



Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: Am. Sub. S.B. 5 of the 129th G.A.

Date: March 2, 2011

Status: As Reported by Senate Insurance,
Commerce & Labor

Sponsor: Sen. Jones

Local Impact Statement Procedure Required: No

Contents: Revises the Public Employee Collective Bargaining Law and makes changes to compensation and terms of employment for public sector employees

State and Local Fiscal Highlights

Employee compensation and benefit changes affecting all public employees

- **Merit pay.** The bill replaces salary schedules and longevity pay supplements with merit-based pay ranges for employees of the state and political subdivisions, except for teachers, whose compensation the bill requires to be based on merit criteria alone. As a result of these changes, state and local government employers could incur new costs to review job classifications and employee performance guidelines.
- **Health insurance premiums.** The bill prohibits state and local government employers from paying more than 85% toward the cost of employee health benefit premiums. Currently, the state pays 85% toward employees' health insurance premiums. Numerous state colleges and universities, political subdivisions, and school districts also cover more than 85% of employee health premiums. Their health insurance costs will be reduced as a result of this cap.
- **Pension contributions.** The bill prohibits public employers from paying employee contributions to any of the five state retirement systems. The provision would decrease benefit costs for government employers that make such contributions. Total employee retirement contributions in FY 2009 were approximately \$2.9 billion.

Changes affecting the collective bargaining process

- **State collective bargaining.** The bill limits collective bargaining for state and local government employees to matters pertaining to wages, hours, terms, and conditions of employment. According to the State Employment Relations Board (SERB), as of June 30, 2010, the number of employees covered by collective bargaining agreements was approximately 42,000 in state government, 19,500 in

institutions of higher education, 102,000 in local governments, and 196,000 in school districts.

- **Strike prohibition.** The bill prohibits public employees from striking. Employees violating this prohibition will be subject to dismissal. Otherwise, their pay will be deducted at twice their daily rate for each day, in part or in whole, missed while striking. In addition to the strike prohibition, the bill authorizes public employers to seek an injunction in the courts against strikes. Violators of such an injunction will be subject to further penalties.
- **Fiscal emergency and fiscal watch.** If a municipality, county, school district, or the state is declared to be in fiscal emergency or in fiscal watch, the bill authorizes that entity to set aside any portion of a collective bargaining agreement. Contracts currently in effect would not be subject to this provision. As of January 31, 2011, there were 27 political subdivisions and 15 school districts in either fiscal emergency or fiscal watch.

Detailed Fiscal Analysis

Overview

The bill modifies the terms of compensation for state and local government employees and makes extensive changes to the state's collective bargaining law. The bill limits collective bargaining for state and local government employees to matters pertaining to wages, hours, terms, and conditions of employment. It also prohibits public employees from striking and eliminates the process of binding arbitration that is used to resolve negotiating impasses between political subdivisions and public safety forces.

Table 1 below summarizes information concerning public sector employment obtained from the State Employment Relations Board's (SERB) annual report for FY 2010. For that fiscal year, there were approximately 360,000 employees throughout state and local government covered by 3,290 collective bargaining contracts. The state employed approximately 59,000 state employees, with roughly 42,000 covered under collective bargaining contracts in FY 2010. The remaining 17,000 employees were exempt. According to the Ohio Administrative Knowledge System (OAKS), total wages paid to state employees in FY 2010 were \$2.64 billion. Comprehensive wage information for employees of political subdivisions is not available.

