

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

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FISCAL IMPACT STATEMENT

LS 6233

BILL NUMBER: HB 1220

DATE PREPARED: Feb 4, 2002

BILL AMENDED: Feb 4, 2002

SUBJECT: Collective Bargaining for Public Safety Employees.

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**FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL**

IMPACT: State & Local

Summary of Legislation: (Amended) This bill allows certain employees of the state, state educational institutions, counties, cities, towns, or townships, and certain noncertificated employees of school corporations to bargain collectively with the employer through an exclusive representative. It establishes the Public Employees Relations Board to implement the collective bargaining law. The bill specifies the rights and duties of employees and employers in collective bargaining. It provides for the recognition of exclusive representatives, payroll deductions, complaint proceedings before the Board, judicial review of complaints, mediation, and arbitration. The bill also prohibits lockouts and strikes. It provides that an agent appointed by the state, a school corporation, a state educational institution, or a local government to conduct collective bargaining is not a "governing body" for Open Door Law purposes. The bill provides that an employee organization that has been certified as the exclusive negotiating organization for a bargaining unit in an election by an earlier public employees relations board created by executive order is granted recognition as the exclusive bargaining representative for that unit.

Effective Date: (Amended) Upon Passage; July 1, 2002.

Explanation of State Expenditures: (Revised) Collective bargaining by public employees involves two major cost components which may affect the state: (1) The cost of the Public Employee Relations Board (PERB), and (2) the effect on wages and fringe benefits of the employees.

PERB Board: With respect to the costs of the PERB Board, the Indiana Education Employment Relations Board is currently handling the responsibilities and providing staff support for the PERB as established under the Governors' Executive Order 90-6. However, due to potential questions of fair representation and individual grievances which may arise with this bill, it has been estimated that a PERB Board consisting of a full-time executive director, full-time chairman, and four part-time Board members with professional and support staff would cost the state about \$781,000 in first-year costs, of which, \$664,000 would be on-going annual costs..

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

Bargaining Unit	Number	Union	Bargaining Unit	Number	Union
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.

Impact of Collective Bargaining State Government: 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.

Impact of Collective Bargaining on State Universities: The long term impact of collective bargaining on the wages, salaries, and fringe benefits for state university faculty and non-faculty employees is estimated to be between \$119 M and \$179 M annually, based on current compensation paid from state funds and student fees to university and college employees. (It is important to note that the time frame during which the wage differential would arise 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 and, perhaps, might not be fully realized for a number of years.)

This also does not necessarily imply a commensurate increase in state expenditures. As with most other bills, the source of funds is not determined within the language of the bill. 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, funds diverted from other programs or budget categories, and/or increases in fee revenue.

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: All; Indiana Education Employment Relations Board; Institutions of Higher Education.

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

Information Sources: