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FISCAL IMPACT STATEMENT

LS 6112
BILL NUMBER: SB 167

NOTE PREPARED: Dec 22, 2006
BILL AMENDED:

SUBJECT: Collective Bargaining for Public Employees.

FIRST AUTHOR: Sen. Lanane
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill permits certain governmental employees and noncertificated employees of school corporations to form and join unions. It establishes a five-member Public Employees Relations Board. The bill establishes a procedure for the selection and decertification of an exclusive bargaining representative. It also establishes employer and employee rights. It specifies prohibited practices. The bill requires the employer to bargain collectively when an exclusive representative has been certified. It also establishes negotiation, mediation, factfinding, and binding arbitration procedures.

The bill establishes mandatory subjects of negotiation. It provides that all decisions, opinions, or awards made by an arbitrator are subject to public inspection and copying. The bill provides that a proposed bargaining agreement subject to ratification by the parties is confidential. It also requires a grievance procedure to be included in each collective bargaining agreement.

The bill makes strikes by certain public employees unlawful, and establishes penalties for strikes.

Effective Date: July 1, 2007.

Explanation of State Expenditures: Collective bargaining by public employees involves three major cost components which may affect the state: (1) the cost of the Public Employee Relations Board (PERB); (2) the cost of the Office of Chief Negotiator for the State; and (3) the effect on wages and fringe benefits of the employees.

PERB Board: With respect to the costs of the PERB Board, based on the FY 2003 through FY 2005 expenses for IEERB, the additional annual cost of the PERB with a full-time executive director and full-time

professional and support staff could potentially be between \$400,000 and \$600,000 annually.

Chief Negotiator: The responsibilities of the Chief Negotiator, with respect to state executive branch employees, can be implemented with no additional cost to the State Department of Personnel. Additional costs to the Office of the Chief Negotiator for state university faculty and non-faculty employees, municipal employees, and non-certificated school employees are undetermined at this time and are largely dependent upon how the bill is implemented.

Background on the Collective Bargaining Effect: With respect to the potential costs of collective bargaining, various studies have been conducted in recent years attempting to estimate the effect of collective bargaining on wage, salary, and benefit levels of public employees. Most studies conclude that public sector collective bargaining differs in at least two ways from collective bargaining in 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, these wage level differentials would not be expected to occur immediately. Rather, the differentials would accumulate from annual contract settlements which are a little higher than what would otherwise occur without collective bargaining. 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 these 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. Lewis (1990), in a survey of 75 studies which estimated union/non-union wage and benefit differentials for various levels of government and employee groups, concluded that the average differential in total compensation (wages + fringe benefits) was 8% to 12% for the public sector. [Although the majority of statistical studies involve local governments, studies involving federal and state governments indicate that the average wage differential for the federal government employees was less than for all governmental bodies, and that the differential for local

governments was above the average for all levels of government. Lewis (1990) indicated that it was not unreasonable to conclude that the wage differential at the local government level was 10% to 15%, about as great as that for all U.S. wage and salary workers.]

State employment is currently about 35,484 with an annual payroll of approximately \$1,280.5 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 \$102.4 M to \$153.7 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.

Using the same approach, the long-term impact of collective bargaining on the wages, salaries, and fringe benefits for state university employees is estimated to be between \$164.5M and \$246.8 M. This is based on total appropriations for personal services to college and university employees in FY 2007 of \$2,056.4 M.

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: When the wage and salary differential for state employees and employees of state educational institutions is reached, additional revenues which would be collected from the 3.4% state income tax on the accumulated employee wage differential would total approximately \$13.2 M to \$19.7 M. In years leading up to the accumulated differential, additional revenue in amounts less than this range could be expected. Additional state revenues for local government and non-certificated school employees have not been estimated.

Explanation of Local Expenditures: Estimating the fiscal impact from the introduction of collective bargaining on local government employees and non-certificated employees of school corporations is difficult largely because of the lack of good information on the total wage and benefit levels of the employees, the lack of knowledge of the extent and distribution of collective bargaining being conducted currently, and the

extent of the "spillover" effect at the local level.

Local Government Employees: 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% for wages, alone).

This employee group could be subject to substantial "spillover" effects, or the increase in non-collectively bargained wages and benefits in nearby departments, agencies, local governments, 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 of the same local government which do bargain, some of the collective bargaining effect is already built into the system. In addition, local governments which don't collectively bargain must compete for workers with nearby local governments 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 local government doing the bargaining due to the fact that other departments or local governments must compete for the available labor supply.

Since local governments are dependent to a large extent 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.

Non-Certificated School Employees: According to the Indiana School Boards Association, around 42 of the school corporations currently participate in collective bargaining with their non-certificated employees. The approximate payroll of non-certificated school employees in Indiana for FY 2006 was about \$1.3 B. Using the same approach, the long-term impact of collective bargaining on the wages, salaries, and fringe benefits for non-certified employees is estimated to be between \$130 M and \$195 M.

Collective bargaining is not new to school corporations in Indiana. Teachers have been allowed to bargain collectively for several years. Since teachers and non-certificated school employees work side-by-side in the same buildings and have the same employers making the wage-setting decisions, some of the effect of teacher collective bargaining will have "spilled over" to the non-certificated personnel. School administrators and school boards are likely to be influenced by contract settlements with their teachers and by the competitive wage levels for comparable employees of neighboring school systems, some of whom may be under collectively bargained contracts. Because of these factors, it is difficult to project the magnitude of the increase in wages and benefits to this employee group arising from the introduction of collective bargaining.

Since school corporations are dependent to a large extent 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 result in increased tax collections. Instead, increased personnel costs may force reallocations from other areas in the school budget or result in a greater demand for state funds.

There could also be a fiscal impact for school corporations from the introduction of arbitration procedures for teacher bargaining units.

Explanation of Local Revenues: Counties with local option income taxes may also experience some additional revenue.

State Agencies Affected: All; State educational institutions.

Local Agencies Affected: Local governmental units and school corporations.

Information Sources: State Department of Personnel database; Department of Education Financial Reports; Commission for Higher Education Budget Report,

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