THE CITIZENS' STAKES IN COLLECTIVE BARGAINING: Recommendations for the Current Negotiations with the Municipal Employee Unions

A Report of the
Citizens Budget Commission

December 13, 2000

FOREWORD

Founded in 1932, the Citizens Budget Commission is a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York City and New York State governments. Because employee compensation represents approximately one-half the City's budget, the Commission has always paid careful attention to employment practices and wage policy. And because 2000 is a year in which contracts with virtually all the City's employee unions expire and are being renegotiated, the Commission decided for this year to devote much of its research and other resources to informing and influencing this process in a constructive manner.

Our efforts began in December of 1999 with a conference on "The Citizens' Stakes in Collective Bargaining." With the participation of union leaders and management representatives, we discussed the citizens' interest in a municipal workforce that is better paid, better managed, and more productive. When the first of the expiring contracts reached its ending date, March 31, 2000, we reminded the Mayor that timely settlement of the negotiations was important to citizens. While workers can receive raises retroactively, it is virtually impossible for the citizens' benefits in the form of better managed and lower cost services to be implemented retroactively.

In June of this year, the Commission released a report, *Developing a Public Workforce for the New Millennium*, prepared by The Delaney Policy Group. This report examined examples of how collective bargaining has been used in other cities to promote better and more efficient public services. It pointed to three strategies that New York City should follow in order to match and exceed the gains in competing urban areas—performance pay, better training to prepare the workforce, and building competition into the structure of service delivery through competitive bidding.

In September of 2000, just before the school year began, the Commission released its report on *Using Collective Bargaining to Improve Public Education.* That report made four recommendations for the new contract with the United Federation of Teachers: (1) to restructure the pay schedule to make a larger share of compensation conditioned on job performance and to de-emphasize longevity and graduate educational credits; (2) to use financial incentives to overcome shortages, including raises in the 20-25 percent range for positions experiencing acute shortages; (3) to enhance principals' managerial discretion including expedited disciplinary procedures; and, (4) to increase the amount of time teachers spend in the classroom by reducing preparation periods, eliminating sabbatical leaves and other scheduling modifications.

This report presents the Commission's recommendations for contracts to be negotiated with municipal employees other than teachers. It includes six recommendations that would help reduce the cost of public services, improve the quality of those services, and enhance the income and working conditions of New York's civil servants.

The Commission's activities relating to collective bargaining are overseen jointly by two of its standing research committees—the Budget Policy Committee and the Technology and Public Service Committee. I co-chair the former Committee with Richard A. Levine, and Bud Gibbs and Frances Milberg co-chair the latter committee. The other members of these committees are Alan M. Berman, Jeremiah Blitzer, Mark Brossman, Deborah A. Buresh, Lawrence B. Buttenwieser, Denis Curtin, Evan A. Davis, Stephen DeGroat, Cheryl Cohen Effron, Morton Egol, Linda Fan, Kenneth D. Gibbs, Daniel J. Gross, James F. Haddon, Peter C. Hein, H. Dale Hemmerdinger, Paul M. Hopkins, Brian T. Horey, Lawrence S. Huntington, Jerome E. Hyman, Peter C. Kornman, Robert Kurtter, Hugh Lamle, James L. Lipscomb, Stanley Litow, William F. McCarthy, Frank McLoughlin, John R. Miller, Philip L. Milstein, Lionel I. Pincus, Steven M. Polan, Robert E. Poll, Carol Raphael, Edward L. Sadowsky, Lee S. Saltzman, Barbara Shattuck, Larry A. Silverstein, Robert W. Strickler, Barry F. Sullivan, Merryl H. Tisch, Robert V. Tishman, W. James Tozer, Jr., Ronald G. Weiner, Stephen H. Weiss, and David I. Weprin.

A preliminary draft of this report was reviewed by senior officials of the New York City Office of Labor Relations, the Office of the State Deputy Comptroller, the New York State Financial Control Board, and the Patrolmen's Benevolent Association. Their willingness to review the report in no way represents endorsement of the recommendations. The comments and suggestions based on their careful readings enabled the Commission to correct errors of fact and interpretation and to clarify the reasoning behind our recommendations. We thank all the reviewers for their invaluable efforts.

This report was prepared by Charles Brecher, Director of Research, Elizabeth Lynam, Senior Research Associate, Douglas Offerman, Senior Research Associate, and Sheila Spiezio, Research Consultant. Additional research support was provided by Valter Paci, Kurt Richwerger, and Cynthia S. Searcy. Nicolette Macdonald, the Commission's Publications Coordinator, prepared this report for publication.

Eugene J. Keilin
Chairman

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EXECUTIVE SUMMARY

Nearly all of the City of New York's employees are working without new contracts. The five-year agreement with the largest municipal employee group, District Council 37 (DC 37), expired on March 31; the latest to expire was with the United Federation of Teachers (UFT) on November 15. The outcome of the negotiations now underway is critically important to citizens of New York. At stake is not just whether government will be more expensive, but whether it will be better.

In recognition of the high stakes and important goals of collective bargaining, the Citizens Budget Commission (CBC) seeks to inform the citizenry about the issues and to suggest desirable features of new contracts. In August, the Commission released a report on negotiations with the UFT entitled, *Using Collective Bargaining to Improve Public Education*. This report focuses on the rest of the municipal workforce. It provides background information on the negotiations and suggests measures to promote more efficient and more consumer-responsive services.

This report is organized into three parts. The first provides background information on municipal collective bargaining and the outcomes of the last round of negotiations that began more than five years ago. The second presents recommendations for the current round of negotiations relating to both wages and fringe benefits. The final section considers the fiscal implications of following the Commission's recommendations.

Background

The first section of this report is intended to serve as a citizen's primer on municipal collective bargaining. It explains the legal framework of negotiations, the patterns of past settlements, the specific outcomes of the last round of negotiations, and the fiscal and political context of the current round of negotiations.

Rudolph W. Giuliani was sworn in as Mayor in January of 1994, a time when the City faced significant budget gaps. In recognition of the financial difficulties, the Mayor called on the unions to agree to a "Transitional Productivity Efficiency and Labor Savings Initiative." This initiative was intended to save $600 million in fiscal year 1996, $400 million in fiscal year 1997, and $200 million in fiscal year 1998. What the Mayor and the unions eventually agreed on did not meet these dollar targets, and did not meet any reasonable definition of a "productivity" initiative.

The largest component of the initiative was a three-year freeze in the premium the City pays for health insurance for its workers, yielding temporary savings of about $470 million over the three years. However, since 1998 there have been substantial rate increases to rebuild reserves. In effect, the rate freeze represented a loan to the City from its health insurance providers, hardly a productivity gain. A second piece of the plan was to lower the City's contribution to employee pension plans by $150 million in fiscal year 1996 and $224 million in fiscal year 1997 by drawing down pension fund reserves created by the stock market's strong performance. This saving required no change in any employee's behavior on the job; ironically, the unusually high rates of return to capital on Wall Street were labeled "labor productivity" in the mayoral initiative. The third element in the plan was a delay of payment from the City to several union welfare funds. In fiscal year 1996, $81 million of these payments were deferred until fiscal year 2000. Again, a loan was labeled as labor productivity.

In 1995 the Mayor began to negotiate new labor contracts to replace those expiring that year. He settled with District Council 37 in November of 1995 and the contract was ratified in early 1996. The settlement set the basic pattern for the rest of the unions—a two-year wage freeze followed by annual increases in the next three years. Despite the much-publicized "double zeros," wage increases basically kept pace with inflation over the entire contract. Although real wages fell in the first two years, low inflation and increases of 3 to 6 percent annually for the next three years offset the early freeze.

All other parts of employee compensation—health insurance, pension benefits, and welfare fund contributions—were enhanced during the five-year contracts as well. Health insurance costs increased 7.4 percent annually over the period, reflecting more workers covered and higher premiums. City contributions to union welfare funds increased about one-third over the period. In addition, pension benefits were enriched significantly.

Recommendations

Citizens should expect three outcomes from the current round of negotiations. The first is greater efficiency in public services. Collective bargaining should make New York City more competitive by lowering the unit costs of public services. Second, the negotiations should yield higher quality public services. New pay incentives and work rules should encourage better performance. Third, the new contracts should improve the morale and economic status of municipal employees.

To support these important outcomes, the Citizens Budget Commission makes three recommendations relating to wage policy and three recommendations relating to fringe benefits. They are summarized below.

Recommendations Related to Wage Policy

1. **Set pay levels in response to labor market conditions, with shortage occupations receiving greater wage increases than those occupations where abundant applicants are available.**

   The past practice of across-the-board increases of a similar percentage for numerous different job titles represented by municipal employee unions has led to counterproductive results. Some jobs cannot be filled because the wage is well below what is paid for comparable work in the private sector; as a result, services are provided poorly or inefficiently. At the same time, other municipal jobs offer salaries and benefits that far exceed the pay of private jobs requiring similar backgrounds; as a result, these positions draw numerous qualified applicants for each position despite the tight labor market and taxpayers pay more than is necessary. The basic strategy should be to divide civil service positions into three categories, each with a different wage policy.

   a. Occupations with an abundant supply of applicants.

   One group is positions that, despite low unemployment, still draw an abundant pool of qualified applicants. The labor market signal for them is clear; higher real wages are not needed. This group includes the uniformed agencies. Recently the ratio of *qualified* applicants for each vacancy has been 74:1 for entry sanitation workers, 12:1 for firefighters, 9:1 for correction officers, and 6:1 for police officers. In addition, attrition rates in each of the uniformed agencies remain well below the citywide average.

   b. Shortages without wage disparities.

   In the current tight labor market, many municipal positions are becoming difficult to fill. However, the perceived shortages should be analyzed to identify their root cause. In many cases, the issue is not primarily wages. For example, engineers appear to be hard to recruit primarily because of the City's hiring practices rather than low entry salaries. For this group of positions, the City’s recruitment and hiring practices, and its working conditions, should be changed, but wages may need only to keep pace with inflation.

   c. Shortages that require significant wage increases.

   A third group of positions has basic salaries clearly out of line with the private sector. These pay disparities are causing labor shortages, which, in turn, harm the quality of public services. In these instances, substantial real wage increases should be provided.

   There are currently about 16,000 workers in this category in 129 different job titles. Examples include social service workers, computer specialists and tax auditors. Municipal wages lag those in the local labor market by 10 percent or more for these titles. The cost of

well-targeted, one-time "catch-up" raises for shortage occupations would be approximately $150 million.

2. Change work processes in ways that lower the unit cost of services.

New York City's historically high costs for public services, and the accompanying high tax burdens, make the City less economically competitive. High unit costs result from a combination of wages that are higher than in other places and of using more labor to produce the service. The wage policies recommended above would help bring the cost of labor into line with other places, but two additional steps should be taken to use labor more efficiently.

a. Encourage more efficient work rules by sharing the savings from productivity initiatives with workers.

Workers are more likely to cooperate with, and even help identify, productivity initiatives if they share in the savings. Inefficiencies in the use of labor that could be reduced in this way include excessive overtime, use of more highly paid workers than is necessary for a task, and higher ratios of supervisors to workers than is necessary.

The Fire Department serves as an example. Five specific changes there could yield significant savings for the City and wage increases for the workers. The Fire Department should: (1) Better match staffing levels to demand patterns. (2) Eliminate the unnecessary fifth firefighter on engine companies. (3) End planned overtime. (4) Reduce unnecessary overtime. (5) Reduce the high supervisory ratio. Together these initiatives could save approximately $138 million annually.

b. Facilitate managerial initiatives to revise work processes.

In addition to removing currently cumbersome work rules, the new contracts should facilitate new managerial initiatives that permit services to be produced more efficiently. Two such strategies are the introduction of competition and the application of technology. New contracts should make it easier and quicker for the City to competitively bid services now produced internally, and they should facilitate the introduction of new technology by expanding management's work assignment flexibility and, as appropriate, providing for worker training in the use of new technology.

3. Shift the emphasis in pay scales from longevity to performance by adding a merit pay component to wages.

Mayor Giuliani has taken the position that any raises in the current round of negotiations should take the form of merit pay. While the CBC would, as noted above, also encourage base wage increases for some shortage positions and in exchange for productivity initiatives, the Mayor's emphasis on merit pay is laudable. Merit pay should reward efforts by workers that lead to higher quality services.

In a previous report, *Using Collective Bargaining to Improve Public Education*, the CBC identified two types of merit pay that should be made available to teachers. The first type rewards individual efforts such as achieving specific developmental goals or taking on added responsibilities. The second type rewards work groups that achieve service outcomes that exceed predetermined norms.

Generally, in services other than education there are fewer opportunities for individual merit pay, but there are numerous opportunities for bonuses to work groups that perform well. The Fire Department again provides a useful example. Fire companies could be offered annual bonuses for increasing the number of field inspections they perform. This would provide an incentive for the members of fire companies to spend less idle time in the firehouse and to conduct inspections that play an important role in fire prevention. Teams of workers in other municipal agencies could be offered similar incentives. Agencies that process business permits could be rewarded for shortening permit-processing time, and customer service staff could be rewarded for shorter client queues. Such incentives have great promise for increasing municipal agencies' responsiveness to the public and stimulating improvements in public services.

Performance pay need not be financed with additional funding. The current salary structures have differential payments for longevity. These longevity payments could be eliminated for newly hired workers and reduced for incumbents in order to shift the emphasis in rewards from seniority to job performance. Since the current rewards for longevity are substantial, shifting the funding could provide a significant incentive for better job performance. The Fire Department is again an instructive example. If bonuses were offered to companies that reduced their response times, the current longevity differentials would be sufficient to fund a $3,000 per firefighter bonus for any company that qualified.

Recommendations Related to Fringe Benefits

4. Modernize the health insurance program for municipal workers and retirees.

The municipal health insurance program is more expensive for the City and for workers than it needs to be; it has not kept pace with trends in private industry or with other governments in the implementation of two key cost containment strategies. Each has the potential for substantial savings for workers and taxpayers.

a. Premium cost-sharing.

The City should follow the premium cost-sharing strategy now widespread among public and private employers. The City should require cost-sharing of 10 percent toward individual coverage and 20 percent for family coverage for employees, should drop reimbursement of Medicare Part B premiums for retirees, and require a 50 percent contribution from retirees toward premiums for non-Medicare benefits. The direct savings would be over $500 million annually. In addition, there are likely to be substantial future indirect savings as workers and

retirees become more cost conscious and work with the City to seek benefits changes and other measures that might control growing costs.

b. Price competition among insurance plans.

Increasingly, large private, and a few public, employers are using their significant purchasing power to generate competition for their health insurance business. Large employers need not accept high premiums and substantial annual increases as inevitable. A preferable alternative would be to ask the multiple plans seeking to insure municipal workers and their families to compete by offering lower prices. If this strategy keeps health insurance costs at current levels, then the City would save about $129 million from the projected costs in fiscal year 2002, growing to $247 million in fiscal year 2004.

5. Streamline the administration of welfare fund benefits.

The current administration of union welfare fund benefits suffers from two deficiencies—high administrative costs for some plans, and lack of adequate oversight leading to inappropriate use of funds. In some plans, particularly the smaller ones, administrative expenses run as high as 14 percent and in some cases, not all of it is being spent on legitimate functions. Audits of the funds, though done infrequently, have found striking abuses and inadequate oversight mechanisms.

Using so large a share of the funds for administrative costs is a waste of the taxpayers' contribution and denies the union members benefits that they might otherwise receive. The current mechanisms for holding unions accountable for the effective use of their welfare funds are weak; the result is wasted money. Two types of actions should be pursued to counter these problems—achieve economies of scale for smaller funds, and greater oversight of the other funds.

a. Achieve economies of scale for smaller funds.

In order to reduce administrative costs for the smaller funds, the City should either contract on behalf of multiple funds with a private benefit program administrator or require a larger union or the Municipal Labor Committee (MLC) to administer the smaller funds. Reducing the administrative cost for the smaller plans from the current average of 9.3 percent to a target figure of 7.6 percent would yield about $3.7 million annually to buy better benefits for workers.

b. More effective oversight of welfare funds.

The next round of contracts should contain stronger accountability measures for those welfare funds that remain independently administered. They should be audited annually by independent firms in accord with generally accepted accounting principles and should be subject to sanctions for improper financial management. Funds consistently violating

standards of sound financial management should be administered in a manner similar to that recommended above for the smaller funds.

6. **Restructure the pension system for newly employed workers to provide a defined contribution rather than a defined benefit.**

Pension systems fall into two categories—defined benefit plans and defined contribution plans. New York City's systems are defined benefit plans. They guarantee workers an annuity income during retirement based on retirement age, years of service, and final year or years' average salary. Defined contribution plans give workers a fixed employer contribution during each year of employment, with retirement income drawing on the accrued value of these contributions. For defined contribution plans, the employer's payment is a fixed annual amount or percentage of salary per worker; for defined benefit plans, the employer's annual payment varies due to changes in the returns on investments and changed actuarial assumptions about workers future average earnings, life span after retirement and other factors.

The current defined benefit pension system puts the City of New York at a financial disadvantage in both good and bad economic times, opens the door for abuses, and places the City at a disadvantage in today's job market.

In hard times, when investment performance is weak, the City must make a larger pension fund contribution. During good economic times, including recent years, the City's required pension contributions fall, but unions quickly take advantage of the situation to pursue legislative changes outside of collective bargaining that make significant, permanent pension benefit enhancements. Pension enhancements added this year alone outside of collective bargaining will cost the City $798 million in recurring annual expenses, equivalent to a 5 percent pay raise.

The current defined benefit pension system also opens the door to abuse. Most systems count overtime in the final year or years as part of an employee's base pay for purposes of calculating pension benefits. A resulting frequent practice is to favor workers near retirement in the assignment of overtime, thereby inflating the future pension benefit.

Also, the City's pension plans lack the portability sought by today's younger workforce. Its plans reward workers who spend their entire career with one employer, but are less generous to those who change jobs. The benefits are not vested until after a five-year period, and the benefit formulas disproportionately favor longevity beyond 20 years.

In order to promote the dual goals of becoming a more attractive employer to younger workers and of protecting itself from fiscal risks and abuses, the City should use the current round of collective bargaining to achieve two changes in its pension systems.

a. For current employees, prohibit benefit enhancements outside of collective bargaining.

The freedom for unions to do expensive legislative "end-runs" around collective bargaining should be ended. Just as salary, health insurance and welfare fund contributions are negotiated between the City and unions, pension benefits should be negotiated and set only in the context of negotiations. In the next contracts, the unions should commit to ending all legislative initiatives for pension enhancements not agreed to as part of the contract and supported by the City. The agreements should include serious and enforceable penalties.

b. For newly hired workers, establish a new defined contribution plan.

The defined contribution model makes sense for the City and its workers. The City would incur a relatively fixed and predictable expense each year. Fluctuating annual liabilities, which are typically counter-cyclical and thus fiscally stressing, would be avoided in the future. Moreover, switching to a defined contribution plan would sharply diminish opportunities for altering pension benefits outside collective bargaining. Both parties could confront directly the tradeoffs between pension contributions and other compensation.

A defined contribution plan also would help the City to recruit qualified, younger workers, because this type of system better matches the expectations of today's workforce. Employees who change jobs before completing five or more years of service would not forego the employer contribution to their retirement fund. In addition, employees would control how their retirement funds are invested and could personalize their investments according to their own risk tolerance and investment horizon.

Changing from a defined benefit to a defined contribution plan would not shortchange municipal workers. If the pension contribution was 8 percent of a worker's salary, then an individual hired at a starting salary of $32,000 annually who works for 25 years, would have $320,000 at the time of retirement, assuming annual investment earnings averaged 8 percent. If the plan included a 3 percent worker contribution with a City-funded match, then the same worker would build $560,000 in assets. If a similarly situated worker pursued a more aggressive investment strategy, then that worker would retire with even greater assets. Many workers would prefer to control such substantial assets (including the ability to pass them on to a spouse or child at death) rather than receive a predetermined monthly amount from a collective pension fund.

Fiscal Implications

The Citizens Budget Commission's recommendations include two measures that together with the labor reserve in the City's Financial Plan would result in resources of $3.5 billion in fiscal year 2004. At the same time, the recommended base pay increases, added merit pay, and gainsharing arrangements would increase workers' pay by nearly $2.1 billion, leaving a net gain to taxpayers of about $1.4 billion.

The largest fiscal impact comes from initiatives to improve productivity. Based on the Fire Department example, the expected gains in the uniformed services would be 4 percent annually, with a cumulative savings of about 16 percent by fiscal year 2004. For civilian workers, among whom overtime and other practices are less problematic, the gains are estimated at 2 percent annually. Together these savings would exceed $2.2 billion in fiscal year 2004.

The recommended restructuring of the employee health insurance program would yield savings of $781 million in fiscal year 2004. When the combined value of the two measures is added to the labor reserve created by the Mayor for merit pay increases ($504 million for non-pedagogical workers), the total available resources are $3.5 billion in fiscal year 2004.

The Commission's most expensive recommendation relates to the base pay increases for municipal workers. The recommended policy is to give raises equal to one-half the rate of inflation to workers in glut positions, raises equal to inflation to those in positions with recruitment difficulties that are not due to wage differentials, and adjustments averaging 19 percent plus inflation to workers in positions with shortages due to uncompetitive wages. The necessary expenditures would be $1.1 billion in fiscal year 2004.

The recommendation to share the one-third of the savings from productivity initiatives with the participating workers would require about $750 million in fiscal year 2004, and the recommendation to establish a merit pay program rewarding the top one-quarter of all workers with bonuses averaging 10 percent of base pay would cost about $256 million. Together these measures would raise the pay of municipal workers by over $2.1 billion annually.

The recommendation to change the pension system to a defined contribution plan is expected to be budget neutral. The goal is not to save money; it is to protect against unexpected and unjustified increases in costs while avoiding counter-cyclical demands on the City's revenues. Similarly the recommendation to streamline welfare fund administration is intended to increase workers' benefits rather than produce savings to the City.

In sum, the CBC's recommendations would promote the goals that citizens should seek from the current round of collective bargaining: The cost of services would be reduced with net savings of $1.4 billion available for fiscally prudent purposes. The quality of services would be enhanced due to the ability to recruit needed workers with suitable competencies and due to financial incentives for better performance by work groups within agencies. And public servants would be better paid through a combination of base pay increases and incentives in the form of gainsharing payments and merit pay.

INTRODUCTION

During 2000, the contracts between the City of New York and its employee unions expired. As of November 16, nearly all municipal employees are working without a contract. The outcome of the negotiations now underway is critically important to citizens of New York for three reasons.

First, it directly and significantly impacts the fiscal condition of City government. Compensation of workers is the largest item in the budget, representing $19.2 billion or half of all municipal expenditures in fiscal year 2000.[1] The additional cost of agreements that would increase wages at the projected rate of inflation would exceed $1.6 billion in fiscal year 2004. Because the City already faces projected budget gaps, such settlements would have to be financed with service cuts, higher taxes or increased productivity. Consequently, the stakes for taxpayers are high.

Second, the quality of municipal services is tied to the contract arrangements with the workers who provide them. Collective bargaining agreements do more than set wages; they also determine working conditions and work rules. Examples include class size limits for teachers, manning schedules for fire trucks, and disciplinary rules that limit when a worker can be punished or fired. The outcome of collective bargaining shapes the daily interaction between citizens and their government.

Third, collective bargaining determines the lifestyle of the families of 250,000 municipal workers and 230,000 retirees, a major segment of New Yorkers.[2] They depend on the City for income, health insurance and other fringe benefits. Not just their compensation, but their morale and career paths are inextricably linked to collective bargaining.

From the citizens' perspective, at stake is not just whether government will be more expensive, but whether it will be better. Therefore, the Citizens Budget Commission believes citizens should expect three outcomes from the current round of negotiations. The first is greater efficiency in public services. The high cost of services in New York relative to other large cities leads to high taxes. The high tax burdens, in turn, reduce the competitiveness of the city as a place for businesses and residents, causing a loss of jobs and income. Thus, collective bargaining should make New York City more competitive by lowering the unit cost of public services.

Second, the negotiations should yield higher quality public services. The need for higher quality is all too evident in the schools, child welfare, and numerous other areas. Work rules and practices set in collective bargaining could improve service quality. And financial rewards for good performance would lead to better services and a more customer-responsive workforce.

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[1] City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report*, fiscal year 2000 edition, p. iii.

[2] *Ibid*., p. 47. Employee total excludes some non-mayoral agencies, such as Health and Hospitals Corporation and Off-Track Betting Corporation, whose retirees are included in the retiree figure.

Third, the new contracts should improve the morale, skills and economic status of municipal employees. Workers who are well managed, paid based on their skills and performance, and given opportunities to identify improvements will be more satisfied with their jobs.

In recognition of the high stakes and important goals of collective bargaining, the Citizens Budget Commission seeks to inform the citizenry about the issues and to suggest desirable features of new contracts. In August, the Commission reviewed the current contract between the Board of Education and the United Federation of Teachers in order to advance public understanding of the issues and to recommend ways that teachers could be better paid and children could be better educated. In this report, the Commission seeks to provide information about the issues involved in negotiations between the City and other unions and to suggest policies that would promote the more efficient, more effective, and more consumer-responsive delivery of services.

This report is organized into three sections. The first provides background information on municipal collective bargaining and the outcome of the last round of negotiations that began five years ago. The second section presents six recommendations for the current round of negotiations. While they are explained more fully in the body of the report, these recommendations are:

- Set pay levels in response to labor market conditions, with shortage occupations receiving greater wage increases than those for which there are abundant applicants.
- Change work processes in ways that lower the unit cost of services.
- Shift the emphasis in pay scales from longevity to performance by adding a merit pay component to wages.
- Modernize the health insurance program for municipal workers and retirees by incorporating changes already prevalent in the private sector.
- Streamline the administration of fringe benefits provided through union welfare funds and share the savings in administrative costs with the workers.
- Restructure the pension system for newly employed workers to provide a defined contribution rather than a defined benefit plan.

The final section considers the fiscal implications of the recommendations. It shows that the savings achieved would finance substantial raises for workers while also generating resources for other purposes, including improving the City's fiscal condition.

BACKGROUND

This section is intended as a primer on municipal collective bargaining. It explains the legal framework of negotiations, the pattern of past settlements, the outcomes of the last round of negotiations, and the fiscal and political context of the current round of negotiations.

The Legal Framework

The legal framework for public employee collective bargaining was set in 1967, when New York State passed the Public Employee's Fair Employment Law (commonly known as the Taylor Law) and New York City adopted companion local legislation in the form of the New York City Collective Bargaining Law (NYCCBL). The Taylor Law grants State and local government employees the right to organize and to be represented by unions of their choice. It requires public employers to enter into agreements with the employee organizations regarding the terms and conditions of employment. The statute prohibits strikes by public employees, and establishes impasse procedures for collective bargaining disputes.

The Public Employment Relations Board (PERB) was created to administer the law at the State level. The PERB is a three-member board appointed by the Governor with the consent of the State Senate. The Board's main function is to referee disputes that arise under the law. However, in recognition of the unique features of New York City government, the Taylor Law permitted labor disputes involving certain groups of municipal employees to be governed through a local entity instead of the PERB. The NYCCBL created this local entity in the form of the New York City Office of Collective Bargaining (OCB). The OCB is a tripartite body. Its members are four "interested" parties, two selected by management and two selected by labor, and three "neutral" members, including the chair, appointed by mutual consent of the interested parties. The OCB determines which unions represent groups of City workers and can issue binding settlements in the case of a bargaining impasse. In fiscal year 2000, the OCB had 15 full-time equivalent positions, and its total expenditures were $1.4 million.[3]

If negotiations fail to produce a timely settlement, the Taylor Law provides mechanisms for resolution. The procedures vary between the PERB and the OCB, with most City employees other than teachers subject to OCB procedures.[4] Both processes begin by either or both parties asserting that an impasse exists. If the agency agrees that there is a true impasse, then the first step in each case is to appoint a mediator. The mediator seeks a settlement through persuasion and compromise.

[3] Expenditure totals are from City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report*, fiscal year 2000 edition; and the number of authorized positions is from City of New York, Office of Management and Budget, *Executive Budget, Fiscal Year 2001*, April 2000.
[4] In 1999, police officers and firefighters were given the option to use PERB for impasse resolution.

If mediation fails to produce a settlement, then either party may request a binding resolution. The process varies between the OCB and the PERB, and between two groups of workers under the PERB (police and fire unions versus other unions). The OCB appoints an impasse panel drawn from a list of previously approved arbitrators. This panel conducts an impasse proceeding and then makes a binding recommendation. The PERB, for police and fire unions, conducts arbitration through tripartite panels with members appointed by the two parties and a third neutral; such panels make recommendations that are binding on both parties, but the package cannot cover a period of more than two years. For educational workers, the PERB arbitration panel makes a non-binding recommendation. The parties may agree to accept the recommendation or the State legislature may enact a settlement for one year.

When a contract expires, the Taylor Law, in effect, requires the parties to maintain the status quo on working conditions until the new contract is ratified. This prevents employers from unilaterally imposing new working conditions, as a counterbalance to the workers not having a right to strike.

To help implement the NYCCBL, the Mayor established the municipal Office of Labor Relations (OLR). Headed by a Commissioner serving at the pleasure of the Mayor, the OLR serves two functions. First, the Commissioner represents the Mayor in negotiations with unions and in matters before the OCB. (Sometimes the Mayor designates a Deputy Mayor to work with the Commissioner on important negotiations.) Second, the OLR administers fringe benefit programs including the City's employee health insurance program and the City's contributions to union welfare funds. In fiscal year 2000, the OLR had a budget of $7.4 million and 129 staff positions.[5]

While representation of management is centralized in the Mayor and the Commissioner of the OLR, representation of labor is more fragmented. The OCB has recognized 61 unions encompassing 82 bargaining units to negotiate on behalf of as many different groups of workers.[6] However, representation can be described in terms of three major categories of workers, each with one or more unions that play a leadership role.

Often the most vocal workers are the "uniformed" employees, who number about 71,000. These workers are in four agencies—the Police Department, the Fire Department, the Department of Sanitation, and the Department of Correction. The largest uniformed workers' unions represent entry-level positions. The Patrolmen's Benevolent Association (PBA) represents about 27,000 police officers;[7] the Uniformed Firefighters' Association (UFA) represents about 8,700 firefighters; the Uniformed Sanitationmen's Association (USA) represents about 7,000 sanitation workers; and the Corrections Officer's Benevolent Association (COBA)

[5] Expenditure totals are from City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report*, fiscal year 2000 edition; and the number of authorized positions is from City of New York, Office of Management and Budget, *Executive Budget, Fiscal Year 2001*, April 2000.

[6] Data provided by the OCB. A bargaining unit is a set of workers with a common interest who are represented by a union or a local of a union. A single union may represent workers in several bargaining units.

[7] Transit Authority police officers and Housing Authority police officers had been represented by independent unions until the two authority police departments merged with the New York City Police Department in 1996. Now their members are represented by the PBA.

represents about 9,700 corrections officers. Supervising police officers number about 14,000 and are represented by four separate unions—the Sergeants' and Lieutenants' Benevolent Associations and the Detectives' and Captains' Endowment Associations. The Fire Officers' Association represents fire officers; its membership numbers about 2,500. Separate unions represent 2,400 supervising officers in the Department of Correction and the Department of Sanitation.[8]

A second important group is pedagogical employees of the Board of Education. The United Federation of Teachers (UFT) represents most of this group, nearly 100,000 including teachers, guidance counselors, paraprofessionals, school secretaries and others. Principals, assistant principals and other administrators are represented by a separate union, the Council of Supervisors and Administrators (CSA).

The third major group is the non-uniformed, non-pedagogical workers, often termed the "civilians." They are represented by numerous distinct unions, often organized by job titles and with members working in multiple agencies. Within this group, 56 local unions related to the American Federation of State, County and Municipal Employees (AFSCME) have formed District Council 37 (DC 37). It is a set of unions that bargains together over most economic terms, and then bargain in separate units over specific working or local conditions relating only to their members. DC 37 represents about 125,000 workers. Civilian unions outside DC 37 range in size from Local 237 of the International Brotherhood of Teamsters, with 18,000 members, to Local 306 of the International Alliance of Theatrical Stage Employees, which represents about 100 media service technicians employed at the Board of Education, the City University of New York and the Health and Hospitals Corporation.

The NYCCBL created the Municipal Labor Committee (MLC), which is an amalgam of the unions covered by the statute. The MLC appoints union members of the OCB and bargains over health insurance benefits. It also arranges for ways in which the unions can support each other in bargaining. Currently the president of the UFT heads the MLC.

To simplify collective bargaining, the mayor and the unions have followed, with rare exceptions, two related practices—*pattern bargaining* and *pay parity*. Pattern bargaining refers to the practice of having all unions receive the same percentage increases in compensation. The City negotiators define the pattern in terms of annual cost to the City for all relevant forms of compensation. Unions may alter the mix of salary and fringe benefits and the distribution of increases among junior and senior members so long as the overall percentage cost to the City adheres to the pattern.

Pay parity refers to the practice of maintaining fixed relationships among the pay scales of the uniformed workers. Police officers and firefighters receive the same base pay, and sanitation workers receive a base salary set at 90 percent of the police and firefighters' base salary.[9]

[8] Data on membership provided by each union.

[9] The OLR dates this parity among the basic salaries or "first grade" salaries of these workers to 1898. See letter from James Hanley, Commissioner, Office of Labor Relations, to Diana Fortuna, President, Citizens Budget Commission, December 5, 2000.

Similarly, the supervising officers in the uniformed services receive salaries that are a fixed percent or amount above those of the line workers. Thus, once a settlement is reached with one of the uniformed workers' unions, the pattern is established for the others and for the supervisors.

Because of pattern bargaining, there is little opportunity to negotiate specific work rule changes or productivity initiatives with individual unions. As a result, productivity bargaining receives little attention. The major exception has been negotiations with the USA. Sanitation workers receive pay differentials when they work on a two-person, as opposed to the traditional three-person, truck, and receive additional differentials if their productivity, as measured by tons collected per shift, exceeds certain targets. These differentials allow the participating sanitation workers to receive pay above that otherwise available from the pattern settlements, and this has caused some concern among the other uniformed workers.

The Last Round of Bargaining

Rudolph W. Giuliani was sworn in as Mayor in January of 1994. The first operating budget that the Mayor shaped, spanning the fiscal year beginning in July 1994 and ending in June 1995, closed significant budget gaps in part through staff reductions at many agencies.[10] Although the uniformed services were largely unaffected, the Board of Education suffered losses of 1,765 pedagogical personnel and the civilian workforce including the Board was reduced by 9,359 workers between fiscal years 1994 and 1996.[11]

Early in calendar 1995, as part of the process of planning to close the budget gaps in fiscal year 1996 and beyond, the Mayor called on the unions to agree to a Transitional Productivity Efficiency and Labor Savings Initiative. This initiative was intended to save $600 million in fiscal year 1996, $400 million in fiscal year 1997, and $200 million in fiscal year 1998. What the Mayor and the unions eventually agreed upon did not meet these dollar targets, and did not meet any reasonable definition of a "productivity" initiative.

The major element of the plan was a three-year freeze in the premium the City pays for health insurance for its workers. As described more fully in another section of this report, the City's payment for its workers is equal to the full cost of the premium for a comprehensive plan offered by the Health Insurance Plan of Greater New York (HIP). The HIP agreed to freeze its rates during this period. The unions were credited with achieving this step because they have representatives on the HIP board, and they agreed to approve the freeze. The rate freeze, along with other health insurance initiatives, such as enrolling retirees in managed care plans and providing cash incentives to waive City coverage, were estimated to save the City about $600 million over the three years.[12] In actuality, the temporary savings from the freeze totaled about

[10] These reductions were implemented through normal attrition and early retirement incentives.
[11] Based on total headcount figures provided by the New York City Office of Management and Budget for June 30, 1994 and June 30, 1996, adjusted for the merger of the Housing and Transit Authority police departments with the NYPD.
[12] State of New York, Financial Control Board, *Staff Report: Managing Restructuring*, December 14, 1995, p. 27.

$470 million over the three years.[13] HIP's fiscal condition suffered during the freeze, and since 1998 it has sought to make up much of the loss to its reserves with substantial rate increases. In effect, the freeze more closely resembled a temporary loan to the City from HIP than a permanent productivity gain. The City did give cash incentives to about 6,400 workers to waive coverage. The OCB reports that 24,000 retirees are currently enrolled in managed care plans, but does not indicate how many did so as part of this initiative.[14]

A second piece of the plan was to lower the City's contribution to employee pension plans by $150 million in fiscal year 1996 and $224 million in fiscal year 1997 by drawing down pension fund reserves previously set aside to pay for needed changes to the funds' actuarial assumptions. These reserves became available to reduce the City contributions because the funds' investments outperformed expectations.[15] This savings required no change in any employee's behavior on the job; ironically, the unusually high rates of return to capital on Wall Street were labeled as labor productivity in the mayoral initiative.

The third element in the plan was a delay of the City's payment to several union welfare funds. The City normally pays the unions' welfare funds a fixed annual amount for each employee. In fiscal year 1996, $81 million of these payments were deferred until fiscal year 2000.[16] Here again, what was essentially a loan to the City was labeled as labor productivity. In addition, the three elements did not reach the goal of $600 million in 1996, and no additional productivity measures were implemented. In a review of the Transitional Labor Savings Agreement, the Office of the State Deputy Comptroller for New York City found, "While these actions were implemented with the cooperation of the municipal unions, there were no fundamental changes in labor practices or work rules."[17]

After giving the unions credit for these mislabeled productivity initiatives, the Mayor began to negotiate new contracts to replace those expiring in 1995. (See Table 1.) Initial priority was given to the UFT and DC 37, the large unions whose membership numbers were most affected by the budget squeeze, and who, therefore, would be most sympathetic to the City's difficult fiscal situation. The resulting agreements can be described in terms of their impacts on wages, welfare fund contributions, health insurance and pension benefits.

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[13] The $471 million cumulative savings is calculated based on the projected 4.9 percent annual increase in City of New York, Financial Plan, fiscal years 1995 to 1999. The fiscal year 1995 base spending used in the calculation is $1,549,668,279, based on total health insurance expenditures presented in Citizens Budget Commission, *Modernizing the Municipal Employee Health Insurance Program* (NY: CBC, April 1995).

[14] Letter from James Hanley, Commissioner of Labor Relations, to Diana Fortuna, President, Citizens Budget Commission, December 5, 2000.

[15] State of New York, Office of the State Deputy Comptroller for the City of New York, *Review of the Financial Plan of the City of New York for Fiscal Years 1996 Through 1999*, Report 5-96, December 21, 1995, p. 65.

[16] *Ibid*., p. 65.

[17] State of New York, Office of the State Deputy Comptroller for the City of New York; *Review of Fiscal Year 1996*, Report 2-97, June 27, 1996, p.17.

Table 1
Timetable of New York City Labor Settlements

Labor Union	Old Contract End Date	New Contract Ratified	New Contract End Date
Teamsters Local 237	12/31/1994	3/96	12/31/1999
UFA	12/31/1994	6/97	5/31/2000
USA	1/22/1995	5/98	5/22/2000
DC 37	3/31/1995	2/96	3/31/2000
PBA	3/31/1995	9/97	7/31/2000
COBA	3/31/1995	2/98	7/31/2000
UFT	10/15/1995	6/96	11/15/2000
CSA	2/11/1996	1/2000	3/31/2001

Wage Impacts. Agreements with DC 37 and the UFT were announced in November 1995, about one month after the teacher contract expired and seven months after the DC 37 contract expired. (Refer to Table 1.) The two contracts contained similarly patterned wage increases. The contracts spanned five years (61 months for the teachers) with no increase during the first two years, 3 percent increases in the third and fourth years, and 6.0 percent in the fifth year.

DC 37 members ratified the contract in a vote conducted in February 1996.[18] The UFT members initially rejected their settlement in a December vote. However, after the DC 37 ratification and after some minor changes, the UFT contract was approved by members in June of 1996.

The first uniformed union to reach an agreement was the UFA. The wage settlement reached in June of 1997 adhered to the civilian pattern—a two-year wage freeze followed by 3 percent increases in the third and fourth years and a 6 percent increase in the fifth year. Subsequently, those firefighters (about 3,500 firefighters working on engine companies out of a total uniformed force of 11,267) trained for and performing certain emergency medical services under the Certified First Responder program initiated in 1995 were made eligible for a pay differential of about $1,500 annually.[19]

[18] Subsequent investigation in 1998 revealed that the vote was plagued with fraud, with union leaders (who also were found to have stolen union funds) stuffing ballot boxes to ensure ratification of the agreement. After a legal challenge, the contract still was held to be in effect.

[19] Firefighters with these duties received $7.43 for each nine-hour day shift and $12.38 for each 15-hour night shift. Firefighters who had CFR duties since the program began in 1995 received $300 for each year of past coverage. See Richard Steier, "UFA Wins Pay for Emergency Medical Work," *The Chief-Leader*, February 20, 1998.

The agreement with the firefighters was preceded by two mayoral actions that eased the way. First, in January of 1996, the Mayor abandoned a productivity initiative won by former Mayor Edward Koch and upheld by a special panel in 1990. This measure permitted the City to staff some engine companies with four, rather than five, firefighters. The earlier panel decision was challenged in court by the UFA, but the Mayor's action preceded a judicial decision. The effect of the Mayor's decision was to give a large number of firefighters additional income of about $1,000 annually in the form of extra overtime.[20] Second, in March of 1996, the Mayor appointed the then-head of the UFA as the Fire Commissioner.

Reaching an agreement with the PBA was more difficult. The City took the matter to impasse. During the 1996 legislative session, the PBA gained approval (through an override of the Governor's veto) of legislation shifting jurisdiction over any impasse between the PBA and the City from the City's OCB to the PERB, where the PBA believed it would get a more favorable ruling. However, in December of 1996, the State Court of Appeals overturned this legislation and the impasse proceeded through the OCB. In January of 1997, the PBA rejected an offer from the City that would have increased wages by 15.4 percent over five years, more than the civilian unions and the firefighters received. The City sought to keep the contract in the overall pattern by offsetting the added cost of higher wages with a requirement that newly hired police officers work ten additional shifts during each of their first five years. The PBA rejected this offer, and in September of 1997 the impasse panel recommended a 64-month contract that followed the pattern of a two-year freeze followed by annual increases of 3 percent, 3 percent, and 6 percent, respectively. The ruling also included increased longevity and welfare fund payments, but made no changes in the number of shifts to be worked or other work rules.

The last large uniformed union to settle was the USA. The general wage pattern was followed—a two-year freeze followed by two annual increments of 3 percent and a fifth year increase of 6 percent. The agreement contained benefit enhancements in the form of increased welfare fund contributions and annuity fund contributions. The sanitation pact also contained two productivity provisions. The first extended the two-man truck provision negotiated in the early 1980s with an increased differential for working on these routes. About 4,000 of the 5,900 sanitation workers were working such routes as of April 1998.[21] The shift differentials were increased to $24.10 and $28.95 for side-loader and 25 cubic-yard trucks, respectively, as of March 23, 1999. The second productivity provision was a shift differential of $37.43 per shift for meeting a higher refuse collection target of 10.6 tons per truck-shift from 10.1, and for increasing recycling collection from 5.4 tons to 7.2 tons per truck-shift. These two provisions represented a significant break in the historic parity relationship, permitting sanitation workers participating in both programs to earn more than the base salary of firefighters and police officers.

[20] The City reserved the right to reverse this decision if the absence rate for firefighters exceeds 7.5 percent or 18 days per year.
[21] Richard Steier, "Sanit Pact Has New Incentives on Productivity," *The Chief-Leader*, April 17, 1998.

In an effort to ease some of the PBA membership's dissatisfaction with the results of these negotiations, the City unilaterally offered a $1,400 annual "special assignment" differential to police officers who were given designated assignments. About 2,000 officers, or about 8 percent of all officers, would have been eligible. The PBA opposed the plan because it was to be implemented outside of collective bargaining, gave too much discretion to the Police Commissioner, and affected too few officers.[22] The PBA successfully challenged the plan in court, and the differentials were not paid.

The last major union settlement was with the CSA, whose contract had expired in February of 1996. In January of 2000 the members ratified a contract that contained both large raises and significant changes in working conditions. The settlement had been delayed because the Mayor and the Board of Education strongly believed that the practice of giving principals tenure should be abolished. The eventual contract contained a provision that stated that the union would support legislation to amend the State's Education Law to replace tenure with three-year contracts subject to performance reviews. Legislation was enacted and became effective in February 2000. The procedures governing the review of allegations of misconduct were also streamlined to expedite the removal of poorly performing principals. Accompanying these changes were substantial pay raises. Retroactive annual raises spanning the period from February 1996 to February 2000 were relatively modest, totaling about 11 percent over the four years. However, effective February 2000, the principals and other CSA members received an additional 19.97 percent increase linked to the new tenure rules and their agreeing to a longer work year that includes more summer days. This brings the base pay increase to more than 30 percent over the term of the contract. In addition, principals became eligible beginning in 2000 for three types of pay differentials: (1) Principals agreeing to serve in designated low performing schools receive an annual payment of $10,000. (2) Principals serving in large schools receive annual differentials depending on whether enrollment exceeds 700 students (for a $1,000 differential)), 900 students ($1,750), 1,200 students ($2,500), or 2,000 students ($3,250). (3) Principals judged by the Chancellor to be performing well receive annual bonuses of $5,500 for being in the top 25 percent, $10,000 for being in the top 15 percent, and $15,000 for being in the top 5 percent.

Table 2 summarizes the impact of the 1995 settlements on the wages of typical municipal employees over the term of the contracts. Despite the much publicized "double zeros," the wage increases about kept pace with inflation. Although real wages fell in the first two years, low inflation and increases of 3 to 6 percent annually for the next three years offset the early freeze.

[22] Richard Steier, "Too Little to Too Few: PBA Shuns Limited $1,400 Differential," *The Chief-Leader*, April 24, 1998.

Table 2
Annual Wage Increase Rates for Municipal Workers Compared to Inflation

Union	Wage Rate	Inflation Rate
Uniformed Firefighters Association (1/1/95 to 5/31/2000)	2.2%	2.3%
Firefighter's salary increases, including annual grade promotions[a]	10.9%	2.3%
Patrolmen's Benevolent Association (4/1/95 to 7/31/2000)	2.2%	2.4%
Correction Officer's Benevolent Association (4/1/95 to 7/31/2000)	2.2%	2.4%
Correction officer's salary increases, including annual grade promotions[a]	12.5%	2.4%
Uniformed Sanitationmen's Association (1/22/95 to 5/22/2000)	2.2%	2.3%
District Council 37 (4/1/95 to 3/31/2000)	2.4%	2.3%
United Federation of Teachers (10/15/95 to 11/15/2000)		
Entry-level teacher	2.1%	2.4%
Highest-level teacher	3.1%	2.4%
Entered on 9/95 with a Master's degree[a]	3.9%	2.4%
Entered on 9/92 with a Master's degree[a]	7.1%	2.4%

Sources: *The City Record* , 1/30/95, 2/15/95, 4/4/95, and 3/17/98; New York City, Office of the Mayor; District Council 37, *1995 Municipal Coalition Memorandum of Economic Agreement* ; United Federation of Teachers, Local 2, *Agreement between the Board of Education of the City of New York and United Federation of Teachers covering 10/1/91 to 10/15/95 and 10/16/95 to 11/15/2000* .
Notes: Wage increase rates are based on the salary the month prior to the beginning of the 1995 contract versus the salary on the last day of the contract. Inflation rates are based on a twelve-month average of the regional consumer price index for the twelve months preceeding the beginning and end of each contract period.
[a] "Step" increases are included in order to demonstrate actual salary progressions.

The actual earnings of individual workers increased more rapidly than the changes in base pay scales would suggest, because most also were eligible for annual increments on salary "steps" built into the salary schedules. For example, entry-level firefighters receive salary increments in each of their first five years. Consequently, a firefighter who entered the Department on January 1, 1995 and progressed through these steps received an annual average increase of 10.9 percent as his or her annual base salary rose from $29,100 to $51,023. Entering correction officers' base salaries increased at an even higher average annual rate, 12.5 percent, over the contract period due to similar annual steps.

Due primarily to the salary increases for workers, the City's expenditures for salaries and wages increased from $11.7 billion in fiscal year 1995 to $14.8 billion in fiscal year 2000, a 27 percent jump. (See Table 3.) Most of the increase was in the last three years, due to the backloading of the contracts. Between fiscal years 1997 and 2000 total salary and wage expenditures increased $2.7 billion, an annual rate of 6.8 percent.

Table 3
City of New York Personal Service Expenditures
Fiscal Years 1995 - 2000
(dollars in millions)

	Fiscal Year					
	1995	**1996**	**1997**	**1998**	**1999**	**2000**
Total Salaries and Wages	$11,708	$11,926	$12,136	$12,978	$13,672	$14,792
Regular	10,630	10,859	10,901	11,736	12,557	13,459
Full-Time Salaried	9,606	9,887	9,869	10,464	11,107	11,591
Part-Time Positions	280	274	285	321	358	383
Searsonal, Hourly and Other	744	698	746	951	1,092	1,486
Additional Pay	1,078	1,067	1,235	1,242	1,116	1,333
Overtime	423	436	449	469	532	618
Longevity Differential	170	191	196	226	252	282
Shift and Assignment Differential	170	181	188	196	212	233
Holiday Pay	117	127	130	137	152	162
Terminal Pay and Other	198	131	272	213	(32)	37
Fringe Benefits	$2,788	$2,830	$2,976	$3,182	$3,437	$3,696
Health Insurance	1,156	1,264	1,346	1,420	1,534	1,653
Social Security	854	879	884	944	1,019	1,101
Welfare Benefit Funds	485	443	501	562	627	662
Uniform Allowance	54	62	62	64	66	67
Other	294	244	245	255	258	280
Pension Contributions	$1,342	$1,420	$1,382	$1,482	$1,426	$698
Total	**$15,844**	**$16,181**	**$16,607**	**$17,652**	**$18,543**	**$19,192**

Sources: City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report of the Comptroller,* fiscal year 1995 through 2000 editions.
Notes: Totals may not add due to rounding.

Welfare Fund Contributions. A second component of workers' compensation, the City's contribution to union welfare funds, also increased as a result of the last round of bargaining. The City makes annual per worker contributions to union welfare funds, which administer supplemental benefit programs for their members. The benefits typically include drug, dental and optical insurance that supplement the basic health insurance provided by the City.

Since the City began making payments in the 1960s, successive rounds of bargaining have increased the amounts that support the welfare funds. The amounts vary among the unions. Between 1966 and 1994 the per member annual contributions were raised from $60 to $1,025 for DC 37 and other civilian unions, from $100 to $1,045 for the UFT, and from $130 to $925 for the PBA and UFA. (See Table 4.) The last round of negotiations increased these contributions by more than one-third. Over the five-year period, the DC 37 payment went from $1,025 to $1,375, the UFT payment from $1,045 to $1,420, and the PBA payment from $925 to $1,200. As a result of the newly negotiated welfare fund contributions, City expenditures for this purpose grew from $485 million in fiscal year 1995 to $662 million in fiscal year 2000, an increase of 36 percent, or 6.4 percent annually.

Table 4
City Contribution Per Worker to Union Welfare Funds
Fiscal Years 1963 to 2000

Fiscal Year	PBA	USA	UFT	DC 37
1963	NAP	57	NAP	NAP
1964	80	107	NAP	60
1965	105	134	NAP	60
1966	130	159	100	60
1967	180	219	140	85
1968	180	219	165	110
1969	190	219	190	110
1970	190	219	205	125
1971	220	250	220	175
1972	250	250	220	250
1973	250	250	260	250
1974	275	275	290	300
1975	300	300	320	350
1976	400	400	370	350
1977	400	400	420	350
1978	400	400	420	350
1979	400	400	445	350
1980	400	400	445	350
1981	425	425	520	400
1982	450	450	570	450
1983	450	450	570	450
1984	525	525	645	525
1985	625	625	745	625
1986	675	675	795	675
1987	700 [a]	700 [a]	795	700 [a]
1988	725	675	845	725
1989	775	675	895	775
1990	825	675	945	825
1991	925	775	1045	925
1992	925	775	1045	925
1993	925	775	1170 [d]	925
1994	925	960 [b]	1045	1025
1995	925	1012 [c]	1145	1125
1996	925	975	1145	1025 [f]
1997	925	975	1245	1125
1998	925	1050	1245	1200
1999	1053	1125	1245	1200
2000	1200	1125	1420 [e]	1375 [g]

Sources: Temporary Commission on City Finances, *The Fiscal Impact of Fringe Benefits and Leave Benefits: Some Proposals for Reform, Seventh Interim Report to the Mayor* , June 1976; and New York City Office of Labor Relations.

Notes: [a] Includes a $25 one-time lump-sum payment. [b] Includes a $85 one-time lump-sum payment. [c] Includes a $37 one-time lump-sum payment.[d] Includes a $125 one-time lump-sum payment. [e] Includes a $100 one-time lump-sum payment. [f] Includes a one-time decrease of $100. [g] Includes a one-time payment of $100.
NAP= Not Applicable, no contribution.

Health Insurance. The health insurance component of municipal workers' compensation was not changed in the last round of bargaining. New York City has provided health insurance for its employees since 1946, when Mayor Fiorello LaGuardia developed an innovative plan that led to the establishment of the Health Insurance Plan of Greater New York (HIP). LaGuardia's initial plan had the City pay half of premium costs and workers paid the other half through payroll

deductions. Subsequent negotiations led to an increased City share and in 1965, when a choice of other plans was added, the City set its premium contribution at 100 percent of the HIP premium. That is, the City pays an amount equal to the HIP premium toward any approved plan chosen by an employee. In 1966, the City agreed to provide benefits to retirees as well as employees and their families.

From fiscal years 1980 to 1995, expenditures for the City's health insurance program rose from $227 million to over $1.5 billion with over 60 percent the increase due to escalating costs per enrollee—a 352 percent increase from $693 to $3,131.[23] This was well above the 300 percent increase nationally in private per capita health insurance expenditures over the same period.[24] There also was significant growth in the number of covered municipal employees and retirees. From 1980 to 1995, the number of people receiving coverage rose 51 percent from 327,378 to 495,009. Because eligible workers and retirees often also provide coverage for their families, an estimated 1.1 million individuals were covered in 1995 through City-sponsored insurance policies. Nearly two-thirds of the contracts were for employees. Of these, about 62 percent selected family coverage and the remainder enrolled as individuals. Expenditures for employee contracts were about $1.2 billion with $934 million of this amount attributed to employees covering their families through the city program.

In addition, about 165,000 retirees received City-sponsored insurance coverage in 1995, with costs exceeding $383 million. Nearly 62,000 or 38 percent of retirees were under age 65 and therefore not eligible for the federal Medicare program. The cost for this group was $230 million in 1995, more than was required to cover the larger number of age-65-and-over retirees who only needed coverage to supplement Medicare.

The City offers employees a choice of 12 insurance plans. The largest plan is Group Health Insurance (GHI), which has a network of physicians who accept a negotiated fee for services and uses Empire Blue Cross to provide hospital benefits. During 1985 contract negotiations, the City agreed to make an annual $35 million contribution to a “Health Insurance Premium Stabilization Fund” that pays GHI for the difference between its rate and HIP’s, thereby enabling workers to maintain GHI’s coverage without incurring additional costs. When necessary, the City has also periodically renegotiated the scope of benefits upward or downward to allow GHI to keep its premiums at the HIP rate. In fiscal year 1995, three other plans offered rates equal to HIP’s. About 97 percent of all employees were enrolled in one of these plans for which the City paid the entire premium, with about one-quarter enrolled in HIP, and two-thirds enrolled in GHI.

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[23] Unless otherwise noted, health insurance data for 1995 and earlier are from Citizens Budget Commission, *Modernizing Municipal Employee Health Insurance* (NY: CBC, April 1995). The data in that report include expenditures for employees of the New York City Health and Hospitals Corporation, the New York City Housing Authority, the Off-Track Betting Corporation, and certain libraries and cultural institutions, in addition to expenditures for municipal employees.

[21] United States Department of Health and Human Services, Health Care Financing Administration, *National Health Expenditures*, <http://www.hcfa.gov> (8 November 2000).

Retirees covered by City-sponsored plans consist of both those over age 65 and eligible for Medicare and younger people and their families who are not eligible for Medicare. For those not eligible for Medicare, the City gives the same choices and pays the same amounts as it does for its employees. That is, retirees under age 65 receive the same benefits as City employees.

For retirees eligible for Medicare, the City provides supplemental benefits. Although the Medicare program covers hospital and medical care costs, its benefits are subject to deductibles and coinsurance payments plus a Part B premium. The City offers three types of plans to cover the costs not covered by Medicare: "Medicare Supplemental," "Medicare Risk," and "Medicare Cost" plans.

Medicare Supplemental plans are secondary payers to Medicare. They cover services Medicare does not, as well as a part of Medicare deductibles and co-insurance. Retirees have the most freedom to choose providers with this type of coverage, which pays on a fee-for-service basis. The City's contribution for Medicare-eligible retirees is set at the premium cost for the GHI supplemental cost plan, or $1,104 annually in fiscal year 1995. The City also pays an equal amount for coverage for a Medicare-eligible spouse of a retiree. If the spouse of a retiree is under age 65, the City pays the HIP rate for individual coverage ($1,990 in 2000).

Medicare Risk options are HMOs with which the federal government has established special premiums so that supplemental coverage is not needed. The rate is approximately 95 percent of the average cost of care for Medicare fee-for service patients of similar age and sex within the region. For some of the plans, Medicare's payment covers the full premium; others require a modest premium contribution from the individual. However, some plans require a significant individual premium contribution (up to $1,097 in 1995) in part because extra benefits were added to attract more enrollees and in part because their costs are greater than Medicare recognizes. The City pays the premium for retirees selecting these plans up to the amount of the GHI supplemental plan premium.

Medicare Cost plans are a mix of HMO-like coverage and standard Medicare benefits. These plans have a network of providers. Out-of-pocket costs due to Medicare deductibles and coinsurance requirements are waived when network providers are used. If out-of-network providers are used, only Medicare benefits are paid, and the retiree is responsible for the portion of costs above Medicare allowable fees as well as Medicare deductible and coinsurance requirements. The City pays premiums for Medicare Cost plans up to the amount of GHI supplemental plan premium.

In addition to making premium payments for whichever Medicare plan a retiree chooses, the City reimburses retirees for a portion of their Medicare Part B premiums. This benefit is not directly negotiated with the unions; it is established by local law passed by the City Council. The Council increased the amount in 1996 to $32 monthly per enrollee, representing 70 percent of the total 2000 annual premium of $546 million.[25]

[25] The 2000 Medicare premium is from the New York State Employee Benefits website, <www.cs.state.ny.us/ebd/index.htm> (2 November 2000).

For Medicare retirees, out-of-pocket costs vary by the type of plan chosen. Retirees who choose risk plans have virtually no additional out-of-pocket costs, other than small co-payments (usually $10) for office visits when network providers are used. Out-of-pocket costs are highest when supplemental plans are used, since they reimburse providers according to an approved fee schedule; actual provider fees sometimes exceed these rates. Most retirees continue to choose these plans however, because they allow the greatest choice among providers and because the City pays the full premium. Medicare cost plans require nominal co-payments for most services as well as Medicare deductibles and coinsurance if out-of-network providers are used.

The basic structure of the City employee and retiree health insurance program was not changed in the last round of bargaining. Although the HIP rate was frozen for three years, this did not affect employee costs or choices of plans. Independent City Council actions obliged the City to increase its share of Medicare Part B premiums. Otherwise, nothing changed.

Between 1995 and 2000 the City's cost for its health insurance program increased from $1,156 million to $1,653 million, or 7.4 percent annually. (Refer to Table 3.) This growth occurred despite the three-year freeze in the HIP rate, primarily due to growing numbers of workers and retirees and to premium increases of 4.9 percent in 1999 and 6.62 percent in 2000.[26]

Pension Benefits. The remaining component of compensation, pension benefits, was made significantly more generous in recent years, but this occurred largely outside the context of collective bargaining. City employees belong to one of five separate pension systems.

- Uniformed employees of the New York City Police Department are members of the Police Pension Fund.
- Uniformed employees of the New York City Fire Department are members of the Fire Pension Fund.
- Pedagogical employees of the Board of Education are members of the New York City Teachers Retirement System (NYCTRS).
- Non-pedagogical employees of the Board of Education are members of the Board of Education Retirement System (BERS).
- All other City employees are members of the New York City Employees Retirement System (NYCERS).

As of June 30, 1999, the five systems had a combined active and retired membership of 572,216 and assets of $100 billion.[27]

These pension systems are established under State law, and once benefits are established they are protected by the State Constitution. Each year, hundreds of bills are introduced that attempt to modify the systems' benefits. Bills even are introduced on behalf of one particular employee or retiree.

[26] Rate increases provided by the New York City Office of Labor Relations, Employee Benefits Program.
[27] City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report*, fiscal year 2000 edition, p. 52.

Given the Constitutional protections, changes that reduce benefits can be made only prospectively. Three significant such changes were made, due to severe fiscal pressure on the City in the 1970s, and they have created four "tiers" or cohorts of employees. Tier I workers entered service prior to June 30, 1973; Tier II employees entered from June 30, 1973 to July 26, 1976; Tier III employees joined from July 27, 1976 to August 31, 1983; and Tier IV employees joined on or after September 1, 1983. However, the Police and Fire systems have only two tiers—Tier 1 members joined before June 30, 1973 and Tier II joined on or after that date. Although the tier structure defines the benefits in broad terms, within tiers there is variation—over time certain groups within the tiers have received different add-ons. For example, in NYCERS there are seven different plans in Tier IV.

The connection between pension benefit changes and collective bargaining is complex. Because the State Legislature wanted to retain ultimate control over pension systems, the Taylor Law prohibits direct bargaining over pension benefits. The changes cannot be made directly through collective bargaining; State legislation is typically required. However, in reality, pension benefits often are the subject of negotiation. When changes are agreed upon in bargaining, the agreement takes the form of a written pledge that both parties will seek such changes in the State legislature. The change is not assured, although the combined endorsement is usually sufficient to achieve enactment. However, in many cases legislative changes are sought by the unions outside of, or even despite, collective bargaining. That is, the unions may seek benefit changes that were never discussed in collective bargaining, and may try "end runs" around collective bargaining to achieve changes that were rejected by the Mayor during negotiations.

The past five years have witnessed several fiscally significant changes to pension benefits that were sought and achieved by the unions outside of collective bargaining. For example, in 1995 the State passed the Pension Improvement Plan, which improved the benefits of NYCERS and BERS members. Certain members of the pension plan with 25 years of service were allowed to purchase the right to retire with a full pension at age 55. The plan essentially made available to some newer employees some of the more generous benefits available to Tier I and Tier II employees.

The activities of the correction officers' union provide multiple examples of successful efforts to circumvent collective bargaining to enhance pension benefits through State legislation. Since 1995, COBA has lobbied for and obtained passage of the Buy-back Bill, the William Wilson Bill, the Pension Reopener Bill, the 3/4 Disability Bill, the Heart Bill, and the Variable Supplement (VS) Bill. Each of these measures enhanced pension benefits for its members. Their two most recent efforts, the Heart Bill and the VS Bill, were signed into law by Governor Pataki in August of 1998 and December 1999, respectively. The Heart Bill gives correction officers the right to retire with a tax-free disability pension of 75 percent of base year pay if they suffer any kind of heart ailment; the presumption is that the heart ailment is job-related. City officials had opposed the measure, saying that it would increase pension costs to the City by $3.5 million per year.[28] The most recent measure, the VS Bill, gave annual pension supplements increasing to a maximum of $12,500 in 2008. Mayor Giuliani argued against this bill on grounds that such

[28] Clifford J. Levy, "Albany to Pass Bill to Benefit Prison Guards," *The New York Times*, March 25,1999.

provisions should result from collective bargaining rather than independent legislation. The Mayor estimated the eventual added cost to the City at $100 million annually.[29]

A broader set of pension enhancements was passed in 1998. A series of laws affecting 470,000 State and City employees and retirees carried a total cost of $250 million annually.[30] The most significant change was to have workers' benefits vest after five years, a change from the previous ten-year vesting period. The measures also increased basic pension amounts for Tier III and Tier IV members, increased death benefits for employees who leave the system after 10 years of service, and increased pension supplement payments for most retirees. The Giuliani Administration had mounted vigorous opposition, because the five-year vesting provision, in particular, carried "significant budget consequences."[31]

Two other major pension benefit enhancements were passed in the 2000 legislative session. The first responded to long-standing union pressures to incorporate automatic cost-of-living adjustments in the public employee systems. Both State and City employees sought these changes. Their goal was to have benefits automatically increase along with inflation, instead of any benefit increase depending on specific legislative action. Early in 2000, after a blue ribbon panel report, the Governor endorsed such legislation and extended the new automatic adjustment to members of City pension funds, as well as to State employees. The bill was passed, at an estimated added cost to the City of $98 million in fiscal year 2001 and rising to $480 million annually when it is fully phased-in in fiscal year 2004.[32]

The second major benefit enhancement in 2000 was tied to a broader deal between the unions and the Mayor. In order to gain some budget savings through reduced pension fund contributions in fiscal years 2000 and 2001, the Mayor sought to change some of the actuarial assumptions used in calculating the necessary contributions. Included among the changes was an acceleration in the recognition of the greater than expected gains in the market value of the pension funds' assets (known as a "restart"). Adopting these changes required approval by the union members of the pension fund boards. In exchange for their approval, the unions—acting through the head of the MLC—sought and obtained from the Mayor his endorsement of State legislation providing enhancements to the pension benefits. The nature of the enhancements varies among the pension systems and among the tiers within the systems, but the overall package is estimated to cost the City $318 million annually.[33] Together this legislation and the bill giving automatic cost-of-living adjustments carry a recurring annual cost of over $798 million; this approaches the cost of a 5 percent pay raise for all municipal workers, but has been accomplished outside of collective bargaining.

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[29] Bill Farrell, "Pension Sweetener OK for Correction," *Daily News*, January 5, 2000.
[30] New York State, Office of the Governor, "Governor Pataki Signs Pension Supplementation Into Law," press release, July 21, 1998, < www.state.ny.us/governor/press/july21_98.htm> (30 October 2000).
[31] William Van Auken, "Alter Uniformed Vesting Bill," *The Chief-Leader*, January 7, 2000.
[32] State of New York, Financial Control Board, *Staff Report: Financial Strength and Fiscal Challenges*, July 18, 2000, p. 35.
[33] City of New York, Office of Management and Budget, *Financial Plan, Fiscal Years 2001-2004*, November 17, 2000.

The amount that the City contributes to the five pension funds in any given year is a function of two basic factors. First, a set of actuarial assumptions that determine how much is needed to finance the projected benefits; second, the rate of return on the funds' assets which determines how much of the needed financing will come from this source and how much from City revenues. The actuarial assumptions generally change in ways that increase the required financing; for example, it may be assumed that average wages will rise, and that retirees will live longer. In contrast, the return on investments is more volatile. When the stock market does well, the City's necessary contributions can be reduced; when the market does badly, the City must meet more of the funds' financing needs. As shown in Table 5, the trend since 1980 has been for City pension contributions to fall relative to wages from a high of 30.6 percent of payroll in 1980 to 20.0 percent in 1990 and a low of 4.8 percent in 2000. The major factor has been long-term growth in the value of investments. However, due primarily to the major increases in pension benefits recently enacted, the City's contribution is projected to nearly double relative to payroll from 4.8 percent in 2000 to 9.5 percent in 2004.

Table 5
Employer Contributions to City Employee Pension Funds
Fiscal Years 1981 to 2004
(as a percent of payroll)

	Pension System					
	NYCERS	**NYCTRS**	**NYCBERS**	**NYC POLICE**	**NYC FIRE**	**TOTAL**
1981	23.9%	31.5%	23.5%	46.0%	59.8%	30.6%
1982	24.2%	31.4%	23.4%	45.8%	57.6%	30.5%
1983	22.8%	29.7%	22.0%	44.6%	54.7%	29.0%
1984	21.4%	27.5%	20.4%	44.2%	52.5%	27.3%
1985	20.9%	26.0%	19.7%	42.2%	50.4%	26.3%
1986	20.6%	23.5%	15.9%	48.1%	45.6%	26.0%
1987	19.3%	20.2%	16.6%	49.0%	45.1%	24.6%
1988	17.7%	20.0%	16.1%	46.9%	44.0%	23.3%
1989	16.5%	16.6%	15.3%	44.6%	46.8%	21.8%
1990	15.2%	16.5%	12.4%	40.3%	44.3%	20.0%
1991	11.0%	12.7%	8.6%	35.7%	43.3%	15.9%
1992	9.2%	11.0%	8.0%	33.2%	40.4%	14.0%
1993	8.3%	13.6%	7.5%	34.7%	39.7%	14.3%
1994	7.1%	12.2%	7.4%	30.3%	33.9%	12.5%
1995	6.8%	11.2%	8.5%	28.3%	32.9%	11.9%
1996	3.4%	11.1%	7.7%	30.5%	39.2%	11.3%
1997	3.5%	10.4%	7.3%	28.1%	39.4%	10.9%
1998	3.5%	12.4%	6.9%	26.7%	39.5%	11.2%
1999	2.6%	11.9%	7.8%	24.0%	37.9%	10.2%
2000	NA	NA	NA	NA	NA	4.8%
2001	NA	NA	NA	NA	NA	8.7%
2002	NA	NA	NA	NA	NA	9.0%
2003	NA	NA	NA	NA	NA	9.3%
2004	NA	NA	NA	NA	NA	9.5%

Sources: Data on pension contributions for fiscal years 1981 to 1999 is from the Governor's Task Force on Public Employee Pension Systems, *Report of the Actuarial/Technical Subcommittee* , March 30, 2000; and projected pension contributions for fiscal years 2000 to 2004 are based on City of New York, Office of Management and Budget, *Financial Plan, Fiscal Years 2001-2004* , November 17, 2000.

Another important point evident in Table 5 is the variation in the relative cost of pension benefits among the five funds. The Police and Fire systems, with costs in 1999 at 24.0 and 37.9 percent of payroll, respectively, are far more expensive than the NYCERS system, which was at just 2.6 percent in 1999. This reflects the more generous benefit structure of the police and fire systems. Their members can retire after 20 years of service with no age requirement, and their pension amount is based on the last year's salary including longevity differentials and overtime (as opposed to a three-year final average for most other workers). In addition, the Fire Department has a relatively high percentage of retirees receiving disability pensions, which are more generous than regular retirement benefits.

The Context of the Current Negotiations

The decisions made in the last round of bargaining are the prelude to the current round, but the full context of the new negotiations include recent economic and political developments. Nationally, the economy is in a period of unprecedented prosperity. Since the end of the national recession in 1991, payroll employment nationwide has grown at an average rate of 2.2 percent to create 20.5 million new jobs,[34] and real gross domestic product has risen at an average annual rate of 3.6 percent to bring 1999 GDP per capita to a record high $32,549.[35] This prosperity is rooted in exceptionally strong growth in productivity within the American economy. Since 1992 non-farm business productivity (output per hour) has increased at an average rate of 2.0 percent annually with the increase reaching 2.9 percent in 1999.[36]

The local economy has benefited from this national boom. Local employment growth accelerated with a lag after the recession, and then exceeded the national pace in 1999 and continued strong in 2000. Income has also risen rapidly, with growth averaging 6.2 percent since 1995.[37] However, the city's economic growth has been concentrated in the financial services sector, with a disproportionate share of earned income and tax revenue attributable to the strong performance of financial institutions.[38]

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[34] U.S. Department of Labor, U.S. Bureau of Labor Statistics, *National Employment, Hours, and Earnings*, <http:\\146.142.4.241/cgi-bin/dsw> (25 October 2000).

[35] U.S. Department of Commerce, Bureau of Economic Analysis, "*National Income and Product Accounts*; Gross Domestic Product in chained 1996 dollars, <www.bea.doc.gov/bea/dn/gdplev.htm> (25 October 2000); U.S. Bureau of the Census, *Population Estimates Program, Population Division*, <www.census.gov/population/estimates/nation/intfile2-1.txt> (25 October 2000).

[36] U.S. Department of Labor, U.S. Bureau of Labor Statistics, *"Major Sector Productivity and Costs Index,"* <146.142.4.24/cgi-bin/serieshist?prg8500609> (25 October 2000).

[37] City of New York, Office of Management and Budget, *Monthly Report on Current Economic Conditions*, October 11, 2000.

[38] See State of New York, Office of the State Deputy Comptroller for the City of New York, *New York City's Economic and Fiscal Dependence on Wall Street*, Report 5-99, August 13, 1998.

The City's treasury has benefited from the strong local economy. After adjusting for tax reductions, non-property tax revenues have grown at an annual rate of 10.6 percent between fiscal years 1996 and 1999. The Office of Management and Budget repeatedly under-forecasted tax revenues—in the fiscal years 1997, 1998 and 1999 projected tax revenues in the adopted budget were 6.3, 8.0, and 5.9 percent below actual collections, respectively.[39] The unexpected revenue growth has resulted in large surpluses; in fiscal years 1998 and 1999 the City finished the year by rolling more than $2 billion into the following year. For fiscal year 2000, the surplus was $3.2 billion.

