

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

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6233**

**BILL NUMBER: HB 1220**

**DATE PREPARED: Jan 29, 2002**

**BILL AMENDED: Jan 29, 2002**

**SUBJECT: Collective Bargaining for Public Safety Employees.**

**FISCAL ANALYST: Chuck Mayfield**

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**FUNDS AFFECTED: X GENERAL  
DEDICATED  
FEDERAL**

**IMPACT: State & Local**

**Summary of Legislation:** (Amended) This bill allows certain state employees and 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. It also specifies the rights and duties of employees and employers in collective bargaining. The bill provides for the recognition of exclusive representatives, payroll deductions, complaint proceedings before the Board, judicial review of complaints, mediation, and arbitration. It prohibits lockouts and strikes. This bill provides that an agent appointed by the state or 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 the state and 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.

*Background:* The state currently identifies 12 bargaining units under the executive collective bargaining order.

<b>Bargaining Unit</b>	<b>Number</b>	<b>Union</b>		<b>Bargaining Unit</b>	<b>Number</b>	<b>Union</b>
Exempt	7,484			Health Care Profess.	629	AFSCME
Labor, Trades, Crafts	4,587	UNITY		Social Services & Counselor Prof.	4,107	AFSCME
Admin, Tech& Clerical	4,798	UNITY		Engr, Scientist, & IT Professional	1,830	
Reg. Insp & Lic Non Professionals	209	UNITY		Professional & Admin.	1,282	
Health and Human Services Non Prof.	2,665	AFSCME		Public Safety & Prot Services	4,221	UNITY
Reg. Insp & Lic Professionals	963	AFCME		Sworn Police	1,416	

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.

Not considered here, but potentially very significant, are collectively bargained conditions of employment which are not included in the estimated wage and fringe benefit increases described above.

State employment is currently about 37,280 with an annual payroll of approximately \$1,116.3 M. The negotiable portion of the fringe benefit package represents about 16% of the total payroll. Assuming an estimated 8% to 12% bargaining effect on the total negotiable compensation may occur over some period of time and using the current payroll as the wage base, an estimated accumulated wage and benefit differential of \$103.6 M to \$155.4 M could occur. This does not necessarily imply a commensurate increase in state expenditures. The source of funds which might be required to compensate for the impact of this bill in combination with all other state expenditures may include new tax revenues, reverted funds, and/or funds diverted from other programs or budget categories.

It is important to note that timing is not considered here. Elections and bargaining must take place over time and the attainment of the estimated wage and benefit differential is achieved by the accumulation of contract settlements which are slightly better than what would have occurred without collective bargaining. Therefore, the total impact would not be realized immediately or even in the current biennium and, perhaps, might not be fully realized for a number of years.

Since the General Assembly must ultimately appropriate the funds for wage and benefit packages and the administration must provide those funds to the employees, there may be some years when any negotiated increase would be similar to what would have occurred without collective bargaining. However, statistical studies show that, over time, an increase in the base, for both wages and fringe benefits, does occur in the public sector due to collective bargaining.

Also, some employees are not permitted by the bill to be part of the eleven bargaining units and some employee groups may never choose to unionize. To the extent that this occurs, the effect of collective bargaining may be delayed or moderated. However, if enough groups do unionize, one would expect the compensation levels of non-unionized groups to track the general compensation levels fairly closely.

Not considered here, but potentially very significant, are collectively bargained conditions of employment which are not included in the estimated wage and fringe benefit increases described above.

**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.

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.

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 state and 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.

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 which do bargain, some of the collective bargaining effect is already built into the system. In addition, units which don't collectively bargain must compete for workers with nearby units 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 doing the bargaining due to the fact that other departments must compete for the available labor supply.

See *Explanation of State Expenditures* for discussion of impact of collective bargaining on employee compensation.

**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.