

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6233

BILL NUMBER: HB 1220

DATE PREPARED: Nov 7, 2001

BILL AMENDED:

SUBJECT: Collective Bargaining for Public Safety Employees.

FISCAL ANALYST: Chuck Mayfield

PHONE NUMBER: 232-4825

FUNDS AFFECTED: **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill allows the police officers and firefighters of a unit (a county, city, town, or township) to bargain collectively with an employer through an exclusive representative. It requires the Education Employment Relations Board to implement the collective bargaining law. The bill specifies the rights and duties of employees and employers in collective bargaining. The bill also provides for the recognition of exclusive representatives, payroll deductions, complaint proceedings before the Board, judicial review of complaints, mediation, and arbitration. It provides that a term of an arbitration panel's decision becomes part of the unit's collective bargaining agreement unless it is rejected by 60% of the members of the unit's legislative body within 20 days after the decision is issued. The bill prohibits lockouts and strikes. It also provides that an agent appointed by a unit to conduct collective bargaining for the unit is not a "governing body" for open door law purposes.

Effective Date: July 1, 2002.

Explanation of State Expenditures: There are two cost components to this bill: (1) The extra cost to the Indiana Education Employee Relations Board (IEERB) to administer the provisions, and (2) the cost to local governments of negotiated contract settlements over and above what would have been granted by the units without the requirement to collectively bargain.

Administration of the bill's provisions by IEERB is estimated to require an additional professional (E VII) and additional support person (COMOT III) at a cost of about \$78,000 for FY2003 and \$77,000 for FY2004.

IEERB is charged with conducting the election for the exclusive collective bargaining representative for the unit. It is estimated that each election would cost about \$2,000 to hold. The one-time cost to hold about 90 elections would be \$180,000.

In addition, IEERB will require \$50,000 to \$100,000 per year to cover ad hoc mediation staff and supplies.

These costs were determined by estimating the number of bargaining units that would result from this bill (approximately 55 units of firefighters and 32 police units, for a total of 87-90 units). It is also estimated that these units could require approximately 15 unfair practices hearings and 15 mediations per year.

The funds and resources required above could be supplied through a variety of sources, including the following: (1) Existing staff and resources not currently being used to capacity; (2) existing staff and resources currently being used in another program; (3) authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) funds that, otherwise, would be reverted; or (5) new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions. IEERB currently has one vacancy on its manning table.

Explanation of State Revenues: There could be some minimal additional revenue from income tax collections on any negotiated wage and salary increases over and above what would have been granted without collective bargaining.

Explanation of Local Expenditures: The bill could lead to additional expenditures by local governments due to negotiated contract settlements that are over and above what would have been granted by the units without the requirement to collectively bargain.

Background: Various studies have been conducted in recent years attempting to estimate the effect of collective bargaining on wage and salary levels of public employees. Most studies conclude that public sector collective bargaining differs in at least two ways from the private sector:

(1) Public sector unions have a greater influence than private sector unions on employer behavior because of their ability to work within the political process. Unions, through their lobbying efforts, can influence public sector budgets and, thus, the demand for public sector employees in addition to the level of compensation (Zax and Ichniowski, 1988).

(2) Public sector union wage effects can differ significantly over time and are generally smaller than those in the private sector, but are far from negligible (Lewis, 1990).

Wage effects are usually measured through cross-sectional statistical studies where general wage levels of government employees without collective bargaining are statistically compared to collectively bargained wage levels. By controlling for other economic variables which might influence wage levels, researchers are able to arrive at an estimate of the wage differential which is attributable to collective bargaining.

After the introduction of collective bargaining, wage level differentials would not be expected to occur immediately. Rather, they accumulate from annual contract settlements which are a little higher than what they would be if collective bargaining did not occur. Thus, over time, these small percentage wage and salary improvements due to collective bargaining accumulate into a differential which, once built into the payroll base, is paid annually.

For example, if the annual average wage settlement obtained after the introduction of collective bargaining was 4.5% and the annual wage increase that would have been obtained by employees without collective bargaining was 3.5%, then the difference would be equal to 1% of the payroll level. Over time, a series of contract settlements, over and above what would have occurred without collective bargaining, can be expected to result in an accumulated wage and salary differential.

Comprehensive literature reviews by Freeman (1986) and Lewis (1988) tend to confirm the appropriateness of moderate, but non-negligible, collective bargaining effects on union/non-union wage differentials for all government employees in the public sector. These studies also report the effect of collective bargaining on fringe benefits to be at least as great or greater than on wage levels. Likewise, studies by Ichniowski (1980), Edwards and Edwards (1982), and Zax (1988) suggest that collective bargaining has a considerably larger impact on fringe benefit levels than on wage levels.

The wage differential due to collective bargaining for local governments is estimated to be larger than for state governments (some estimates range as high as 10% to 15% over time for wages, alone). However, trying to estimate the fiscal impact of collective bargaining for local governmental units is difficult due to the lack of good information on the total wage and benefit levels of the employees, the lack of knowledge about the extent and distribution of collective bargaining being conducted currently and the extent of the "spillover" effect at the municipal level.

The employee groups affected by this bill could be subject to substantial "spillover" effects, or the increase in non-collectively bargained wages and benefits in nearby departments, agencies, municipalities, or employee groups due to the influence of wage and benefit increases obtained by those employees who do collectively bargain. Since the wages and benefits of departments which do not collectively bargain will be influenced by the wage and benefit increases given to those departments in the same municipality which do bargain, some of the collective bargaining effect is already built into the system. In addition, municipalities which don't collectively bargain must compete for workers with nearby municipalities which do bargain. This, again, could result in somewhat ambiguous conclusions when trying to estimate the fiscal impact. On the one hand, some of the impact may already be built into the wage and fringe benefit structure of the community due to the prior existence of collective bargaining in some departments or communities. On the other hand, collectively bargained contracts have a more far-reaching influence than solely in the department or municipality doing the bargaining due to the fact that other departments or municipalities must compete for the available labor supply.

Since municipal governments are, to a large extent, dependent on property taxes which are regulated by the state, the additional wages and benefits negotiated with employees as a result of collective bargaining may not represent increased tax collections. Instead, increased personnel costs may force reallocations from other areas in the budget.

Explanation of Local Revenues: For counties which have adopted an income tax, there could be some minimal additional revenue from the increased tax collections on the additional wages and salary increases, over and above what would have been granted without collective bargaining.

State Agencies Affected: Indiana Education Employment Relations Board.

Local Agencies Affected: Counties, cities and towns, and townships.

Information Sources: Dennis Neary, IEERB, 233-6620.