Despite the good times, the City has not put its fiscal house in order. The fiscal year 2001 budget is balanced by using $2.3 billion of the fiscal year 2000 surplus to support recurring operating expenses. Balancing the budget with a large surplus from a previous year only serves to exacerbate the future imbalance between revenues and spending. A one-time surplus should not be used to fund recurring costs like the payroll. As a result, when the surplus is exhausted, the City will, by its own account, face budget gaps of 3.0 and 2.7 billion in fiscal years 2003 and 2004, respectively. (See Table 6.) These gaps exist despite the planning assumption of no economic downturn; the City's budget anticipates real growth in Gross City Product of 2.6 percent in calendar year 2002, 3.5 percent in calendar year 2003, and 4.1 percent in calendar year 2004.[40]

Table 6
The Impact of Wage Increases on Future Year Budget Gaps
City of New York, Fiscal Years 2002-2004

	Fiscal Year		
	2002	**2003**	**2004**
Gaps reported in the November Financial Plan	(3,196)	(3,049)	(2,673)
Labor reserve included in budget	750	800	800
Estimated cost of wage increases equal to inflation	(780)	(1,194)	(1,633)
Adjusted Budget Gaps	**(3,226)**	**(3,443)**	**(3,506)**

Sources: Budget gaps are reported in City of New York, Office of Management and Budget, *Financial Plan Fiscal Years 2001-2004* , November 17, 2000; and the estimated cost of wage increases equal to inflation is from City of New York, Office of Comptroller, *The Comptroller's Comments on the Adopted Budget for Fiscal Year 2001 and the June Financial Plan for Fiscal Years 2000 to 2004* , July 2000, p. 35.

The City's projected budget gaps also are unrealistically low because they assume a wage freeze in fiscal years 2003 and 2004. If raises equal to the projected rate of inflation are factored into the projections, then the gap reaches $3.5 billion in fiscal year 2004. Thus, the economic and

[39] Over the last three years actual tax revenues have been $1.3 billion higher than the adopted budget forecast on average based on City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report*, fiscal year 1997 to 1999 editions.
[40] City of New York, Office of Management and Budget, *Financial Plan, Fiscal Years 2001-2004*, Forecast Documentation, November 14, 2000.

fiscal context presents a paradox of extraordinarily good times at present accompanied by a worrisome fiscal outlook caused by shortsighted financial management in the current period.

The political context for the negotiations is unique. For the first time in history, the City has a term-limited mayor. He may negotiate contracts for a period that extends beyond his term, and he does so knowing he will not face the electoral or fiscal consequences of the settlements. The dynamic may be different, because there is no clear line of accountability to the voters for management's performance in this round of negotiations.

On the other side, two influential unions—DC 37 and the PBA—are in an unusual position because of corruption scandals and changes in leadership. At DC 37 in 1998 several key leaders were indicted for allegations of stuffing the ballot box during the 1996 ratification vote on the 1995-2000 contract. As the investigation proceeded, additional charges of embezzlement of union funds were levied against some officials. Lee Saunders, the current lead negotiator and administrator for DC 37, was appointed by AFSCME, the parent organization, in November of 1998 to oversee the clean up of the union. He has repeatedly called for talks with the City to begin, but DC 37 members have been working under the terms of the old contract since it expired on March 31, 2000.

The PBA had a contentious resolution to their last negotiation with the City, with their contract terms eventually determined by OCB impasse procedures. Also, during that time, two senior consultants to the PBA were indicted for corrupt relations with the Transit Authority police officers union, whose former head also was indicted.[41] The fallout from the controversy was the election of an insurgent union leader after a bitterly contested three-way election. Patrick Lynch became the PBA president on July 1, 1999; he is the first challenger to beat an incumbent in 19 years.[42] He had no previous ties to the PBA Board and came into office with the intent to reform. Lynch promised the members that in current negotiations he will seek a much higher increase than they received last time.[43]

In coordinating the unions' activities, the MLC appears to have agreed that, unlike the last round, DC 37 should not "go first" in the bargaining. Because they are in a relatively weak position internally and with the public, they are not likely to gain the most favorable settlement. Rather the unions appear to want either the UFT or the PBA to be the first to settle. The UFT has public support for a relatively generous settlement due to public concerns about teacher quality and reports of a shortage of certified teachers. The PBA's leadership is outspoken in its desire for a generous contract, and the feeling among members is that they were treated unfairly relative to others in the last round. The other unions are inclined to have one of these organizations settle first on the theory that a generous agreement for them will set a pattern for the other unions that is better than what they would achieve by bargaining first. The Mayor has begun formal bargaining with the UFT and other unions, and it remains to be seen who will settle first.

[41] Andrea Della Monica, "Ex-Transit PBA Head is Indicted," *The Chief-Leader*, January 31, 1997.
[42] Glenn Collins, "Patrolling the Beat at the Union Office Now," *The New York Times*, November 26, 1999.
[43] Mike Claffey, "PBA Elects Lynch Its New President," *Daily News*, June 6, 1999.

RECOMMENDATIONS

The current situation calls for a new labor relations strategy by the Mayor. The tight labor market, looming fiscal challenges, and the continued high cost of public services require new initiatives in collective bargaining. To achieve greater productivity and higher quality services, the Citizens Budget Commission presents three recommendations relating to wage policy and three recommendations relating to fringe benefits.

Recommendations Related to Wage Policy

1. **Set pay levels in response to labor market conditions, with shortage occupations receiving greater wage increases than those occupations where abundant applicants already are available.**

The past practice of "pattern bargaining" has not served New Yorkers well. Across-the-board increases of the same percentage for the numerous different job titles represented by the municipal employee unions has led to counterproductive results. Some jobs cannot be filled because the wage is well below what is paid for comparable work in the private sector; as a result, services are provided poorly or inefficiently. At the same time, other municipal jobs offer salaries and benefits that far exceed the pay for private jobs requiring similar backgrounds; as a result, these positions draw numerous qualified applicants for each position despite the tight labor market, and taxpayers pay more than is necessary.

In the current round of negotiations, the Mayor should seek to treat different groups of workers differently. The basic strategy should be to divide civil service positions into three categories, each of which require different wage policies. One group is those positions that, despite low unemployment, still draw an abundant pool of qualified applicants. The labor market signal for them is clear; higher wages are not needed. For these "glut" occupations, equity and morale concerns may justify modest (less than inflation) pay increases for incumbents, but starting salaries for new workers need not be increased. The contracts should be of a relatively short duration, such as two years, or contain other provisions that permit reassessing the situation in a timely way.

The remaining positions are all, in the current strong labor market, becoming increasingly difficult to fill. However, the perceived shortages should be analyzed to identify their root cause. In many cases, the issue is not primarily wages. For this group of positions, the City's recruitment and hiring practices, and its working conditions, should be changed, but wages may need only to keep pace with inflation. Finally, there is a third set of positions for which municipal wages are clearly out of line with those prevailing in the private sector. These pay disparities are causing labor shortages, which, in turn, harm the quality of public services. In these instances, substantial real wage increases should be provided.

The CBC has not made a comprehensive analysis of all municipal job titles to determine their appropriate classification under this strategy. However, this section provides examples of each type that include a large segment of the workforce. The policies suggested for each of these groups of workers should be extended to all those in a similar situation.

a. Occupations with an abundant supply of applicants.

Clear examples of positions that continue to draw abundant qualified applicants are sanitation workers and firefighters. For these and other uniformed positions, openings are filled through a testing process. A date for a written and physical test is announced well in advance. Applicants register for the tests, and those passing are called to fill positions based on the rank of their exam scores. Generally the ranked list of those passing can be used to fill vacancies for a period of up to four years before another test is given.

As shown in Table 7, for sanitation workers there are an average of 195 openings each year. The test given in 1990 drew over 71,000 applicants, of whom more than 23,000 passed. This list was used to fill the far smaller number of openings for eight years. The new test given in late 1998 drew so many applicants that the City limited the number actually taking the test by using a lottery among those signing up. The test yielded more than 14,000 qualified candidates. The Department is now in the position of having 74 *qualified* individuals for each annual opening.

The Fire Department also has no problem attracting qualified recruits. Its 1992 examination yielded nearly 9,500 qualified candidates, and this list was used to fill the approximately 500 annual openings for nearly seven years. The last exam in 1999 yielded nearly 6,400 qualified candidates, a ratio of twelve-to-one for each available position.

Correction officer positions also continue to be attractive. The 1998 examination yielded more than 4,000 candidates for the 562 annual openings. A new exam is scheduled for December 9, 2000, and 7,500 people have signed up. If passage rates for this new test follow the 1998 pattern, then the Department of Correction will have almost 9 qualified applicants for each opening in the coming year.

Table 7
New York City Recruitment
Through Civil Service Exams

Date of Exam	Number of Applications	Number Taking First Test	Number on List	Average Annual Hires [a]	Ratio of Number on List to Average Annual Hires
Sanitation Worker					
9/22/90	101,211	71,007	23,489	195	120.58
11-21-98 [b]	25,000	17,938	14,438	195	74.12
Firefighter					
5-9-92	40,238	30,962	9,498	527	18.02
2-27-99	23,161	17,155	6,372	527	12.09
Correction Officer					
1-10-98	6,214	4,512	4,070	562	7.24
12-9-00	7,500	5,446 [c]	4,912 [c]	562	8.74 [c]
Police Officer					
6-15-96	31,986	23,090	18,498	2,062	8.97
5-9-98	21,567	16,082	10,834	2,062	5.25
1-9-99	14,202	9,391	5,624		
10-2-99	15,027	10,408	8,363		
Subtotal 1999 Exams	29,229	19,799	13,987	2,062	6.78
5-20-00	8,381	5,650	5,170		
12-16-00	12,038	8,115 [c]	7,426 [c]		
Subtotal 2000 Exams	20,419	13,765 [c]	12,596 [c]	2,062	6.11 [c]

Sources: Civil Service list data provided by the Department of Citywide Administrative Services; actual hiring data provided by the New York City Office of Management and Budget.

Notes: [a] Average annual hires are a five-year average for fiscal years 1996 to 2000. [b] For the 1998 Sanitation Worker test, the Department of Citywide Administrative Services limited the number of initial applicants by conducting a lottery.

[c] These numbers are projected based on the test-taking and passage rates for the most recent previous exam.

The evidence is less clear-cut with respect to police officers. The large size of the force and its expansion during the 1990s caused it to have more annual openings than is the case for other uniformed positions. New positions averaged 2,062 annually during the last five years, and this pace of hiring is likely to continue or perhaps decrease slightly if no further expansion is planned. The examination given in 1996 yielded nearly nine qualified candidates for each vacancy, but the 1998 examination drew fewer people and yielded about five candidates for each position. While this is an adequate supply, it is less than is usually available for uniformed positions. This, combined with a desire to reach more minority candidates, led police officials to give two examinations in 1999, one in January and one in October. The combined yield from these two examinations was greater than from the single 1998 examination, pushing the ratio of qualified candidates to vacancies up to nearly seven-to-one in that year. In 2000, two examinations again are offered—one was given in May and a second is scheduled for mid-December. The yield from the May 2000 examination was slightly less than that from the first examination in 1999, and the number of people registering for the December 2000 examination lags that from 1999. However, if the passing rate for the second 2000 examination follows recent patterns, the number of qualified candidates for each position will still exceed six-to-one. This is

less than is the case for other uniformed positions, but still seems more than sufficient to staff adequately the Department.

In assessing the adequacy of current wages for attracting a sufficient pool of qualified workers, consideration should also be given to attrition rates and to the extent of recruitment efforts to reach new sources of workers. Attrition rates are the proportion of workers who leave their jobs each year; they indicate if the salaries and working conditions are attractive enough to keep workers once they are hired. As shown in Table 8, the attrition rate for police officers declined in recent years, and in 2000 was lower than that for the other major groups of uniformed workers. Also the gap between the attrition rate for uniformed (4.6 percent) and civilian workers (11.2 percent) in the Police Department was greater than in the Departments of Sanitation and Correction. This evidence suggests that job satisfaction remains relatively high among police officers.

Table 8
Attrition Rates for Uniformed Agencies

	Fiscal Year				
	1996	**1997**	**1998**	**1999**	**2000**
Police					
uniformed	5.3%	4.3%	4.2%	3.8%	4.6%
civilian	10.2%	12.3%	11.2%	10.1%	11.2%
Fire					
uniformed	4.6%	4.4%	3.4%	3.9%	5.2%
civilian	3.9%	9.3%	7.7%	9.4%	12.0%
Sanitation					
uniformed	8.1%	5.8%	4.8%	4.9%	5.7%
civilian	11.7%	12.2%	9.3%	7.8%	8.6%
Correction					
uniformed	4.0%	4.7%	5.3%	6.0%	7.0%
civilian	11.1%	7.6%	11.5%	10.7%	12.5%

Source: New York City Office of Management and Budget.
Note: Attrition rates are calculated using the June 30 workforce number for each fiscal year.

The seeming anomaly of low attrition accompanying a decline in new recruits may be related to the schedule of salary steps incorporated in the police and other uniformed workers' contracts. Pay parity among the police, fire and correction officer is defined in terms of the annual pay for a "first grade" or journeyman officer. As show in Table 9, in 2000 this common rate is $49,023 annually. However, in each case it requires five years to reach this first grade status and salary increments are given beyond this wage for additional years of service. While the City's negotiators have sought to maintain parity across the first grade, and an overall pattern in the cost of a settlement, they have given each union discretion in how to structure the steps leading to the first grade and the seniority differentials that follow it. Compared to the UFA, the PBA has favored its senior officers over its new recruits by having the sixth grade or entry level be lower and having the longevity payments be greater. The entry level pay of a police officer is $1,419 or 4 percent less than the entry level pay of a firefighter; in contrast, a police officer with 20 years of service has a base pay $1,245 higher than a similarly experienced firefighter. The differentials are even greater for correction officers. This practice of favoring more senior

members over new recruits may help explain why the police and correction officer positions draw relatively fewer applicants than do firefighter openings. Negotiations to reverse this pattern among the police officers could yield significant progress is drawing new recruits.

Table 9
Current Salary Structure for Firefighters, Correction and Police Officers

Level	Firefighter	Police Officer	Correction Officer
6th	$32,724	$31,305	$27,838
5th	34,361	33,314	29,624
4th	36,077	34,958	31,396
3rd	37,881	36,681	36,681
2nd	39,775	38,052	38,052
1st/Basic	49,023	49,023	49,023
5 years	51,023	52,268	52,268
10 years	52,023	53,268	53,268
15 years	53,023	54,268	54,268
20 years	54,023	55,268	55,268
6th to Basic	**66.8%**	**63.9%**	**56.8%**
20 to Basic	**110.2%**	**112.7%**	**112.7%**

Sources: New York City Office of Labor Relations, Executed Contracts with the Uniformed Firefighters Association, the Patrolmen's Benevolent Association and the Correction Officer's Benevolent Association.

One reason employers sometimes face a drop in qualified recruits is a failure to reach out sufficiently to diverse demographic groups. The Police Department is making efforts to draw from a diverse pool, and recent evidence indicates some positive results. Among those taking the October 1999 exam, 60 percent were from minority groups. More than half (53 percent) of those passing the exam were from minority groups. The Department does less well in attracting women. Only 28 percent of those taking the exam and 24 percent of those passing were female. Further drop-off for minorities and women occurs as classes are formed. The July 1999 police class was 32 percent minority and only 15 percent female.[44] Intensified recruitment efforts, an analysis of why minorities and women who pass the test fail to be hired, and a new salary schedule that shifts money from seniority to the entry level, may be a smarter way to expand the number of qualified applicants than raising wages across-the-board.

[44] Data provided by the New York City Council Finance Division. Class composition numbers do not include those appointed through the special cadet promotion program.

b. Shortages without wage disparities.

While the uniformed services typically have many more applicants than openings, this is not true for all municipal positions. Since 1986, when a residency requirement was enacted for many City positions, the Department of Citywide Administrative Services (DCAS) has maintained a list of "hard to recruit" positions.[45] These positions are granted an exemption from the residency requirement. In order to qualify for the exemption, which is granted by the Commissioner of DCAS, an agency head seeking to fill positions must demonstrate that there is a shortage of qualified resident applicants. The DCAS Commissioner seeks evidence that serious recruitment efforts have not yielded satisfactory results and that this condition has persisted for at least one year. Once a position is placed in this category, an annual recertification from the affected agency head is required in order to retain the exemption, with the actual circumstances subject to an audit by the DCAS Commissioner.

In the current fiscal year, 152 different job titles are included in the hard to recruit list. As shown in Table 10, most of the affected positions fall into seven general categories. The largest group, including 8,218 current workers or nearly half the 17,215 workers in all such positions, are social service workers. They include caseworkers and child welfare specialists as well as their supervisors. The second largest group is the emergency medical service workers who staff the City's ambulance corps. A third group is a variety of computer specialists, and the fourth largest are engineers of all types. The less numerous shortage positions are several types of inspectors, project managers, and tax auditors.

However, low wages may not be the problem in all cases. As discussed above with respect to police officers, recruitment difficulties can arise from a variety of sources. The data in Table 11 compare the current entry and maximum salaries for municipal workers in selected job titles with salaries for equivalent positions in the private sector. While such comparisons are subject to numerous caveats, the evidence suggests that one group, engineers, receive approximately equal hourly wages in both sectors. Interviews with supervisors in agencies that hire engineers confirm that they encounter important hiring obstacles other than pay levels. These supervisors seek to hire engineers at college campuses and other occasions when young graduates consider job alternatives. However, the City agencies are at a disadvantage in hiring because they cannot make job offers in a timely way. Potential workers must be asked to wait while hiring is cleared by personnel and fiscal oversight agencies, a process that typically takes months. In a tight labor market for young professionals, this process is a major shortcoming. For engineers, and perhaps other professional positions, the most important changes are likely to be in the nature of the recruitment and hiring process rather than the pay scales.

[45] The residency requirement does not apply to the uniformed services, the Board of Education, the City University, the Department of Probation, and the District Attorneys offices. Any positions in these agencies that are hard to fill are not included in the DCAS list.