Employer	Number of Employers	Collective Bargaining Contracts	Collective Bargaining Employees
State	1	11	41,991
Higher Education	37	70	19,540
City	250	1,013	48,842
County	1,027	572	34,836
Township	155	214	3,191
Boards of Education	718	1,224	195,670
Special District	207	76	2,312
Local Government - Other	339	110	11,894
Total	2,734	3,290	358,276

The first section of this analysis deals with provisions of the bill that relate to public employee compensation. Perhaps the most significant change for public employees is the requirement that public employers replace salary schedules and step increases with a system of merit-based pay ranges. Although it is unclear what effect this change will have on wages paid to public employees, it will require the state and political subdivisions to make changes to their human resources management

operations. Another provision of the bill that affects public employee compensation is a prohibition on employers from contributing more than 85% of the premium costs for health, dental, and vision benefits offered to public employees. The bill also prohibits public employers from paying any share of an employee's retirement contribution. Together, these restrictions will provide public employers with some additional control over fringe benefit costs.

The second section of this analysis deals more specifically with the provisions of the bill that modify the Public Employee Collective Bargaining Law. First, the bill limits collective bargaining for state and local government employees to matters pertaining to wages, hours, terms, and conditions of employment. Next, the bill prohibits public employees from striking and prohibits the use of mandatory conciliation, commonly referred to as binding arbitration, when negotiations reach an impasse. Additionally, the bill prohibits continuing contracts for teachers. Finally, the bill allows for any provision of a collective bargaining agreement to be set aside if a municipality, county, school district, or the state is declared to be in fiscal emergency or fiscal watch.

Employee compensation and benefit changes

Merit pay

The bill requires that the state and political subdivisions replace salary schedules and step increases with a system of merit-based pay ranges for both bargaining unit and exempt employees. Replacing salary schedules with a merit-based pay system could result in some administrative costs for state and local governments. The primary cost will be for revising compensation plans to tie job performance characteristics with employee pay. Presumably, the changes would affect larger governments, such as municipalities and counties, as well as school districts, to a greater extent than smaller political subdivisions.

As a result of these changes on the state level, the Human Resources Division within DAS, which oversees matters related to state employee pay plans and job classifications, could incur new costs for converting to a merit-based pay system. Currently, the Division funds the services it provides to state agencies by charging a fee of \$11.55 per paycheck issued to employees. The fee revenue is deposited into the Human Resources Operating Fund (Fund 1250), which funds the Division's operations. The Division incurred expenses of \$21.0 million in FY 2010. The FY 2011 appropriation is \$23.9 million. The balance of Fund 1250, as of mid-February 2011, is approximately \$8.1 million. The Division employs approximately 130 persons.

Employee health insurance premiums

The bill prohibits state and local government employers, including school districts and institutions of higher education, from paying more than 85% toward the cost of employee health insurance premiums. The bill also specifies that health benefits in general are an inappropriate subject for collective bargaining, except when employers pay less than 85% of the premium cost. Under the bill, in addition to medical coverage,

health benefits include dental, vision, and prescription benefits. This provision would affect a substantial number of public employers, many of which pay more than 85% toward the cost of employee health insurance premiums. The state currently pays 85% of the premium costs for medical plans and 100% of the premium cost for dental and vision benefits for full-time employees. The state pays a lesser, pro-rated amount for the benefits of part-time employees.

Table 2 below shows health benefit expenses incurred by the state and local governments that paid more than 85% of employee health care premiums in FY 2010. The state costs for health benefits were obtained from OAKS. Because the state currently pays for 85% of employees' medical insurance coverage, the \$45.1 million in state costs reflects the additional payments the state makes for vision and dental benefits. The information pertaining to school districts and other local governments is collected by SERB, but is entirely self-reported by those entities. Thus, it may be that there are more political subdivisions that pay more than 85% of their employees' health care. LSC was not able to obtain health benefit expenditure data from institutions of higher education.

