent about 5 percent of labor costs. Because many of these expenses are required by state or federal law or by collective bargaining agreements, the Borough Council has somewhat limited control over year-to-year labor costs.

## **Salaries**

Salaries for Borough employees are generous even in strong economic times. All of the full-time employees in the Borough's Buildings & Grounds Department, including two custodians, make over \$41,800 per year. Princeton University's contract with the Service Employees International Union (SEIU) sets the maximum salary for a lead building custodian at \$41,120.60. The Shade Tree Commission employs two arborists at \$51,869 per year, which is well into the upper range of what a senior arborist working for the university would make. The Borough's supervising mechanic made \$64,656 in 2009, near the top end of the range of \$43,500-\$67,500 listed for senior maintenance mechanics at the university.

Police salaries, in Princeton and across the state, are especially high. According to the Bureau of Labor Statistics, New Jersey police are the best-paid in the nation<sup>4</sup>; the average New Jersey law enforcement officer made nearly \$80,000 in 2008. Patrol officers are particularly well paid, making on average over \$75,000 per year. Police officers in New Jersey make over 60 percent more than the average worker in the state, while those in the rest of the country make just 32 percent more than the average worker. Law enforcement officers' salaries exceed those of chemists, computer programmers and registered nurses in this state. Borough police made an average of over \$90,000 in 2009, which is about what the average college physics professor, psychologist, or electrical engineer makes in New Jersey.

A major reason that municipal employee salaries are so high is the large annual salary increases Borough employees have received over the last decade. Bargaining unit increases for five Borough unions ranged from 3.5 percent to 4 percent in 2007 and 2008. Police officers have enjoyed an average raise of 4.3 percent each year in the past decade. For comparison, base increases for University employee unions tend to fall around 2.5 percent. Average employee earnings nationwide have tended to increase by 2.8 percent per year in the last decade. By comparison, PBA salaries have increased by an average of 4.3 percent annually and police lieutenant salaries have increased by an average of 4.1 percent annually during this decade. Police unions have generally enjoyed bigger bargaining unit increases than the other Borough employee unions. Municipal employee salaries have risen far in excess of inflation; in the past ten years, the consumer price index has risen on average about 2.5 percent per year.

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<sup>4</sup> Bureau of Labor Statistics for May, 2008. Includes "First-line supervisors/managers of police and detectives," "Detectives and criminal investigators," and "Police and sheriff's patrol officers."

## Health care

Aside from wages, health care represents the largest cost the Borough must bear as an employer. In 2009, Princeton Borough spent \$1.9 million to provide healthcare to its employees through the State Health Benefits Plan. Municipal employees enjoy generous health care coverage but, unlike most private sector workers, share little of the cost. The health care options offered to Borough employees are more generous in almost all respects compared to similar options offered by Princeton University. Unless Borough workers are required to pay a greater percentage of their health care costs, Borough taxpayers will shoulder the burden of inexorably rising health care costs.

The high take-up rate of the State Health Benefit Plan is a testament to its quality. State and local employees are permitted to waive enrollment in SHBP, provided they have health insurance from some other source (usually their spouse). As of 2006, less than 6,000 eligible employees statewide waived SHBP coverage, while 2007 statistics show a total enrollment in SHBP of over 355,000. This represents a take-up rate of over 98 percent. The Bureau of Labor Statistics recently found that 84 percent of state and local government workers who have access to employer-sponsored health insurance participate in a plan. At the same time, the SHBP covers tens of thousands of spouses and partners of employees, many of whom could no doubt receive adequate coverage through their own employer. As of 2009, about half of enrollees in SHBP opt for family or employee plus spouse/partner coverage, while the other half opt for single or parent plus children coverage.

State employees were required to contribute to health care premiums for the first time in 2009. The worker contribution is fixed at 1.5 percent of salary regardless of which plan the employee chooses and how many dependents are covered. This is a very modest contribution; a state employee making \$86,000 per year would pay about 10 percent of total health care premiums<sup>5</sup>. By comparison, the average worker with employer-provided family health coverage pays more than 25 percent of total premiums<sup>6</sup>. Borough employees are also required to cover a small portion of health care premiums. Assemblywoman Connie Wagner introduced a bill that would require local employees to contribute 20 percent of total health care premiums, but this bill does not seem likely to pass.

The community's largest employer, Princeton University, offers employees a choice of six healthcare plans, including a high deductible plan. For the other five plans, monthly premiums range from \$330 to \$400 for family coverage and \$55 to \$75 for single coverage. The health care options offered to municipal employees are much more attractive than those offered to University employees. Borough employees enrolled in NJ Direct10 and NJ Direct15 enjoy lower deductibles, far lower annual maximum out-of-pocket-expenses, and a lower copayment for most medical services.