Table 10
Number of and Salaries Budgeted for Employees in "Hard-to-Recruit" Titles
Fiscal Year 2001

	Number of Employees	Budgeted Amount
Social Service Workers	**8,218**	**$297,587,262**
Administrative Director	81	5,025,923
Supervisor (welfare)	1,334	53,097,230
Child Protective Specialist Supervisor	530	26,129,000
Child Welfare Specialist Supervisor	720	33,657,840
Child Protective Specialist	1,584	55,791,648
Child Welfare Specialist	1,140	38,798,760
Caseworker	2,423	72,711,459
Juvenile Counselor	348	10,137,936
Associate Juvenile Counselor	58	2,237,466
Emergency Service Workers	**2,934**	**$104,321,704**
Supervising Emergency Medical Service	354	16,334,622
Emergency Medical Specialist-Paramedic	533	21,304,010
Emergency Medical Specialist-EMT	2,047	66,683,072
Computer	**1,654**	**$98,046,580**
Computer Systems Manager	134	11,463,675
Computer Operations Manager	41	4,012,880
Computer Specialist Operations	57	3,481,994
Computer Specialist Software	694	45,038,574
Computer Associate Operations	259	11,381,162
Computer Associate Software	336	17,318,807
Computer Programmer Analyst	133	5,349,488
Engineer	**1,554**	**$83,906,967**
Administrative Engineer	243	18,350,254
Chief Marine Engineer	29	1,497,827
Senior Stationary Engineer	20	1,402,306
Mechanical Engineer/Assistant	202	9,148,653
Chemical Engineer/Assistant	48	2,105,374
Stationary Engineer	170	10,648,800
Civil Engineer/Assistant	754	36,577,138
Electrical Engineer/Assistant	88	4,176,615
Project Manager	**852**	**$42,492,041**
Construction Project Manager	488	23,696,785
Associate Project Manager	364	18,795,256
Inspector (construction/building trades)	**564**	**$23,041,463**
Administrative Inspector	18	659,593
Inspector	379	14,526,216
Associate Inspector	167	7,855,654
Tax Auditor	**408**	**$16,888,063**
Other	**1,031**	**$56,704,983**
Total	**17,215**	**$722,989,063**

Source: New York City Department of Citywide Administrative Services.

Table 11
Wage Range Comparisons for Selected Occupations, 1998

	NYC Government		NYC Market		City Wages/Market	
	Min.	Max.	Min.	Max.	Min.	Max.
Engineers	$20.56	$38.27	$19.79	$37.74	103.9%	101.4%
Accountants and Auditors	$16.04	$27.51	$17.11	$32.30	93.7%	85.2%
Computer Programmers	$18.09	$34.42	$21.22	$29.13	85.2%	118.1%
Social Service Workers	$14.45	$21.52	$14.99	$23.10	96.4%	93.1%
Emergency Medical Technicians	$11.56	$15.21	$9.04	$22.32	127.9%	68.2%
Construction Managers	$17.47	$32.52	$23.35	NA	74.8%	NAP
Construction and Building Inspectors	$14.68	$22.80	$16.77	$25.25	87.5%	90.3%

Sources: Wage data for the New York City area are from the New York State Department of Labor, *1998 Occupational Employment Survey in New York State* , <www.labor.state.ny.us/html/oeswage/oeswage.asp> (30 October 2000); wage data for New York City government employees are from the New York City Office of Management and Budget, *The City of New York Executive Budget, Fiscal Year 1999, Supporting Schedules*, Volumes I to V, April 1998.
Notes: The titles shown were selected for their comparability. Salary ranges from the 1999 Executive Budget were used because it reported actual salaries as of January 31, 1998. Hours worked per week for each title were verified with personnel managers in the agencies responsible for hiring these titles to construct a comparable hourly wage for City employees. Hourly pay for non-City Emergency Medical Techicians is for Long Island workers because the survey contained no data for New York City. The maximum hourly rate for construction managers is not calculated in the Department of Labor data because it is in excess of $60.00 per hour.
NA= Not Available.
NAP= Not Applicable.

Librarians are another example of a currently difficult to fill position that could be made more attractive without spending more on salaries. Librarians do not appear on the DCAS list because they are statutorily exempt from the legal residency requirement, but there is ample evidence of hiring difficulties. Many branch libraries have no children's librarian because they cannot hire one, and the attrition rate among municipal librarians is over 15 percent annually.[46]

The current entry-level salary for librarians in the City's system is $31,296 annually, and after ten years the salary is $40,309. As shown in Table 12, these salaries are below those of regional competitors such as Westchester County and Nassau County. They are also below those in other major metropolitan areas. However, librarians in New York City work a shorter week than those of the regional competitors—35 hours versus 37.5 hours. On an hourly basis, New York's wages are *higher* than in Westchester (and in Philadelphia or Chicago) and roughly equal to those in Nassau and New Jersey.

[46] According to the New York Public Library, 79 librarians left the system in fiscal year 2000; and Steven Greenhouse, "Proposed Raise for Librarians Dropped After City Objects," *The New York Times*, September 17, 2000.

Table 12
Hourly Wage Comparisons for Librarians in New York Public Libraries Surrounding Systems and Major Metropolitan Areas, 2000

	Annual Starting Salary	Hourly Starting Salary	Hours Worked Per Week	Percent Wage Differential
New York Public Library	$31,296	$17.20	35.0	
Regional Competitors				
Westchester County	$32,450	$16.64	37.5	-3.2%
Nassau County	33,866	17.37	37.5	1.0%
New Jersey (statewide)	33,785	17.33	37.5	0.8%
Major Metropolitan Areas				
San Francisco	$46,876	$22.54	40.0	31.1%
Seattle	43,285	20.81	40.0	21.0%
Los Angeles	36,816	17.70	40.0	2.9%
Cleveland	36,292	18.61	37.5	8.2%
Philadelphia	33,077	16.96	37.5	-1.4%
Chicago	31,356	16.08	37.5	-6.5%

Source: New York Public Library.
Note: The hourly wages for Westchester and Nassau counties are based on the average entry-level salary for the local library systems within each county.

These data indicate that the best solution to New York's hiring difficulties is not to raise annual salaries without any other changes. Instead, annual salaries should be increased at the same time that the workweek is extended. A no-cost solution is to pay fewer librarians more money to cover the same number of library hours per year. Increasing the librarians' workweek to 40 hours would allow New York to maintain its current level of services with 75 fewer librarians.[47] The 14.3 percent decrease in positions would allow entry-level salaries to rise to $35,771—well above those in all the competing regional systems. If current shortages are making service improvements impossible, then the 75 librarians no longer needed could be retained with additional resources to achieve the service enhancements.

c. Shortages that require significant wage increases.

There are also many positions for which the past practice of pattern bargaining has set wages far below the private labor market. The data in Table 11 suggest that this is the case for computer specialists, auditors and inspectors. Municipal wages lag those in the New York City labor market by 10 percent or more, and the gaps are likely to have grown since the surveys were completed.

In a significant number of cases the answer is for the City to increase wages to levels more comparable to the market. The challenge in collective bargaining is to identify those titles where such raises are appropriate and to limit the increases to those positions.

[47] The City has made, and the union rejected, an offer similar to this suggestion. See Deidre McFadyen, "Pay Offer Yanked, Librarians Furious," *The Chief-Leader*, September 15, 2000.

The cost of well-targeted raises for shortage occupations appears to be manageable. If engineers are excluded, the current wage bill for the DCAS shortage positions is $639 million annually. (Refer to Table 10.) Average increases based on the percent difference between New York City government and the rest of the New York City labor market would require $120 million.[48] Fringe benefits costing about 22 percent of salaries would bring the total to about $147 million.[49] This is a relatively small fraction of the $750 to $800 million included in the City's financial plan for future pay raises. Targeting the available money to shortage occupations should be a high priority.

2. Change work processes in ways that lower the unit cost of services.

A major goal of collective bargaining should be to lower the cost of municipal services. New York City's historically high costs for public services, and the accompanying high tax burdens, should be made more competitive by achieving greater productivity. This goal can be achieved in two ways. First, current bargaining should offer to share savings from changes in current work rules and other contract provisions between workers and the City. Second, the negotiations should yield new contracts that facilitate managerial initiatives that result in savings or service improvements, including the introduction of new technology.[50]

a. Encourage more efficient work rules by sharing the savings from productivity initiatives with workers.

The high unit costs in New York City result from a combination of wages that are higher than in other places and of using more labor to produce the service. The wage policies recommended above will help bring the cost of labor into line with other places, but additional steps should be taken to reduce the amount of labor that municipal agencies use in producing services.

Inefficiencies in the use of labor arise in multiple ways. These include excessive overtime, use of more highly paid workers than is necessary for a task, and higher ratios of supervisors to line workers than is necessary.

In fiscal year 2000 overtime cost New York City $618 million or about 4 percent of total spending for basic salaries. (Refer to Table 3.) This sum has been growing, and the Office of Operations tracks overtime spending among 11 agencies with the most overtime. (See Table 13.) Between fiscal years 1995 and 2000 among these agencies, only the Department of Correction was able to reduce substantially overtime spending. In contrast, the agencies with the largest amounts of overtime, the Police Department and the Fire Department, increased their spending by 147 percent and 43 percent, respectively. Such excessive overtime can be traced to poor

[48] Calculated using the largest percent difference of the minimum to maximum range as shown in Table 11.
[49] Based on fringe benefits that increase with wages—pension and social security—calculated as a percentage of full-time salary in fiscal year 1999. Health insurance and welfare fund benefits do not increase with wages.
[50] For examples of strategies that were used successfully in other state and local jurisdictions, see The Delaney Policy Group, *Developing a Public Workforce for the New Millennium*, A Report Prepared for the Citizens Budget Commission (DC: The Delaney Policy Group, June 2000).

management; activities that could be staffed on a planned basis are staffed using overtime, and poor control of personnel leads to unplanned needs that must be staffed using overtime. While some overtime may be inevitable due to events that cannot be anticipated or avoided, better management would reduce the need for overtime.

Table 13
Overtime Expenditures in Selected New York City Agencies, Fiscal Years 1995 - 2000
(dollars in thousands)

Agency	1995	1996	1997	1998	1999	2000
Police Department	$96,156	$107,964	$116,847	$145,888	$162,462	$237,303
Fire Department	74,355	85,636	96,932	106,563	112,994	106,220
Department of Sanitation	70,837	76,877	49,672	44,376	56,746	73,791
Health & Hospitals Corporation	55,380	57,766	45,906	46,980	49,126	58,746
Department of Correction	89,219	74,467	79,061	48,936	65,439	49,383
Department of Transportation	23,187	26,193	21,892	19,291	22,312	25,958
Administration for Children's Services [a]			21,349	27,675	22,325	20,633
Environmental Protection	14,463	15,600	14,576	17,156	17,736	19,715
Human Resources Administration	15,236	22,882	13,588	10,116	11,911	13,377
Department of Juvenile Justice	4,005	2,019	1,897	3,926	4,142	5,351
Department of Health [b]	2,422	2,002	2,049	2,048	2,415	2,719
Total	**$442,838**	**$469,404**	**$461,720**	**$470,907**	**$525,193**	**$610,477**

Source: City of New York, Office of the Mayor, *Mayor's Management Report, Volume II: Agency and Citywide Indicators*, fiscal years 1995 to 2000 editions.
Notes: [a] ACS was separated from the Department of Social Services in 1996.
[b] The Department of Health figures include overtime for the Office of the Chief Medical Examiner.

Overtime is also particularly expensive because it affects pension costs as well as direct wage expenses. For many City workers, their pension is a function, in part, of their earnings in the last year of service. Overtime counts toward this base pay for purposes of pension calculations. If workers earn substantial overtime in the last year of service, this can significantly raise the amount of their pension, which they receive every year they are in retirement. These higher pensions due to final year's overtime can significantly increase the cost of the City's contributions to pension funds. In a recent example, 16 officers in the Police Department's technology division earned $600,000 in overtime in preparation for the Y2K date change; then seven of the 16 retired, adding an average of $16,000 to their annual pension benefits.[51]

The leading example of the inefficient substitution of higher-paid for lower-paid workers is the use of uniformed personnel to do jobs that could be performed by civilians. Previous reports by the Citizens Budget Commission and the City Comptroller have documented this practice in the Police Department, with the Comptroller's latest study finding that 1,610 positions could be civilianized at a savings of $48.5 million annually.[52]

Many private firms recently have achieved savings by reducing mid-level management layers and increasing the span of control within organizations. Similar opportunities are neglected in municipal government. Hierarchies in the uniformed services, which typically follow a military-like structure, are not changed often and ratios of supervising personnel (such

[51] Al Guart, "City's Y2Kops in OT Heaven," *New York Post*, November 29, 1999.
[52] City of New York, Office of the Comptroller, Bureau of Management and Audit, *Audit Report on the Opportunities for Savings Through Civilianization in the New York City Police Department*, February 1, 1999.

as captains and lieutenants) to line workers (such as firefighters and police officers) are not revised in efforts to flatten the organizational structures. Rather there are perverse incentives to create more higher level positions in an effort to create more opportunities for promotion.

The current round of collective bargaining should include incentives for workers to alter these expensive practices. Savings from the use of personnel in ways that lower the cost of producing services should be shared with the workers involved. Such gainsharing should occur when the new practice necessarily is a subject of collective bargaining and when it requires additional effort from workers. The collective bargaining process should encourage those most familiar with work practices to come forward with suggestions and workers should be given incentives to identify such savings. The following analysis of personnel practices in the Fire Department serves as an example of the kinds of changes that could be used both to lower the cost of producing services and to generate funds that could increase the earnings of municipal employees.

The Case of the Fire Department

The Fire Department provides four basic services. First, it seeks to prevent fires, a goal that is pursued by educational activities and inspections of buildings. Second, it extinguishes those fires that do erupt in buildings and elsewhere. Related to this task, it also responds to a large number of "false alarms," or malicious reports of nonexistent fires. Third, it serves as a "first responder" to reports of certain types of medical emergencies. In these cases the firefighters report to the scene of an emergency and, if the emergency is of a type for which they have been trained to respond (mostly heart attacks), they administer emergency care while awaiting the arrival of an ambulance with better trained personnel and more extensive equipment. Finally, firefighters respond to a wide variety of non-fire emergencies to which they are called. These include accidents, water main breaks and other events that may require their expertise in dealing with chemicals, rescue operations or structural problems.

As shown in Table 14, the resources devoted to these purposes increased in the last five years. The Department's operating expenses increased 27 percent and its staff grew 2 percent, including an increase of 237 uniformed personnel. Yet despite the modest expansion of resources, there has been no corresponding increase in the amount of work accomplished. The number of inspections dropped slightly. Perhaps most striking is the substantial decline in the number of fires extinguished; they declined 22 percent. False alarms also declined substantially, 39 percent. The only aspects of the Department's workload that grew were medical responses and responses to non-fire emergencies.

Table 14
FDNY Selected Resource and Service Indicators, 1996 - 2000

	1996	1997	1998	1999	2000
Operating Expenditures ('000)	$807,904	$927,716	$972,751	$1,026,386	$1,078,288
Full-time equivalent personnel, total	11,321	11,292	11,283	11,571	11,568
Full-time equivalent personnel, uniformed	11,019	10,984	10,959	11,264	11,256
Full-time equivalent personnel, civilian	302	308	324	307	312
Inspections by fire prevention staff	228,493	207,735	209,258	196,793	216,781
Field force inspections	54,320	61,088	60,998	53,707	58,729
Emergency responses, total	443,138	446,864	451,022	447,148	449,296
Structural and nonstructural fires	76,909	67,155	60,945	62,974	60,339
Nonfire emergencies	136,703	163,121	164,051	168,107	174,620
Medical emergencies (CFR-D)	132,842	148,261	160,901	153,978	155,531
Malicious false alarms	96,684	68,327	65,125	62,089	58,806
Average response time, in minutes					
Manhattan	4:58	4:59	4:56	4:52	4:54
Bronx	5:01	5:11	5:05	5:00	4:59
Staten Island	5:27	5:20	5:09	5:09	5:10
Brooklyn	4:46	4:45	4:34	4:22	4:22
Queens	5:19	5:21	5:17	5:05	5:09

Sources: Expenditures from City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report of the Comptroller* , fiscal year 1996 - 2000 editions. All other data from City of New York, Office of the Mayor, *The Mayor's Management Report, Volume II: Agency and Citywide Indicators,* fiscal year 1995 to 2000 editions.

To accomplish these tasks the Department is organized into 210 engine companies (that operate a pumper truck), 143 ladder companies (that operate a "hook and ladder" truck), and several specialized units that operate marine equipment or perform special functions (such as the "bomb squad" and hazardous materials unit). Each ladder truck is staffed by five firefighters; 137 engines are staffed by four firefighters, and 66 engines by five firefighters. Each crew is supervised by a lieutenant or captain. All the equipment is staffed 24 hours per day every day of the year. The firefighters work in nine and 15-hour shifts, working six of each length of shift over the course of a 25-day scheduling cycle. Thus, the group staffing a truck, known as a company, consists of 21 or 26 firefighters and five captains or lieutenants. The companies are supervised by a hierarchy of officers that includes battalion chiefs who supervise six to eight companies, and deputy and assistant level chiefs above them, serving under the Department's chief.

How could collective bargaining be used to make the Department more efficient? Five specific changes can be identified.

i. Better match staffing levels to demand patterns.

A combination of contractual agreements and statutes require that all trucks be staffed uniformly throughout the day and year. The service capacity of the Department remains constant at all times. Yet the demand for its services varies over time in regular and predictable ways. Like many service industries, firefighting has a busy period. Both fires and false alarms regularly cluster in defined periods of the day; this peak period is between 3 pm and 9 pm. In contrast, far fewer responses are required in the early morning. On average, and on most days, the Department makes almost three times more responses between the hours of 2 pm and 8 pm than between the

hours of 2 am and 8 am.[53] Despite this predictable variation, the Department staffs uniformly around the clock.

In 1995 the Citizens Budget Commission developed a plan to vary staffing between busy and slow periods by reducing staffing during the slow period. This would be accomplished by pairing companies in neighboring firehouses that already have relatively low workloads. The companies would all be staffed during a 15-hour busy shift, but one of the companies would not be active for a nine-hour slow shift on alternate days. In essence, nearby companies would cover each other's territory during the slow period. Given the low workloads, the change would not create longer or dangerous response times. The Commission identified 34 companies with low workloads that could be paired in this way, and estimated the plan would save about $18 million annually by reducing staff needs by 285 positions. If one-third of this savings were shared with the firefighters working in such companies, then this would allow them a pay increase of nearly 9 percent while still saving the City about $12 million.[54] Assuming the plan worked effectively and safely for these companies, it then might be extended to more units.

Varying the staffing of some fire companies would require not only union agreement in collective bargaining, but also statutory changes. The firefighters' schedule and the uniform staffing of companies has been given legal protection by the State Legislature; there even is some question about whether a referendum would be necessary. However, with gainsharing and agreement between the City and the union, it is likely that appropriate legal actions would draw broad political support and be implemented.

ii. Eliminate the unnecessary fifth firefighter on engine companies.

