

Chapter X

Costing Labor Contracts

It is regrettable but possibly inevitable that the negotiation process will be, at least in some measure, adversarial. Labor seeks to maximize its gain and government seeks to minimize its cost. Under these circumstances it is vital that the government have an established strategy that involves all the relevant agencies.

The first at and the development of an effective strategy for labor relations negotiations is to know the current contract inside and out. Since many elements of a labor relations contract ratified indirectly it's extremely important that all the details of the existing contract be understood fully. Since the existing contract is generally the jumping off point for most proposed changes knowledge of its provisions is the beginning of the development of an effective strategy.

Four Rules of Negotiation
Rule 1: Know your contract
Rule 2: Cost everything
Rule 3: Take a long-term perspective
Rule 4: Focus on productive hours

Often in labor relations negotiations a party will claim that some particular benefit is a “no cost” item. Generally speaking there are no “no cost” items so everything should have its true economic cost determined. If the proposal is to simply eliminate or reduce some activity, determine the average time involved and multiply it by the average salary of the people who perform the work.

In determining the true economic cost of any proposal the government must take all long-term perspective. Beyond the question of what some proposal will cost in its first year is important to note what it will cost for each year it is in effect. Generally speaking the decision around accepting or rejecting any given proposal should be based on a full year's cost regardless of how small the first-year cost might be. Cheap this year isn't cheap next year.

Beyond the issue of cash cost in any fiscal year is desirable to focus analysis on productive hours. Most so-called “no cost” items actually reduce the number of productive or hours available to provide service. The cost of an hour of time-on-task (time actually worked at providing a service) is determined by dividing the number of productive powers into the total cost for providing a service. If a proposal is made to reduce time-on-task by, say, one half-hour per week, then the cost of that proposal is 0.5 times the cost of a productive hour times the number of times that half-hour will be lost. This establishes a cost for proposed change in service delivery and allows all proposed changes in service delivery to be measured from the same base line.

Developing a Negotiation Strategy

There should be a place in the government where institutional knowledge of how to determine the true economic cost of service delivery resides. Whether this skill is in the budget office or elsewhere, involve it in both the development of a long-term strategy and in the process of costing out proposed settlements.

While the character of long-term strategies will vary from one government to the next, one essential component in any strategy is to decide in advance how much can be spent. In difficult times that amount could be zero. So when a union requests a new benefit or an increase in an existing benefit, the response might be to ask: “What benefit will the union give up in order to get the new benefit?” It can be expected that the union will not like to hear this but in effective negotiation many things need to be said that are perhaps disliked by the other side.

It is often the case that many of the requests in the negotiation session will be known in advance perhaps because they’re part of a previously stated wish list or because they have been requested frequently in the past. For such anticipated trouble items counterproposals should be prepared in advance. For example, a request for increased time off might be offset with a request for reduced minimum manning.

One psychological technique in negotiations is to highlight whatever inequities might exist within a union or between different groups doing the same work. Some negotiators feel ill-at-ease demanding more for a group that already has more. Pointing out the inequities can be an assistance to blunting the negotiation demands.

Never give anything away. By their nature negotiations are adversarial and it never benefits the government to give away something that might have been negotiated into something of value however small.

Examples of Costing in a Labor Relations Context

If a contract calls for a longevity payment of 5% of salary (up to the base of \$20,000) for an employee who has been employed for 15 years or more, what is the cost of an increase in the longevity base pay from \$20,000 to \$22,000?

To put a cost on this proposed change requires that the government negotiators have detailed personnel records that allow them to know how many members of a union are subject to some particular benefits — such as longevity pay. For each of the multiple years of the contract. In this case the 10% increase in the base amount to which the longevity percent is applied will result in a 10% increase in the payment for longevity pay provided there is no change in the number of people receiving longevity pay. If there was a major hiring some years ago it could be that next year will see a significant increase in the number of people collecting longevity pay or if the next year should see a significant increase in the number of retirees, the cost of this benefit could decline. Since some of these numbers are not likely to be known precisely estimates based on previous experience should be used.

What is the cost of granting one extra holiday?

It is occasionally claimed that an extra holiday is a “no cost” benefit because the government simply shuts down for the day rather than paying out additional money. But there is a cost to closing down for the day that can show up in more than one way. Any service that is intended to be provided 24 hours a day seven days a week, such as police and fire, will presumably have a staff working for the holiday at holiday rates which are

higher than regular day rates. Even central office services such as the clerk's office will be reducing the time on task to provide service to citizens and there is a cost for this: the cost of a productive hour times the number of hours in a work day.