Table 2: Health Benefit Costs for Public Employers, FY 2010		
Employer	# that Pay More than 85%	Total Health Premium Expenditures for >85% Plans
State	1	\$45,146,606
School Districts	335	\$55,305,060
Local Governments	221	\$46,898,170
Total	557	\$147,389,836

Employee pension contributions

The bill prohibits a public employer from paying employee contributions to any of the five state retirement systems, except where the employer reduces the employee's salary by the same amount for tax purposes.¹ The five state retirement systems are: the Public Employees Retirement System (PERS), the State Teachers Retirement System (STRS), the School Employees Retirement System (SERS), the Ohio Police and Fire Pension Fund (OP&F), and the Highway Patrol Retirement System (HPRS). The provision would have no fiscal impact on the state because the state does not pay any employee contributions on behalf of its employees. The provision would not have any impact on the five retirement systems either because the total contributions paid toward

¹ Under current federal law, a public employer may designate employee contributions as being paid by the employer and treated as employer contributions for tax purposes. The employee would receive higher take home pay through deferring tax at the state and federal levels on the portion of his or her salary that equals the required employee's contribution. However, employee contributions are taxable upon retirement.

the system would not change. The bill would, however, have a fiscal impact on many local governments. According to retirement system officials, over 2,532 local government employers² currently pay part or all of their employees' contributions into the systems, including contributions for tax purposes as described above. The provision would therefore reduce local government employer personnel costs for those political subdivisions that currently pay all or part of their employees' retirement contributions.

Table 3 below provides employee contribution rates and total employee contributions in FY 2009. Employee contributions in FY 2009 totaled \$2.9 billion.

Retirement System	Division	Required Employee Contribution Rate	Employee Contributions (\$ in millions)
PERS	State	10.00%	\$1,385.2
	Local	10.00%	
	PERS Public Safety	10.01%	
	PERS Law	10.01%	
STRS	n/a	10.00%	\$1,085.7
SERS	n/a	10.00%	\$295.8
OP&F	Police	10.00%	\$168.4
	Fire	10.00%	
HPRS	n/a	10.00%	\$8.6
Total			\$2,943.7

Collective bargaining provisions

Limitations on collective bargaining

The bill limits collective bargaining for state and local government employees to matters pertaining to wages, hours, terms, and conditions of employment. It also expressly labels the following as inappropriate subjects for collective bargaining: health benefits, employee retirement contributions, privatization of services, and other managerial decisions.

According to the State of Ohio Payroll Projection System, projected base wage expenditures for bargaining unit employees in FY 2011 are expected to be approximately \$1.57 billion. Wage costs for exempt employees over this period are expected to be \$922.3 million. Fringe payroll expenditures are estimated to be \$689.3 million for collective bargaining employees and \$313.3 million for exempt employees. Similar information for local government and university employees is not currently available.

² A local government employer is a unit of a local government, but may not include the entire local government entity. Thus, a specific political subdivision could be counted more than once in this number.

Employee Type	Number of Employees	Base Wages	Fringe Expenses	Total
Collective Bargaining	40,500	\$1,569,380,748	\$689,266,442	\$2,258,647,190
Exempt	18,200	\$922,308,183	\$313,281,464	\$1,235,589,647
Total	58,700	\$2,491,688,931	\$1,002,547,906	\$3,494,236,837

Prohibition of striking

Under the bill, bargaining unit employees are prohibited from striking. Specifically, the bill subjects these employees to possible dismissal, but otherwise requires that the pay for striking employees be deducted at twice their daily rate for each day, in part or in whole, missed while striking. The bill authorizes public employers to seek an injunction against strikes. There would be additional penalties for violating such an injunction. According to SERB, there have been a total of 43 strikes across all levels of state and local government since CY 2000. There were two strikes in CY 2009 and no strikes in CY 2010.

Dispute resolution

The bill instates a process of dispute resolution for all public employees reaching an impasse with employers during negotiations. This process would replace binding arbitration, currently used to resolve disputes involving public safety employees that are not allowed to strike, as well as all other alternative dispute processes. Under the bill, disputes would go through two stages—arbitration and then fact-finding. These two stages would be largely the same as under current law, with the exceptions that (1) a single fact-finder, as opposed to a panel, would be appointed and (2) the fact-finder would be restricted to considering only the public employer’s current financial situation. During each stage of this process, both entities would have to make their most recent offer public via the public employer's web site or via a newspaper of general circulation. If either the public employer or the employee representation rejects the fact-finder’s report, the appropriate legislative body must adopt either party’s final offer in its entirety. Any contracts adopted through this process will be valid for three years. This new mechanism will presumably slow the rate of growth of personnel costs for political subdivisions, as it is unlikely that a legislative body would adopt increases in costs that were seen as untenable.