Most fire departments staff engines with four workers rather than five. As noted earlier, New York City shifted to this practice in the 1980s, but the Giuliani Administration reversed this practice and agreed to put five firefighters back on 66 of the 210 engine companies. This practice should be abandoned.

Eliminating the fifth worker on these 66 engine companies is estimated to save $19 million annually. If one-third of these savings were shared with the workers in the affected engine companies, then they could receive a pay increase of nearly 9 percent.[55]

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[53] Citizens Budget Commission, *Memo to Peter Powers, Deputy Mayor for Operations: Increasing Productivity in the New York City Fire Department: Proposals for Variable Staffing and Controlling Overtime Costs*, October 14, 1994.

[54] The illustrative division of savings in a one-third to the workers, two-thirds to the City pattern is based on the gain sharing arrangement between the City and the USA.

[55] Firefighters work 1,643 hours annually (net of sick and vacation leave), and the fifth firefighter position is staffed 24 hours per day. Savings from eliminating the fifth firefighter on 66 trucks are shared equally among the remaining firefighters in those companies.

iii. End planned overtime.

Overtime should be avoided as a way to staff work that can be anticipated and planned. Instead of paying at time-and-a-half, hiring workers for predictable needs will cut costs by one-third.

In the Fire Department, the major examples of planned overtime are so-called "roster staffing" and the Certified First Responder-Defibrillation (CFR-D) training, with respective costs of $28.7 million annually and $5.6 million annually. (See Table 15.) Roster staffing is the practice, provided for in the union contract, of guaranteeing each firefighter 96 hours of overtime each year. This agreement is met by building the overtime into the annual schedules. The contract provides that firefighters will be paid overtime for shifts in excess of six 15-hour shifts and six nine-hour shifts during each 25-day cycle. Under the roster staffing agreement, each worker is deliberately scheduled to work four additional 15-hour shifts and four additional 9-hour shifts in the course of a year. This gives them the 96 hours of overtime each year.

In addition, training for emergency medical responses is done on overtime. This training requires 32 hours and must be repeated or updated every three years. If this were made part of regular duties, it could be accomplished without overtime. The combined savings from eliminating these two forms of planned overtime would be about $15 million annually.[56]

Table 15
FDNY Overtime Spending by Category, Fiscal Year 2000

	Amount*	Percent of
Roster staffing	$28,685,558	34.3%
Post coverage	33,236,748	39.8%
Firefighters	21,010,161	25.2%
Other ranks	12,226,587	14.6%
Tour change (continued on duty)	3,109,026	3.7%
Wash up time	3,973,689	4.8%
Portal to portal	3,030,444	3.6%
Awaiting release	3,496,223	4.2%
CFR-D training	5,634,753	6.7%
Administrative overtime	608,963	0.7%
Other	411,115	0.5%
Fire marshals	1,334,101	1.6%
Total	**$83,520,620**	**100.0%**

Source: FDNY.
* All overtime figures are attributable to all ranks, except roster staffing (firefighters only) and administrative overtime (officers only). CFR-D training overtime is currently attributable only to engine companies.

[56] This calculation assumes all overtime for CFR-D training ($5.6 million) is saved by making this a regular duty. It assumes one-third of the roster staffing overtime is saved by making this straight time. This could be achieved by extending the regular work year or by hiring additional staff to cover the posts. If additional staff were used, the savings would be reduced due to the per-worker fringe benefits, notably health insurance and pension contributions.

iv. Reduce unnecessary overtime.

Two large categories of overtime—post coverage and tour change—are not predictable, but could be reduced if firefighters were better managed. Post coverage requires overtime when a firefighter does not appear for a scheduled shift. The current contract permits firefighters unlimited sick leave, and absence rates were 16.5 days in 1999, more than double the 7.6 days in the Police Department.[57] These vacant posts are covered by calling in another member of the same or a nearby company who is not scheduled that day, and paying him or her overtime. This firefighter is also paid overtime for additional time spent travelling from their firehouse to the temporary duty station, called "portal-to-portal" overtime. Reducing absence rates, which are exceptionally high, would reduce the need for overtime. Bringing the absence rate for the firefighters down to that for police officers would save $20.8 million annually.[58] Ending the practice of portal-to-portal overtime would save an additional $3 million annually.

Tour change also may require overtime. If a firefighter is at the scene of a fire or other emergency at the time of a change in shift, he or she does not simply drop the hose and go home. Instead, he or she may remain on the scene until a replacement appears and may stay to help at the scene, before returning to the firehouse to wash up. Staying beyond the shift change, including time for wash up and administrative chores, earns firefighters additional overtime. However, such needs could be reduced if tours were set to change during slow periods rather than during the busiest hours. At present the split in shifts occurs at 6 pm, in the middle of the busy late afternoon to early evening period. Some of the $3.1 million in tour change overtime could be eliminated if the change in shift were set at a less busy period.

If half the tour change overtime, all the portal-to-portal overtime, $20.8 million in post coverage overtime, all the roster staffing overtime and the CFR-D training overtime could be eliminated, then the total savings would be $59.6 million annually. If one-third of this savings was shared with the firefighters, then they could receive a $2,255 increase in annual base pay.[59]

v. Reduce the high supervisory ratio.

At a time when good management calls for "flattening" organizational hierarchies, the Fire Department has an unusually high ratio of managers to line workers. The ratio of supervisors to line-duty firefighters is 3.7:1, virtually unchanged since at least 1993.[60] However, the managerial hierarchy is becoming more top-heavy, with greater numbers of the higher-ranking

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[57] City of New York, Office of the Mayor, *Mayor's Management Report, Volume II: Agency and Citywide Indicators,* fiscal year 2000.

[58] The difference between the two absence rates is 9 days or about 72 hours per year. Based on data from the Fire Department, the firefighters' work year is 1,643 hours and the average annual salary is $53,798, for an average hourly rate of $32.74. Thus, 72 hours additional time saves $2,357 per firefighter annually. The total for 8,816 firefighters is $20.8 million.

[59] One-third of the savings from reducing overtime would be split evenly among the 8,816 uniformed firefighters in the Department, for a $2,255 raise per firefighter.

[60] See Citizens Budget Commission, *The Performance of the New York City Fire Department: Recommendations for Improvement* (NY: CBC, January 1993). Figures for 2000 are as of August, and were provided by the Fire Department.

officers. Firefighter ranks increased 4 percent between 1993 and 2000, while the number of captains increased 14 percent, battalion chiefs increased 19 percent and lieutenants declined slightly. Initiatives should be developed to lower the Department's supervisory ratio and reduce the top-heavy hierarchy. For example, the number of companies supervised by battalion chiefs might be increased, reducing the need for large numbers of battalion chiefs.

The greater responsibility for the supervisory staff could be reflected in higher salaries for them. If the number of supervisory officers were reduced by one-third, to bring the line to supervisor ratio to 5.5:1, this would save at least $61 million annually. If one-third of the savings was shared with the remaining supervisory officers, then they could receive an annual pay raise of nearly $13,000.[61]

b. Facilitate managerial initiatives to revise work processes.

In addition to removing currently cumbersome work rules, the new contracts should facilitate new managerial initiatives that permit services to be produced more efficiently. Two general approaches that have the potential to alter significantly the way work is done in City government are the introduction of competition and the application of technology.

First, competitive bidding of certain services has achieved promising results in New York and in other cities. Philadelphia and Phoenix, in particular, have achieved notable successes. In Philadelphia, leaders responded to fiscal pressures by introducing private competition for delivery of some services, and thereby realized documented savings. Since fiscal year 1993, Philadelphia has put 52 different services up for bid; private firms were successful in 48 cases and municipal workers in four cases. The cumulative savings are $277 million. In Phoenix, for many years City workers have competed with private firms for the right to deliver selected services, with resulting productivity increases. Since this effort began in 1979, 17 different services have been opened to competition for savings of $35 million.[62]

Recently New York City also has used competitive bidding to lower service costs. One successful effort is the Department of Parks and Recreation's competitive bidding in 1996 for vehicle repair in the Bronx and Brooklyn. The current workers' union lost the bid to a private firm, but the experience subsequently led the union to agree to new work rules in the other boroughs that significantly lowered costs and kept fewer vehicles out of service.[63] While the current contracts permit such initiatives, the new contracts should not only retain these managerial rights, but also make the process even easier. They also should protect the unions' right to participate in competitive bidding.

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[61] The number of personnel above firefighter level was 2,388 as of August 2000. A one-third reduction would shrink the supervisory ranks by 796. Assuming these supervisors earn $77,665 annually (the average salary for captains and lieutenants), and one-third of the savings is paid as salary increase, then the pay raise for each remaining supervisor would equal $12,948.

[62] Delaney Policy Group, *Developing a Public Workforce for the New Millennium: New Approaches for Labor-Management Relations in State and Local Government,* A Report Prepared for the Citizens Budget Commission, June 2000.

[63] Data supplied by the New York City Department of Parks and Recreation.

Second, the deployment of new technology in service provision can improve productivity. Examples in private sector services are abundant. The public has come to appreciate the advantages of banking at ATM machines, paying bills by phone, obtaining information from websites and shopping on-line. The same technology that permits these conveniences has great potential for the public sector.

One example of the potential in municipal services is the experience of the Department of Probation. In 1996, the Department of Probation successfully introduced an electronic monitoring system for parolees. Probationers under the supervision of the Department were required to check-in via an electronic kiosk. This freed probation officers, who had been burdened by heavy caseloads comprised primarily of low-risk offenders, to fulfill their monitoring duties while also giving more serious attention to higher-risk clients. The new technology allowed workers to perform routine duties more efficiently and devote additional time to improve service to those most in need.

In 1998, the Citizens Budget Commission released a report on how new information technology could improve municipal revenue collection procedures.[64] The changes recommended in the report would save the City $15 million annually in administrative costs and would save private citizens and business far greater sums by reducing the time they must spend completing forms and negotiating transactions with City agencies. The new contracts should facilitate these and similar changes in other agencies by expanding management's work assignment flexibility and, as appropriate, providing for worker training in the use of new technology.

3. Shift the emphasis in pay scales from longevity to performance by adding a merit pay component to wages.

Mayor Giuliani has taken the position that any raises in the current round of negotiations should take the form of merit pay. While the Citizens Budget Commission would, as noted above, also encourage base wage increases for some shortage positions and in exchange for productivity initiatives, the Mayor's general emphasis on merit pay is laudable. Merit pay should be used to reward efforts by workers that lead to higher quality services.

In a previous report, *Using Collective Bargaining to Improve Public Education*, the Commission identified two general types of merit pay that should be made available to teachers. The first type rewards individual efforts such as achieving specific developmental goals or taking on added responsibilities. Examples include bonuses for teachers who are selected as outstanding or who develop innovative educational projects. The recent contract with New York City school principals also follows this model; it rewards individual principals who are judged to be outstanding performers. The second type rewards work groups that achieve service outcomes that exceed predetermined norms. Examples are bonuses for the pedagogical staff of schools whose students score higher than would otherwise be expected on standardized tests in reading or mathematics.

[64] Citizens Budget Commission, *Opportunities to Improve Municipal Revenue Collection by Using Information Technology* (NY: CBC, June 1998).

Generally, in services other than education there are fewer opportunities for individual merit pay, but there are numerous opportunities for bonuses to work groups that perform well. The Fire Department again provides a useful example. Fire companies could be offered annual bonuses for improving service by increasing the number of field inspections they perform. This would provide an incentive for the members of fire companies to spend less idle time in the firehouse and to complete inspections that play an important role in preventing fires. Teams of workers in other municipal agencies could be offered similar incentives. Agencies that process business permits could be rewarded for shortening permit-processing time, and customer service staff could be rewarded for shorter client queues. Such incentives have great promise for increasing municipal agencies' responsiveness to the public and stimulating improvements in public services.

It should also be noted that performance pay need not be financed entirely with additional funding. As noted earlier, the current salary structures have differential payments for longevity. These longevity payments could be eliminated for new workers and reduced for incumbents in order to shift the emphasis in rewards from seniority to job performance. Since the current rewards for longevity are substantial, shifting the funding could provide a significant incentive for better job performance. The Fire Department is again an instructive example. If bonuses were offered to companies that reduced their response times, then the current longevity differentials would be sufficient to fund a $3,000 per firefighter bonus for any company that qualified.[65]

Recommendations Related to Fringe Benefits

4. Modernize the health insurance program for municipal workers and retirees.

The municipal health insurance program should be revamped to incorporate two practices prevalent in the private sector and followed by other public employers—premium cost-sharing and price competition among plans. Each has the potential for substantial savings for workers and taxpayers.

a. Premium cost-sharing.

As health insurance costs have risen rapidly in the past decade or more, most employers have responded by following two strategies. First, they have used cost sharing with their workers as a way to provide incentives for cost containment. When employers pay the full cost of health care, workers have little or no incentive to be aware of costs or to seek ways to control those costs. In contrast, when workers share in the cost, they are more likely to avoid unnecessary services and costs and to support measures that will help control costs. Steps such as second

[65] This estimate is based on a breakdown of years in service for firefighters from State of New York, Governor's Task Force on Public Employee Pension Systems, *A Report to Governor George E. Pataki, Appendix B: Report of the Workforce Trends Subcommittee of the Governor's Task Force on Public Employee Pension Systems* (NY: State of New York, 2000). It assumes 20 percent of the average fire company has less than 5 years of service and applies longevity bonuses from City of New York, Office of Labor Relations, *Firefighters 1995–2000 Agreement*, October 27, 1997. Thus the average 21-person engine company earns approximately $63,000 in longevity pay annually.

opinions for surgical procedures, referrals from primary care physician for specialist consultations, and limits on the choice of referral specialists are more acceptable to, and even sought by, workers when they share the costs of not adopting them. The goal for such cost sharing is not primarily to shift the burden, but to promote cost consciousness and to give workers a stake in containing costs.

Cost-sharing measures that follow this strategy have two features. First, the cost-sharing is generally a part of the premium as opposed to deductibles or co-insurance for needed treatment of acute conditions. The latter type of cost sharing imposes a burden on those who are sick and does so in an unpredictable fashion and at a time when they may be least able to afford it because of illness. In contrast, paying a fraction of the premium, usually through regular payroll deductions, serves the objective of giving workers a stake in cost control while making their share relatively small and predictable.

The accompanying feature of this strategy is that the amount of the cost sharing is large enough to be meaningful to the workers, but still a modest fraction of the total cost. For current workers, cost-sharing in the range of 10 to 20 percent of the premium is suitable to this strategy. As will be explained below, for covered retirees, the co-payment might be structured differently.

This type of cost-sharing has become the norm in the private sector as well as among many public sector employers. The U.S. Department of Labor's most recent national survey of large private employers (more than 100 workers) found that 69 percent of all employees were required to contribute to the cost of individual coverage, and 80 percent were required to contribute to the cost of family coverage.[66] The average annual employee contribution for individual coverage was $500 for non-HMO plans and $411 for HMO plans; for family coverage the average contribution was $1,588 for non-HMO plans and $1,509 for HMO plans. With respect to retirees, the Department of Labor survey found that only 42 percent of large private employers offered health benefits to retirees under age 65, and 90 percent of these employers required some co-payment toward the premium. Only 38 percent of large employers offered some coverage for retirees over age 65, and 95 percent of this group required some co-payment toward the premium. Another national study shows that 91 percent of large employers did not reimburse retirees over age 65 for any portion of their Medicare Part B premium.[67]

The City's practices are out-of-date with respect to other public employers as well. The federal government, through the Federal Employee Health Benefits Program (FEHBP), is the largest purchaser of employee and retiree health insurance in the nation. Its enrollees are offered 14 fee-for-service plans and a number of HMOs, depending on their region—38 HMOs are offered in New York State. The FEHBP pays the lower of 75 percent of the total premium or a fixed amount calculated as 60 percent of the average of the premium for the six largest plans. All

[66] U.S. Department of Labor, Bureau of Labor Statistics, "*Employee Benefits in Medium and Large Private Establishments, 1997,"* <www.stats.bls.gov/datahome.htm> (29 November 2000).
[67] Hewitt and Associates, *Salaried Employee Benefits Provided by Major U.S. Employers in 1991*, (IL: Hewitt and Associates, 1992), p.58.

enrollees therefore minimally pay 25 percent of premium costs, while those choosing high-cost plans are liable for over 40 percent of the premium.[68]

With respect to state governments, The Segal Company's 1996 survey of state employer health benefits shows that most states require employee and retiree contributions toward premium costs.[69] Among the fifty states, 22 pay the full cost of an indemnity plan for an individual employee, although only eight states pay the full cost of coverage for an employee's family. The average annual employee indemnity plan premium contribution was $228 for an individual, and $1,370 for a family. For retirees, only 16 states pay the full cost of Medicare supplemental benefits, and just nine pay the full cost for retirees and their spouses. Retirees contributed $558 annually on average to the cost of individual supplemental coverage and $1,470 toward coverage including their spouse. Only six states pay any portion of retirees' Medicare Part B premium (Connecticut, Hawaii, Massachusetts, New Jersey, New York, and Ohio).

The State of New York also follows more cost-conscious practices than does the City of New York. The State, through its New York State Health Insurance Program (NYSHIP), covers over 321,000 state and local government employees and 148,500 retirees, as well as their dependents. Employees are required to pay 10 percent toward the costs of an individual plan, and 25 percent of the additional costs of family coverage. Employee contributions averaged $237 annually for indemnity individual coverage and $1,003 annually for family coverage.[70] For 1999, state employees choosing the HIP plan contributed $184 for individual coverage and $891 for family coverage. Retirees enrolled in HIP's plan contributed $210 toward the cost of individual coverage and $1,011 for family coverage.[71]

In brief, the City should follow the premium cost-sharing strategy now widespread among public and private employers. For example, the City could require co-payments of 10 percent toward individual coverage and 20 percent for family coverage for employees, drop reimbursement of Medicare Part B premiums for retirees and require a 50 percent contribution from retirees toward premiums for non-Medicare benefits. The direct savings to the City from these measures would be about $251 million annually due to co-payments from employees, and $282 million[72] annually due to greater contributions from retirees, for a total of $533 million.[73] In addition, there are likely to be substantial future indirect savings as workers and retirees become more cost conscious and work with the City to seek benefits changes that might control growing costs.

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[68] Data provided by The Federal Employees Health Benefits Program.

[69] The Segal Company, *1996 Survey of State Employee Health Benefit Plans* (NY: The Segal Company, 1997).