What is the cost of increasing the shift premium from 65¢ to 75¢ per hour?

To estimate the cost of this proposal you must know the number of hours likely to be worked in the premium category for each of the years of the contract. A good personnel or payroll system should be able to provide the history of these hours and it should be possible in a straightforward fashion to estimate the number of hours that will receive the premium pay in the future. The increase in cost is then .1 times the number of hours.

Clothing allowance increase from \$700 to \$800?

The payroll/personnel system should be able to provide the number people who receive this benefit and it should be a straightforward matter to estimate the number of people in the contract year who will receive this benefit. So the number of people times \$100 gives the estimate to be used.

What is the cost of an 8% across the board pay increase?

It is tempting to think that if you take the total payroll and multiplies it by 8% that you have a good estimate of the cost of this increase but this is just the beginning. The total pay of the government has a way of directly or indirectly increasing costs in the non-salary portion of the budget. For example if the government makes a payments to a retirement account on behalf of employees the amount is affected by the amount of salary paid. Depending on the type of pension plan it might be easy or difficult to calculate the increase in pension cost when the amount of the annual increase is known. one possible way to come up with an estimate is to track prior year pay increases against prior-year pension payment increases. This information might also be available from actuarial studies.

Work week to change from five 8-hour days to four 10 hour day?

Since the same number of hours will be worked each week it is easy to think that this can be handled as a "no cost" item. One of the realities that can upset this kind of thinking is to observe that the 10 hour shifts do not fill out a 24 hour day as conveniently as 8 our days do. If the service is a 24/7 service you are either forced into increasing the number of people providing a service for several hours a day or into increasing the number of service providers. Either choice has financial and service impacts.

If the service is not intended to be provided every hour of every day then it might be possible to have a zero salary impact provided that acceptable decisions about how the service will be delivered on the 5th day of the workweek. Will the service simply not be provided? Is this acceptable to the service audience? Is it possible to stagger the days which staff work so that a five day week can be maintained? Possibly yes, possibly no. In any case you need to understand the impact of the service change.

Benefit Issues to Be Considered

Benefits can be a huge percentage of total compensation so that the cost of benefits must always be considered along with the strictly salary portion. Still many people have only a partial understanding of the cost of benefits, so it can seem easier to give an increase in benefits than an increase in salary. Considerations of equity would suggest that one should try to avoid situation is in which the benefits portions of total compensation are materially

different from one group to another. Further sometimes benefits to one group avoid taxation¹ which raises additional questions of equity between groups.

In negotiating contracts it is also important to be aware of workloads that may be changed for other groups. For instance, a change from monthly to weekly payments of some benefit can increase the workload of the group that has to process the payments. That increase in costs should be included in the calculation of the cost of the settlement.

When calculating the cost of a proposed settlement beware of deferred or future costs. Such costs, on a present value basis, should be included in the evaluation of the true economic costs of the proposed settlement. It is bad management to ignore costs simply because they will be paid in a future period and possibly be the responsibility of a different group of managers.

Costing Time-Off Benefits

Determining the true economic cost of time off benefits can be a tricky exercise. Issues to be considered in such a determination include whether coverage by existing staff is possible. Even if the existing staff can handle the presumed amount of service in the reduced time such a change might increase stress in those providing the service. Clearly a detailed understanding of the volume of work is required.

In some situations the amount of redundancy in the existing system might allow for the same amount of work to be completed in a reduced amount of time without any increase in stress. An in-depth knowledge of how the service could be more efficiently performed is essential.

It is worth remembering that just because some service has “always been done that way” does not mean that that is the best way to perform service. Any service that has not been studied in a long time is a likely candidate for tweaking to improve efficiency.

Public Safety the Most Complex

It is generally the case that the calculation of proposed public safety negotiations are the most complex that most governments face. Be careful to correctly calculate the impact on associated costs. In some jurisdictions the calculation of the overtime rate is based on the base salary plus other forms of compensation such as shift differential. Shift differential itself is sometimes calculated as a percentage of the base pay. Thus any increase in the base pay would cause increases in overtime and shift differentials. Experience has shown that these changes can be material in evaluating the total cost of a proposed settlements.

Minimum manning, the requirements that staffing not fall below a certain minimum level, usually results in an increase in the amount of overtime due to the fact that staffing never seems to be adequate to meet minimum manning requirements. Thus any evaluation of minimum manning must include an estimate of the increase in overtime it would cause.