Leave policies

The bill limits the amount of vacation that public employees can accrue to five weeks annually. Additionally, the bill expressly prohibits collective bargaining contracts from containing provisions allowing employees to cash out more than 50% of accrued sick leave, with a total limit of 1,000 hours, at the time of retirement. Total sick-leave conversion payouts for the state during FY 2010 were \$11.5 million.

School district continuing contracts

Under the bill, continuing contracts for teachers are prohibited. This is a process under which school districts may elect to enter into automatically renewed contracts with teachers that meet certain certification and longevity requirements. In these situations, teachers are provided with applicable pay raises. Their contracts can only be terminated with just cause or if the teacher chooses to resign. Under the bill, new contracts will be three years in duration, and subsequent contracts can be between two to five years. As with other collective bargaining provisions contained in the bill, the fiscal impact of these changes hinges on the actions of individual school districts. The Ohio Department of Education (ODE) indicates that there are approximately 110,000 full-time teachers working in roughly 610 school districts throughout the state. The average teacher's salary during FY 2010 was approximately \$56,000.

Fiscal emergency and watch

If a municipality, county, school district, or the state is declared to be in either fiscal emergency or fiscal watch by the Auditor of State, the bill authorizes that entity to set aside any portion of a collective bargaining agreement. This provision would only affect future contracts; contracts already in existence would be unaffected. By providing this mechanism for altering the terms of collective bargaining contracts, the bill gives public employers more flexibility to address budget problems. As of January 31, 2011, there were 27 political subdivisions and 15 school districts in either fiscal emergency or fiscal watch.

Exempt employees

The bill contains provisions that will exempt more public employees from collective bargaining. Specifically, the bill defines firefighters that have reached the rank of lieutenant and faculty members of institutions of higher education involved in the management of the institution as being exempt from collective bargaining. At the time this analysis was prepared, LSC was not able to determine the additional number of firefighters that will be affected by this change. According to the state's Higher Education Information System, in CY 2009 there were 21,167 faculty members at the state's 61 higher education campuses, with an average salary of \$63,067. It is unclear exactly how many of these faculty members would be considered as being involved in the management of their respective institutions.

SERB

The degree to which the bill will affect the operations of SERB depends largely on the impact the bill will have on the collective bargaining process affecting state and local government employees. SERB's responsibilities involving the Public Employee Collective Bargaining Law include overseeing representation elections, certifying exclusive bargaining representatives, monitoring and enforcing statutory dispute resolution procedures, mediating collective bargaining negotiations, adjudicating unfair labor practice charges, determining unauthorized strike claims, and providing

information and training to parties in contract negotiations. SERB is almost entirely GRF supported, although the agency collects a small amount of money from the sale of publications, seminar fees, and so forth. Total FY 2010 expenditures were approximately \$3.6 million. The total FY 2011 appropriation is \$3.9 million. SERB currently employs 32 persons, including three board members that oversee collective bargaining issues and three administrative law judges.

The bill accelerates the process for dealing with unfair labor practices by removing the current law requirement for the Board to investigate these charges, and instead sends these charges directly to an administrative hearing. The bill also prohibits an informal agreement between employees and representation, such as a memorandum of understanding, from being considered when SERB considers the appropriateness of a bargaining unit or representation elections. Additionally, the bill requires public employers entering into collective bargaining agreements to report the new terms of employee compensation, including a comparison to existing terms, to SERB. The Board is consequently required to publish these reports on its web site. Because SERB already collects all collective bargaining agreements and publishes these contracts on its web site, the cost of complying with the new web posting requirements is probably minimal.