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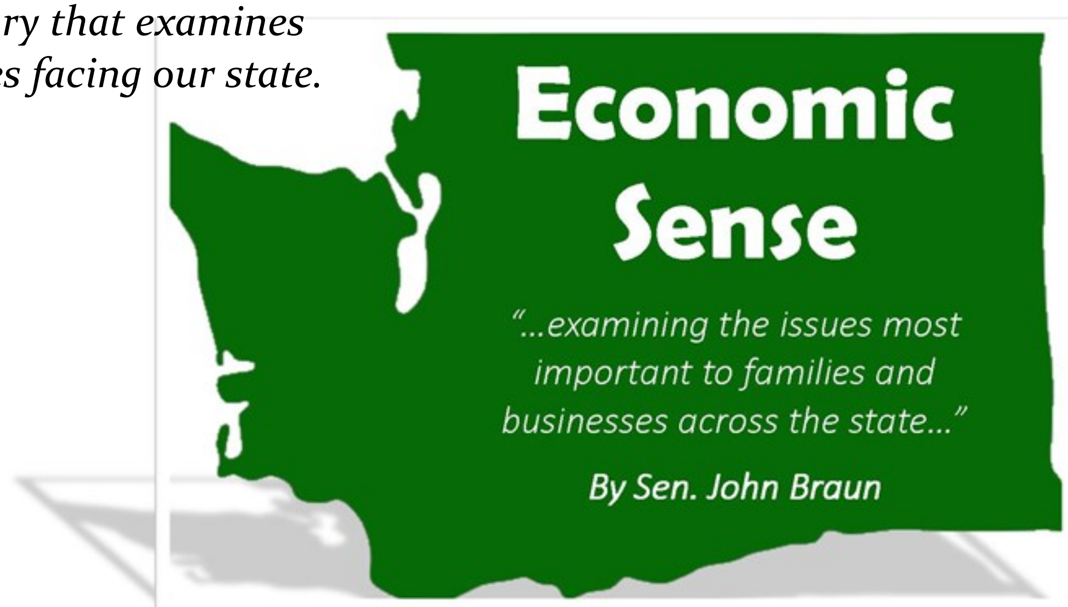
Economic Sense # 8

Opportunities Lost by Funding Historically Expensive Collective Bargaining Agreements

Welcome to the latest installment of "Economic Sense," a data-driven policy summary that examines economic issues facing our state.



Bottom Line: Up Front

Very Expensive & Unusual - The Governor negotiated Collective Bargaining Agreements for 2017-19 that are double the cost of any prior agreements. The result is nearly half of the state's workforce receiving pay increases of more than 10% over the next two years. The raises are unusual both in scope and structure (3 raises in 2 years) and exacerbate income inequality among the state's workforce as more highly paid staff will see bigger increases in their paychecks.

Unnecessary? - Reports from the Governor's own budget office show that Washington does a good job retaining employees. The turnover rate is well-below the national public sector average. And nearly all state employees have seen their wages rise faster than inflation during this decade.

Huge Opportunity Cost - Budgeting is about priorities. For approximately half the cost of the CBAs, inroads on significant public policy issues could be made, such as lowering college tuition further, increasing manufacturing jobs in Washington, and improving care of our state's most vulnerable.

A. Historically Expensive: Roughly Double Any Prior CBA Cost

The Governor's Collective Bargaining Agreements are by far the most expensive ever submitted to the Legislature. The cost they would represent in the upcoming biennial budget, assuming the terms are extended to non-represented employees, is $703 million general-fund state and $1.45 billion in total funds.[1]

To put this in perspective, $703 million is more than each of the following:

- The entire state support for the University of Washington or Washington State University;[2]
- The upcoming budget addition to lower K-3 class size from 25 pupils to 17 throughout the state;[3]
- The entire state need grant program, which supplies the primary financial-aid assistance for low- and middle-income students attending college.[4]