Health care premiums are increasing far more rapidly than employee salaries, or, for that matter, property taxes. Over the last ten years, total premiums for employer-sponsored single

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<sup>5</sup> <http://www.ncsl.org/portals/1/documents/health/FamilyPrem09.pdf>

<sup>6</sup> KFF annual survey shows range of 26 percent to 28 percent for last 10 years; Bureau of Labor Statistics gives 29 percent ([http://www.bls.gov/news.release/archives/ebs2\\_07282009.htm](http://www.bls.gov/news.release/archives/ebs2_07282009.htm))

and family health care policies have more than doubled. While the rate of growth has slowed from over 10 percent per year earlier this decade to around 5 percent per year over the past four years, this is still unsustainably high. While there is not terribly much the Borough can

**Table: Princeton University PPO plans versus SHBP**

		University PPO plans		NJ Direct10 & NJDirect15	
		in-network	out-of-network	in-network	out-of-network
Deductible	single	\$300	\$600	none	\$100
	family	\$600	\$1,200	none	\$250
Out-of-pocket max.	single	\$800-\$7,600 dep. on salary	\$1,600-\$15,200 dep. on salary	\$400 (incl. copayments)	\$2,000
	family	\$1,600-\$15,200 dep. on salary	\$3,200-\$34,000 dep. on salary	\$1000 (incl. copayments)	\$5,000
Lifetime maximum		unlimited	\$1,000,000	unlimited	\$1,000,000
Most office-based services		\$20 co-pay	20 percent after deductible	\$10-\$15 co-pay	20 percent/30 percent after deductible
Inpatient services		10 percent after deductible	20 percent after deductible	fully covered	20/30 percent (after \$200 per-stay deductible)
Surgery		10 percent after deductible	20 percent after deductible	fully covered	20/30 percent after deductible
Outpatient physical therapy		10 percent after deductible	20 percent after deductible	\$10-\$15 co-pay	20 percent/30 percent after deductible
Routine eye exams		not covered	not covered	\$10-\$15 co-pay	not covered
Hearing aids		covered	covered	Not covered	not covered

do about rising health care costs, this trend does threaten to further stress the municipal budget (and, for that matter, the budgets of just about every firm and administrative subdivision) in the years ahead.

## Pensions

Most full-time Borough employees participate in one of two state-run pension plans: the Police and Firemen's Retirement System (PFRS) and the Public Employee Retirement System (PERS). In 2008, Princeton Borough contributed \$718,611 to PFRS and \$415,805 to PERS. PFRS enrollees must contribute 8.5 percent of pay to the fund, while PERS enrollees must contribute 5.5 percent. Nationally, nearly 80 percent of state and local government employees who participate in a defined benefit retirement plan are required to contribute to their pension, and those who do contribute 6.4 percent on average. Protective service employees in state and local government, a group which comprises mostly police, firefighters, and corrections officers, contribute 7.1 percent on average, according to the Bureau of Labor Statistics. Although PFRS members contribute a greater percentage of wages, local governments contribute substantially more money to PFRS than members do. In 2009, Princeton Borough contributed twice what local police contributed to PFRS. In 2008, the state's municipalities contributed more than three dollars to PFRS for every one from a PFRS

member. Most municipalities, the Borough included, contribute more to PERS than its members do, but the difference is not as stark as for PFRS.

Police pensions tend to be much larger than public employee pensions. Of the 63 former Borough employees currently drawing a state pension, just 26 are PFRS members, but combined they make twice what the PERS members make. Of the twelve retirees with an annual pension of at least \$50,000, only former Borough Engineer Carl Peters draws from PERS. The richest pension belongs to current Princeton University Deputy Director of Public Safety Charles Davall, who retired after 25 years and 1 month with the Borough Police to a pension of \$84,028. Current Police Chief David Dudeck can look forward to a six-digit pension when he retires. Police pensions are so high that they are better compared with private sector wages than private sector pensions. Sixteen of the 26 former Borough Police employees make more from their PFRS pension than most New Jerseyans make on the job.

### **Overtime, holidays, and supplemental pay**

The 2009 budget includes over \$388,000 for overtime at Borough agencies, and over \$75,000 at joint agencies. Parking meter attendants were paid an astonishing \$79,000 in overtime last year. Police racked up over \$150,000 in overtime and another \$95,000 in other work-related supplemental pay. Borough and joint agencies paid more than \$700,000 in supplemental compensation in 2009, 7 percent of total salaries for those agencies. A 2009 report from the Bureau of Labor Statistics found that the average public sector employee receives just 1.3 percent of salary in supplemental pay.

One culprit of the Borough's high overtime expenditures is the number holidays offered to local employees. Borough employees enjoy 13 paid holidays annually<sup>7</sup>. Federal employees receive ten paid holidays per year, and less than half of state and local employees nationwide enjoy more than 11 holidays<sup>8</sup>. Earlier this year, Essex County Executive Joe DiVincenzo recommended cutting the number of holidays in that county from 14 to 10 in order to save \$1 million in overtime costs. Surely, Princeton Borough would also save on overtime costs by reducing the number of paid holidays.

### **Conclusion**

Municipal employees in New Jersey in general and in Princeton in particular do very well compared to private sector workers and local government workers in other states. A decade of 3.5 percent - 4 percent annual salary increases has raised municipal employee wages relative to those in the private sector, and pensions of retiring employees, which are tied to salaries, have risen with them. Borough employees enjoy an excellent healthcare plan by any public or private sector standard, and they pay relatively little for it. The Borough spends a relatively large amount of money on overtime and supplemental compensation, especially for a government entity, and Borough employees enjoy more paid holidays than most public or private sector workers.

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<sup>7</sup> In 2009: New Years Day, MLK Day, Presidents Day, Good Friday, Memorial Day, Independence Day, Labor Day, Veterans Day, Thanksgiving Thursday & Friday, Christmas Eve & Christmas, New Years Eve.

<sup>8</sup> <http://www.bls.gov/ncs/ebs/benefits/2009/ownership/govt/table22a.pdf>

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