There are a variety of different kinds of benefits possible in labor relations negotiations. Beyond the obvious increase in base pay there are shift differentials (usually a percentage increase in base pay), career incentive pay (usually a percentage increase in base pay based on a measure of academic achievements) or a shortened work week. Each of these particular benefits tend to be costly. One-time benefits, such as uniform/tool allowance or

¹ For example, clothing allowances are taxable — except for police and fire personnel (provided they are not paid in cash).

longevity pay tend to be less costly. But one should always remember that every benefit has a cost and that costs add up rapidly.

Approaches to costing specific benefits vary by the type of benefit. “Time” benefits such as sick time, guaranteed overtime, and holiday pay are usually best costed by examining the history of their use and then trying to determine whether there will be any change from past usage.

“Personal” benefits — benefits that tend to vary by individual such as clothing and tool allowances or longevity pay — can be most accurately costed when the driving of variables (in these cases, eligibility and years of service) are carefully maintained in a data base. In all circumstances it is important to maintain an accurate personnel database. Many payroll systems have an integrated personnel databases that might be used for this purpose. Of course, all benefits should be evaluated for inclusion on employee W-2 forms if they are taxable.

Labor Relations Terminology

Labor relations negotiations tended to have a lingo all their own and the idiom is incremental. A “split” usually means that a benefit has more than one starting date. For example, “split 2% and 2% mid-year” means that there would be a 2% pay raise at the beginning of the year and an additional 2% raise at mid-year. The second 2% raise compounds on the first so that the resulting annual change in base pay will be 4.04%.

The word “deferral” means that a benefit starts any day but the first day of the fiscal year. An example would be a 4% raise starting the last day of the fiscal year. Note that such raise would be very inexpensive for the fiscal year in which starts and it vastly more expensive for the following fiscal year.

“Cash cost” refers to the appropriation cost of benefit for the first year whereas “rollout” refers to a full year’s cost of the benefit in question. Sometimes negotiations concentrate on producing a small cash cost and not discussing the rollout cost. In general it is wise to focus on the annual/rollout cost of a benefit.

In the example above of the two and two percent split, the cash cost (the increase in appropriation need for the first fiscal year) is 3.02% (the sum of six months of a 2% increase and six months of a 4.04% increase). As noted above, the annualized or rollout cost is 4.04%. The latter number is a more effective representation of the true economic cost of the proposed settlement.

Costing Increases in Paid Leave

In analyzing the cost of paid leave a number of questions must be carefully answered. Will there be no coverage for the pay leave? If there is coverage will it be at regular time or overtime? In an earlier chapter we calculated a staffing factor useful for 24/7 services. Be sure to use the staffing factor when the service will require coverage.

Be knowledgeable about the impact of the Fair Labor Standards Act (FLSA) which requires, for example, that in the determination of an overtime rate such forms of non-base income as night shift differential and longevity pay be included in the calculation. This means for instance that the overtime rate for most police departments will be greater than “time and a half”. Know how this impacts your public safety costs.

In calculating the cost of a “sick leave buyback” benefit (where unused sick days may be converted to cash upon retirement) use history to determine how many retirees there are likely to be and use your personnel databases to determine an estimate of the average number of days each. A top-notch personnel databases should allow some “what if” analysis that should prove very useful. Any such estimates should be compared with the number of people you know will retire.

Other considerations

It is difficult to cost out labor relations proposals precisely. Sometimes your estimates will only be “close enough”. For most planning purposes “close enough” is good enough.

When pay fluctuates with assignment, calculate an average salary and use this in costing out a proposal. When projecting multiple years into the future use averages as well. Be sure, however, that there are no anomalous events likely to occur. A papal visit can really wreck a police overtime budget.

Examine shift scheduling to know who gets overtime. Shift schedules can be revealing about favoritism within a department.

Inevitably in a negotiating situation, there is a tendency to disbelieve a cost figure provided by the other side. When possible be prepared to provide hard figures on a person-by-person basis to demonstrate the accuracy of your calculations. Always know the pay and benefits in “comparable” jurisdictions and be able to explain why certain other jurisdictions are not “comparable”.

If you are obliged to include an appropriation for labor relations settlements in your budget before negotiations have ended, consider a lump sum amount in one account with no indication of how it will be distributed to finance various contract settlements. The amount can even be blended into an account that is difficult to predict such as interest cost for short-term borrowing.

Your personnel database should include rank, step, base pay, and all other kinds of additional pay. For all kinds of additional pay the databases should record those rates and actual pay by kind. In addition keep a total compensation figure. Use the database to get knowledge of how many people receive a given kind of pay, who gets how much of that pay, and total payments for each kind of pay. The data should include all kinds of time use such as sick days, personal days, vacation days, etc. In addition to being useful in costing labor relations settlements, such information can often be used to spot abuse.