Nearly half the state workforce will get raises over 10%

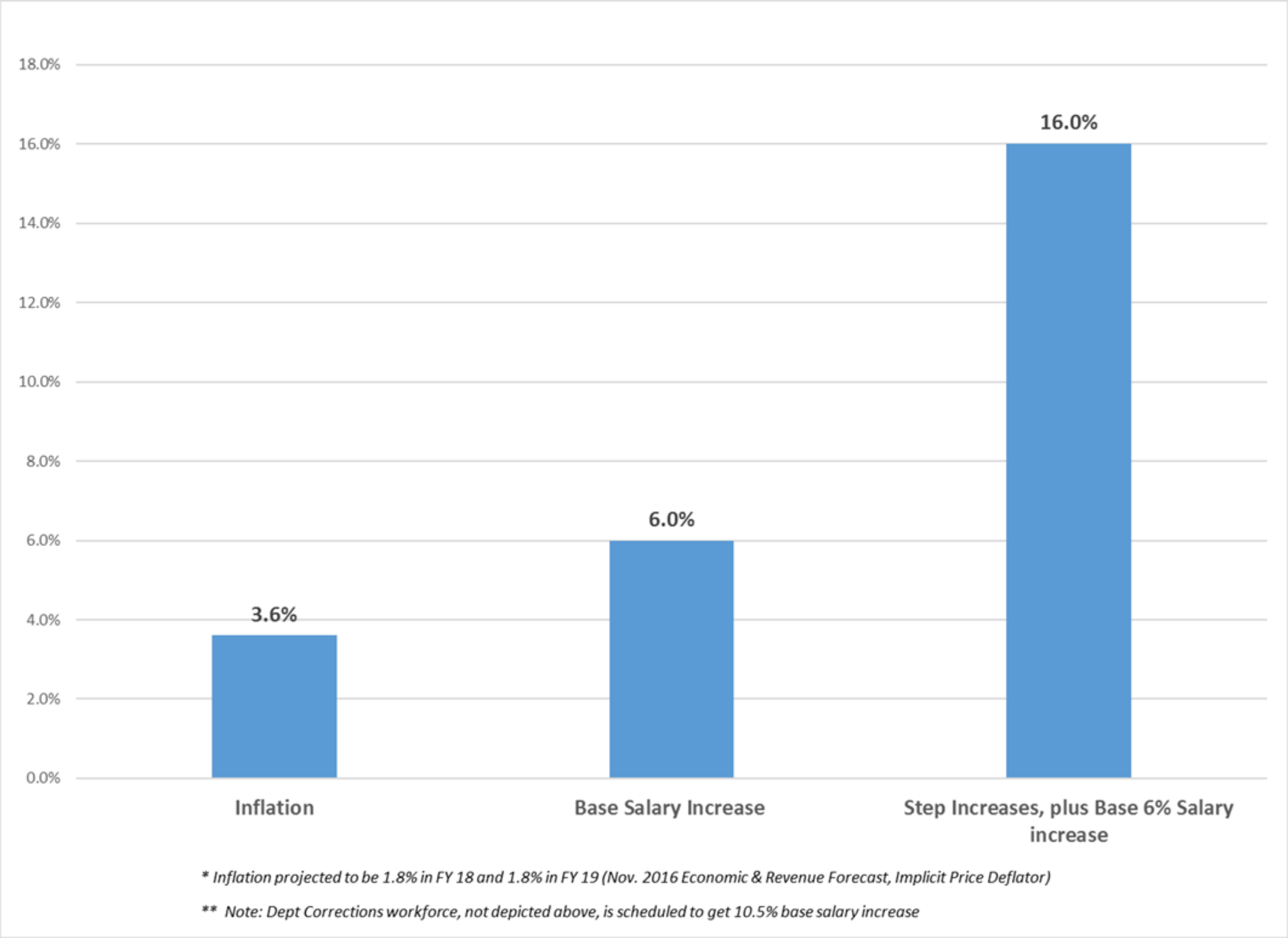
Although portrayed as a 6% salary increase, in actuality, approval of these agreements would result in roughly half of the executive-branch workforce receiving raises of over 10% in the next two years.

This is because tens of thousands of state workers, or over 1/3rd of the workforce, qualify for an additional yearly 5% raise under the CBAs, commonly called a "step salary" increase, that is given to state workers who are not at the highest step in the salary grid for their job classification.[5] For these workers, the CBAs represents a 16% increase in their salary over two years.

When you combine these workers with the Department of Corrections workforce that is scheduled to get a 10.5% base salary raise, the result is half the workforce will receive double-digit raises.[6]

Note: Keep in mind, this double-digit raise analysis is simply for those employees to do the same job they are currently doing. When you take into account employees getting moved to a higher classification on the state job classification grid (Communications Officer 2 to Communications Officer 3), the reality is that even more workers will see their pay increase by double digits.[7]

Raises are double to quadruple forecasted inflation



Exacerbates Income Inequality Among State Workforce

The proposal will result in highly paid employees seeing a significantly larger increase in their paychecks than lower-or middle-salary counterparts:

6% raise impact

$30,000 employee	=	$1,800 raise
$50,000 employee	=	$3,000 raise
$100,000 employee	=	$6,000 raise

Unprecedented 3 Raises in 2 Years – Hiding True Ongoing Costs of Raises

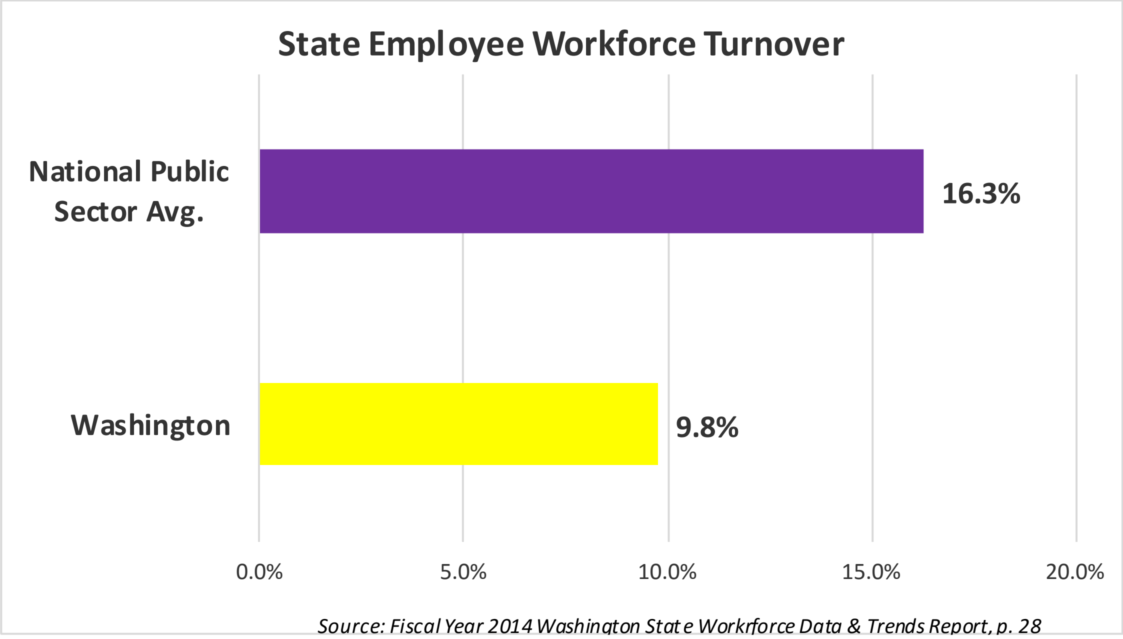
The agreements call for three raises over the two years of the budget—occurring on the 1st day of the biennium, the 1st day of the 2nd year of the biennium, and again a third time six months later.

This approach is unprecedented and goes against sound budgeting practice as it pushes 2/3rds of the cost ($464 M of the $703 M) into the second year of the biennium[8]. In essence, paying for a raise only over the last six months of a two-year budget hides the true cost to taxpayers, making it look much cheaper than the ongoing budget reality of that raise.

B. Are these Historically Expensive Raises Necessary?

Across-the-board raises far exceeding inflation could be justified as a necessary use of taxpayer dollars if the state had a widespread and chronic retention problem. Is that the case, though?

State employee turnover is far lower than the national public sector average



This data comes directly from the Office of Financial Management, the Governor's budget office. The most recent comparison point is from Fiscal Year (FY) 2014. For FY 16, OFM reports state turnover was 10.0% - nearly identical to FY 14 – and still far below the last reported national public-sector average.[9] (The 10% FY 16 turnover comprises 5.4% resignations, 2.7% retirement, 1.5% other, and 0.4% dismissals/layoffs.)

Finally, that same report noted that with a median length of service of 10 years:

> "Washington state employees tend to stay longer than state and local government employees in other states (6.4 years) and federal employees (9.5 years)."[10]

- **Since 2010, the vast majority of state employees' actual salaries have grown faster than inflation**

State employee salaries are public record. Individual salary data is available going back to 2010.

In 2015, the Legislative Evaluation and Accountability Program staff underwent extensive work analyzing the salaries of employees who worked a full year in 2010 and 2014. There were 71,032 state employees (general government & higher education) that met that criteria.[11]

The result? 86% of the workforce had seen a salary increase. Of those workers:

- 14% was the average salary increase
- 8.8% was the median salary increase
- 7% was inflation during the same time frame[12]

And, in the current 2015-17 budget, state employees were granted across-the-board raises again exceeding inflation in each year of the budget.[13]

In short . . .

Washington state government has a commendably low turnover rate and an analysis of actual individual employee salaries indicates the vast majority of employees' pay has gone up faster than inflation in recent years.

Large raises should be reserved for those areas of state government with known and documented retention and recruitment issues, rather than done across the board.

C. Best Use of Funds? Huge Opportunity Cost in Funding the CBAs.

Budgeting is about priorities.

For slightly over half the price of the CBAs, you could do **ALL** of the following:

- ✓ Increase the Business & Occupation Tax Credit by 50% for small businesses
- ✓ Lower B&O tax rate for **all** manufacturers in state to the same rate as Boeing
- ✓ Significantly expand community mental health treatment and capacity
- ✓ Expand services to thousands of developmentally disabled and their families
- ✓ Provide shelter for **all** youth and families that are homeless
- ✓ Reduce college tuition by another 10% for all students[14]

The real question for policymakers and the Governor is whether the proposed CBAs are the best use of taxpayer funds?

The evidence shows they are historically expensive, not necessitated by an employee-retention concern, and for a fraction of the cost, inroads on significant public-policy issues – such as college tuition, manufacturing jobs in Washington, and improvements to services for the most vulnerable – could be made.

Footnotes

1. Senate W&M Operating Budget Briefing Book, Cost of Negotiated CBAs: Employees & Non-State Employee Union Agreements, Assumes Parity for Non-Union Employees (p. 10-11) http://leg.wa.gov/Senate/Committees/WM/Documents/ICE%20docs/2017%20Briefing%20Book%20Draft%20%286%29_Final_online_2up.pdf
2. UW: $626 million state support in 2015-17; WSU $423 million state support in 2015-17
3. K-3 class size reduction in upcoming budget $484 million (State Budget Outlook, Nov. 2016, p. 5 http://www.erfc.wa.gov/budget/documents/20161116_Methodology.pdf)
4. State need grant: $593 million in 2015-17
5. State Human Resources Division (9/20/16) – 34.3% of general government employees (non-higher ed) are at or below Step K and eligible for step increases (21,479 of 59,929 employees). See also sec. 42.7 (Periodic Increases) of existing Washington State Federation CBA for description of step salary increases: http://www.ofm.wa.gov/labor/agreements/15-17/wfse_gg.pdf
6. There are 8,370 annual FTEs at Dept of Corrections (fiscal.wa.gov)
7. A complete listing of state job classifications and descriptions can be found here: http://hr.ofm.wa.gov/compensation-job-classes/ClassifiedJobListing/C?field_ccjobs_jobclasstitle_value=&field_ccjobs_jobclasscode_value=&field_ccjobs_jobclassid_value=&field_ccjobs_jobspecxml_value=&field_ccjobs_hrmspaygroup_value=&items_per_page=250
8. Senate W&M staff fiscal year analysis.
9. FY 16 State Turnover: http://hr.ofm.wa.gov/workforce-data-planning/workforce-data-trends/workforce-turnover
10. Fiscal Year 2014 Washington State Workforce Data & Trends Report, p. 27 (http://hr.ofm.wa.gov/sites/default/files/documents/Strategic%20HR/Workforce%20Data%20and%20Trends/FY%202014%20Workforce%20Data%20and%20Trends.pdf)
11. LEAP analysis (1/16/15) provided to legislative staff, includes general government and higher education employees (see also: Braun Economic Sense #3, Jan. 2015 – State Employee Pay & Retention http://johnbraun.src.wastateleg.org/wp-content/uploads/sites/16/2015/01/Braun-Economic-Sense-Third-Edition.pdf)
12. General Government – There were 42,154 employees who met the 2010-14 criteria. Of those, 85% (35,974) received a salary increase. The average increase was 11.8% and the median increase was 6.7%. Higher Education – There were 28,878 employees who met the 2010-14 criteria. Of those, 86% (24,978) received a salary increase. The average increase was 17.3% and the median was 12.4% (see also: Braun Economic Sense #3, Jan. 2015 – State Employee Pay & Retention http://johnbraun.src.wastateleg.org/wp-content/uploads/sites/16/2015/01/Braun-Economic-Sense-Third-Edition.pdf)
13. The base authorized pay raises in 2015-17 CBAs were 3% in FY 16 and 1.8% in FY 17 (vs. IPD inflation of 0.7% and 1.6%)
14. The various enhancements are priced as follows:
    - 50% increase in value of Small Business Tax Credit: $50 million (Current credit is valued at $101 million biennia, 2016 Tax Exemption Study, p. 185 http://dor.wa.gov/docs/reports/2016/Tax_Exemption_Study_2016/02_B&O_Tax_Section.pdf)
    - Reduce B&O rate for all manufacturers to Boeing .2904% rate: $115 million (Source: DOR estimate, 2016.)
    - Significantly expand community mental health treatment & capacity: $50 million (W&M staff: triple crisis triage centers, nearly double mobile crisis outreach teams, and invest in three more evaluation and treatment facilities in state)
    - Expand services to thousands of developmentally disabled and their families: $35 million (W&M staff: serve 4,800 more clients via respite care and employment services)
    - Provide shelter for all unsheltered youth and families that are homeless: $25 million (W&M staff: house the estimated 3,285 homeless families with children within 30 days after they become homeless)
    - Reduce college tuition by 10%: $97 million (W&M staff: 10% tuition reduction and state backfill for all institutions: $132 million backfill offset with $35 million in less financial aid required because of lower tuition)