[70] The Segal Company, *1998 Survey of State Employee Health Benefit Plan*s (NY: The Segal Company, Conference Presentation Reno, Nevada, April 21, 1998).

[71] State of New York, New York State Health Insurance Program website, <www.cs.state.ny.us/ebd/> (1 December 1999).

[72] Savings are based on fiscal year 2000 expenditures as reported in City of New York, *Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 2000,* p. 46. The reported figure for retirees is divided between Medicare and non-Medicare retirees based on the distribution in 1995 as reported in *Modernizing the Municipal Employee Health Insurance Program, op. cit.* Based on these data, retiree premium contribution savings total $229 million and eliminating City Medicare Part B premium reimbursements saves $53 million.

[73] This total includes savings that would be realized by the New York City Health and Hospitals Corporation and the New York City Housing Authority, whose employees and retirees participate in the City health insurance program.

b. Price competition among insurance plans.

Increasingly, large private, and a few public, employers are using their significant purchasing power to generate competition for their health insurance business. Large employers need not accept high premiums and substantial annual increases as inevitable. By offering their business to multiple plans, and asking them to compete based in part on price, they can influence the rate of expenditure growth. New York City has not yet adopted this strategy.

The leading example of this strategy is the California Public Employees Retirement System (CalPERS), a purchasing alliance for 1,024,000 state and local government employees and their dependents in that state.[74] (Like most employers, California requires employee and retiree contributions toward premium costs; the employee premium contributions average 26 percent for individual coverage and 31 percent for family coverage.) CalPERS has actively sought lower premiums for its members. It first gained attention in 1992, by notifying its HMO plans that it would not accept rate increases.[75] Although CalPERS did not avoid a rate increase that year, it was able to hold rate increases among its HMO plans to 6.2 percent while rates increased nationally 16 percent. In 1993, CalPERS reduced its premiums 0.4 percent while other plans were raising rates 10 percent on average nationally. For the 1995-1996 contract year CalPERS negotiated a 5.2 percent average reduction in HMO premiums. For 2000, rate increases for CalPERS' 10 HMOs ranged from 3.9 percent to 11.7 percent, and averaged 9.7 percent. CalPERS also has aggressively negotiated multi-year agreements with several of the plans to reduce the risk of significant increases in the future.[76] CalPERS also considered contracting directly with physician groups and hospitals to improve quality and control costs by "cutting out the middleman" (HMOs).

In contrast, the City's plans do not compete for business based primarily on price, and generally are not subject to pressures from the City to keep prices down. (The temporary freeze of 1996-98 was an exception, but did not yield long-term savings or reforms). The largest plans all charge the same rate, which is the rate charged by the HIP. This HIP rate is the same as it charges for other large employers, and is regulated by the State Insurance Department. In effect, the State Insurance Department determines how much the City will pay for its workers' insurance.

[74] Peter Kilborn, "California Agency Ponders Bypassing Health Groups," *The New York Times*, March 22, 1998, p. 20.
[75] Cathy Soen and Laurence Zacharias, "Public Employees Health Benefits Programs," *Critical Issues in U.S. Health Care Reform*, Eli Ginzberg, ed. (CO: Westview Press, 1994), pp. 212-220.
[76] State of California, California Public Employees Retirement System, *"CalPERS Announces Year 2000 Health Rates: Extracts Future Rate Stability, More Patient Rights,"* press release, May 18, 1999, <http://www.calpers.ca.gov> (30 November 2000).

However, the large potential savings from price competition warrant changing the State's rate-regulation practices. A preferable alternative would be to permit the multiple plans seeking to insure municipal workers and their families to compete by offering lower prices. Moreover, if the premium cost-sharing strategy described above were followed, the workers themselves would have much to gain by following this companion strategy. Plans could be required to match the premium price offered by the lowest bidder, benefiting both workers and the City. The large volume of business likely would generate much competition, and the attraction could be made even greater if the City entered into purchasing alliances with other large employers such as the NYSHIP. Together the State and City represent a large and attractive client for insurance plans, and their combined business could generate powerful competitive pressures. If, for example, the City were to hold current rates level through fiscal year 2004, it could save $314 million under the relatively conservative assumption that rates will increase 4.0 percent annually.[77] Actual savings could be significantly greater if rate increases follow long-term historical patterns and the City successfully wields its purchasing power to secure a *reduction* in costs.

5. Streamline the administration of welfare fund benefits.

As noted earlier, the City pays $662 million annually to union welfare funds to provide their members benefits that supplement the basic health insurance program. The current arrangements suffer from two deficiencies—high administrative costs for some plans, and lack of adequate oversight leading to inappropriate use of funds. Two types of actions should be pursued to counter these problems—achieve economies of scale for smaller funds, and greater oversight of the funds.

a. Achieve economies of scale for smaller funds.

High administrative costs characterize the smaller funds and result from these funds' inability to take advantage of economies of scale. The City makes payments to 112 different union funds. Like the units they serve, these welfare funds vary widely in size. As shown in Table 16, the City's payments to the funds ranged from $154 million to the UFT and $160 million to DC 37 to less than $100,000 to six smaller unions.[78] While the two largest funds had administrative costs that were 6.8 percent and 7.4 percent of total costs, the figure for the smaller funds was an inefficiently high range of between 9 and 14 percent. Using so large a share of the funds for administrative costs is a waste of the taxpayers' contribution and denies the union members benefits that they might otherwise receive.

[77] Based on the 4 percent annual increase assumption used in City of New York, Office of Management and Budget, *Financial Plan Fiscal Years 2000-2004*, June 8, 2000.

[78] The data in Table 16 cover 77 of the 112 funds. The Comptroller did not gather data for 17 funds, and 18 funds are annuity funds rather than welfare funds.

Table 16
Administrative Expenses of Union Welfare Funds by Size of Fund, 1998

City Contribution	Number of Funds	Benefits Expense [a]	Administrative Expense [a]	Administration as a Percent of Total Expenses [a]
Less than $100,000	6	$236,423	$30,828	11.5%
$100,000 to $300,000	12	$1,861,540	$305,522	14.1%
$300,000 to $1million	18	$7,945,760	$1,026,965	11.5%
$1 million to $3 million	16	$25,653,975	$3,311,067	11.4%
$3 million to $10 million	16	$94,003,107	$9,298,012	9.0%
$10 million to $20 million	5	$50,690,325	$5,161,519	9.2%
Over $20 million	4	$358,064,422	$29,234,266	7.6%
DC 37 Welfare Fund		$160,607,678	$12,762,104	7.4%
Local 2 UFT Welfare Fund		$154,328,968	$11,330,582	6.8%
Total for Under $20 million		**$180,391,130**	**$19,133,913**	**9.6%**

Source: City of New York, Office of the Comptroller, Bureau of Financial Audit, *Analysis of the Financial and Operating Practices of Union-Administered Benefit Funds Whose Fiscal Years Ended in Calendar Year 1998,* June, 30, 2000.

Note: [a] Financial data relate only to 64 self-insured funds; 13 insured funds are excluded.

To reduce administrative costs for the smaller funds, the City should either (a) contract on behalf of multiple funds with a private benefit program administrator, or (b) require the MLC or one of the larger unions to administer the smaller funds. The City could arrange for a private firm to manage the benefit plans, and this could be done with economies of scale not available to the individual smaller welfare funds. The contract should be let on a competitive basis with union representatives able to participate in selection. Alternatively, one of the larger unions, such as the UFT, or the MLC could serve as the administrator for multiple smaller funds. Reducing the administrative cost for the smaller plans from the current average of 9.3 percent to a target figure of 7.6 percent would yield annual savings of about $3.7 million annually.[79]

b. More effective oversight of welfare funds.

The current mechanisms for holding unions accountable for the effective use of their welfare funds are weak; the result is wasted money. The agreement between the City and the unions provides for only minimal public accountability for how funds are spent. The City may (and does) require annual financial statements, but the auditing of these statements is performed by fund-selected firms which do not always provide detailed statements. The City Comptroller also may audit the funds, and he can make recommendations for corrective actions.

The Comptroller performs these audits infrequently, yet the audits show serious deficiencies in union practices. Since 1990 there have been 34 audits, or about three per year. The majority of the funds have not been audited in more than 15 years, and even the largest funds are audited only about once every ten years.

[79] These savings are based on reducing average administrative costs from 9.29 percent of total costs for both insured and self-insured funds with City funding of less than $20 million annually.

Recent audits of major funds have found serious accounting errors and questionable operating practices. A 1997 audit of DC 37's education fund found $1.8 million of administrative expenses, including costs for conferences, meals and salaries of the fund's administrator and associate administrator, classified as educational (benefit) expenses. The fund also approved reimbursements to members who did not provide complete documentation for courses claimed to have been taken.[80] A 1996 audit of Teamsters Local 832 found serious problems with the fund's dental benefits, contributing to the fund's insolvency. The fund did not require a third party-administrator to submit utilization reports providing the name of the member receiving services, his or her social security number, date of the service, and name of the payee/dentist. Instead, the fund only received monthly billing statements showing the amount reportedly paid by the administrator. Further, the fund contracted with the dental claims administrators without having solicited bids from other administrators. In addition, the fund maintained a catastrophic major medical benefit, with a $44,672 annual premium, although members may have had duplicative coverage through another plan.[81] A 1998 Comptroller's report found that 17 welfare funds had operating deficits totaling $7.2 million. The Comptroller also noted that audited funds commonly fail to provide data considered essential for sound financial accountability such as vouchers, receipts, and bills for expenditures.[82]

The next round of contracts should contain stronger accountability measures for those welfare funds that remain independently administered. They should be audited annually by independent firms in accord with generally accepted accounting principles and should be subject to sanctions for improper financial management. Funds consistently violating standards of sound financial management should be administered in a manner similar to that recommended above for the smaller funds.

6. Restructure the pension system for newly employed workers to provide a defined contribution rather than a defined benefit.

Pension systems fall into two categories—defined benefit plans and defined contribution plans. New York City's systems are defined benefit plans.[83] They guarantee workers an income during retirement based on factors including retirement age, years of service, and final year or years' average salary. Defined contribution plans give workers a fixed employer contribution during each year of employment, with retirement income drawing on the accrued value of these contributions. For defined contribution plans, the employer's payment is a fixed annual amount

[80] City of New York, Office of the Comptroller, Bureau of Audit, *Audit Report on the Financial and Operating Practices of District Council 37 Education Fund*, July 1, 1996-June 30, 1997, Report #FL99-161A, June 30, 1999.
[81] City of New York, Office of the Comptroller, Bureau of Financial Audit, *Audit Report on the Financial and Operating Practices of Local 832 International Brotherhood of Teamsters, Security Benefits Fund*, January 1, 1996 to December 31, 1996, Report #FR98-100A, June 24, 1998.
[82] City of New York, Office of the Comptroller, Bureau of Financial Audit, *Analysis of the Financial and Operating Practices of Union-Administered Benefit Funds Whose Fiscal Years Ended in Calendar Year 1998*, Report #FM002-070A, June 30, 2000.
[83] The City also offers a voluntary deferred compensation plan as permitted under Section 457b of the federal tax code. This option permits workers to defer taxes on a portion of their income that they designate to be placed in a special retirement account. The annual maximum amount an employee may contribute and the investment options for these accounts are limited by the federal tax code.

or percentage of salary per worker; for defined benefit plans, the employer's annual payment varies due to changes in the returns on investments and changed actuarial assumptions about workers future average earnings, life span after retirement and other factors.

The current defined benefit pension system puts the City of New York at a financial disadvantage in both good and bad economic times. In hard times, when investment performance is weak, the City must make a larger pension fund contribution. But at such times, the City is less likely to have the financial flexibility to make up for the pension fund shortfall. During good economic times, including recent years, the City's required pension contributions fall, but unions take advantage of the situation to pursue State legislative actions that make significant, permanent pension benefit enhancements. As noted earlier, the pension enhancements added this year alone outside of collective bargaining will cost the City $798 million in recurring annual expenses, roughly equivalent to a 5 percent pay raise for all municipal workers.

The current defined benefit pension system also opens the door for abuses. For example, most systems count overtime in the final year or years as part of an employee's base pay for purposes of calculating pension benefits. As noted earlier, a resulting frequent practice is to favor workers near retirement in the assignment of overtime, thereby inflating the future pension benefit.

The City's defined benefit pensions also place the City at a disadvantage in today's job market. The defined benefit plans tend to reward workers who spend an entire career with one employer through back-loaded benefit incentives. Workers who change jobs either receive less generous benefits or lose benefits entirely due to waiting periods before benefits are vested. Today, in contrast to the pattern of earlier times when the municipal pension systems were created, workers expect to change jobs several times during a career. As a result, portability of benefits and a short vesting period have become more important in attracting qualified candidates. Even with recent legislation shortening the City's pension vesting periods to five years, the City's plans still lack the portability sought by today's younger workforce.

To promote the dual goals of becoming a more attractive employer to younger workers and of protecting itself from fiscal risks and abuses, the City should use the current round of collective bargaining to achieve structural changes in its pension systems. Because of provisions in the State Constitution that prohibit changes in the benefits for current pension system members, the measures sought should differ between current workers and newly hired workers.

a. For current employees, prohibit benefit enhancements outside of collective bargaining.

Just as salary, leave time and other important work rules are negotiated between the City and unions, pension benefits should be negotiated and set only in the context of negotiations over overall compensation and benefits. Unions should not be free to pursue independent legislative actions that enhance pension benefits. In the next contracts, the unions should commit to ending all legislative initiatives for pension enhancements not agreed to as part of the contract and supported by the City. The agreements should include enforceable penalties, financial and otherwise, for union violations of this compact.

b. For newly hired workers, establish a new defined contribution plan.

The defined contribution model makes sense for the City and its workers. The City would incur a relatively fixed and predictable expense each year. Fluctuating annual liabilities, which are typically counter-cyclical and thus fiscally stressing, would be avoided in the future. The current prosperous times should be used to help ease the financing of a transition to a defined contribution system and to lay the groundwork for a sounder fiscal base should the future include more troublesome economic times.

Moreover, switching to a defined contribution plan would sharply diminish opportunities for altering pension benefits outside collective bargaining. Negotiations between the City and its unions would focus on how much the City should pay annually toward workers' pension benefits. Both parties could confront directly the tradeoffs between pension contributions and other compensation; no longer would the unions be able to go outside of the bargaining process to gain expensive benefits that it either lost or never discussed at the bargaining table.

A defined contribution plan also would help the City to recruit qualified, younger workers, because this type of system better matches the expectations of today's workforce. Employees who change jobs before completing five or more years of service would not forego the employer contribution to their retirement fund. In addition, employees would control how their retirement funds are invested and could personalize their investments according to their own risk tolerance and investment horizon.

These are the reasons why most private employers establish defined contribution plans. Other public and private sector organizations have made the switch from defined benefit to defined contribution systems. In a 1993 survey, fully 88 percent of private employers offered only defined contribution plans, an increase from 68 percent in 1984. In contrast only 9 percent of private employers offered only defined benefit plans, down from 24 percent.[84]

A few public sector employers are ahead of New York in moving in this direction. All 50 states now offer some defined contribution component, although usually as a supplement to the defined benefit system, and two states have moved entirely to defined contribution plans. The State of Michigan switched to a defined contribution model for all employees hired after March 31, 1997. Its plan features a 4 percent employer contribution and an additional employer match of employee voluntary contributions up to three percent. At the time of the switch, existing employees were given the choice of remaining in the defined benefit plan or changing to the defined contribution plan. Among the advantages cited by Michigan in the switch were portability of retirement accounts, thus allowing the state to attract more highly qualified, mobile workers. Moreover, the plan frees Michigan taxpayers of the investment risk inherent in defined benefit plans.[85]

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[84]United States General Accounting Office, *Private Pensions: Most Employers That Offer Pensions Use Defined Contribution Plans*, October 1996.

[85] State of Michigan, Office of the Treasurer, "The State of Michigan—Defined Contribution Program," press release, January 5, 1998.

The State of Nebraska has had a defined contribution plan for most of its employees since 1964. Employees must contribute 4.33 percent of salary up to $20,000 annually and 4.8 percent above that. The State matches these contributions at a rate of 156 percent, effectively making the State contribution about 7.5 percent of salary. Employees also may voluntarily participate in a separate tax-deferred compensation plan.[86]

Changing from a defined benefit to a defined contribution plan for new employees would not shortchange the municipal workforce. If the City's pension contribution were set at 8 percent of a worker's salary, then an individual hired at an annual starting salary of $32,000 who works for 25 years in a career path that includes typical annual increments, would have $320,000 in his or her pension fund at the time of retirement, assuming annual investment earnings averaged 8 percent.[87] If the City's plan included a 3 percent worker contribution with a 3 percent City match, then the same worker would build $560,000 in accrued pension assets. If a worker successfully pursued a more aggressive investment strategy, then that worker would retire with even greater assets. Many workers would prefer to have control over such substantial assets (including the ability to pass them on to a spouse or child at death) rather than receive a predetermined monthly amount from a collective pension fund.

The most commonly voiced concern about defined contribution plans is that workers might be tempted to use their assets in short-sighted or inappropriate ways, leaving them without a decent income when they retire. However, like any individuals with tax deferred pension plans, municipal workers would be subject to limitations in federal laws about what can be done with the funds. Their investment choices could be wide ranging to suit different risk preferences, but they would not include highly speculative options. And the substantial federal tax penalties would discourage use of the funds before workers reach retirement age. Many municipal workers already have experience in making investment choices through the City's existing voluntary deferred compensation plans.

In addition, City employees already have a significant defined benefit retirement annuity in the form of Social Security. The original Social Security system enacted in 1935 was envisioned as a safety net only for privately employed and self-employed workers. Local and state government workers were covered under public pensions, and initially were excluded from Social Security taxes and benefits. This changed beginning in the early 1950s, when states were made eligible to opt in to Social Security. Since 1957 nearly all City employees have been obliged to pay Social Security taxes and are entitled to Social Security retirement benefits. In fiscal year 2000 the City paid more than $1.1 billion as the employer's share of Social Security trust fund contributions in addition to its payments to the five separate municipal pension funds.[88] These federal benefits supplement the municipal pension fund benefits and would

[86] State of Nebraska, Public Employees Retirement Systems, "State Employees Retirement System," July 2000 Edition, <http://www.nol.org/home/pers> (15 November 2000).

[87] This calculation assumes a rate of salary progression for firefighters based on the 1995-2000 contract salary structure, adjusted upward at a 2 percent rate of inflation. Also assumes 8 percent of payroll contributed to pension fund, and 8 percent annual rate of return on investments.

[88] City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 2000* (NY: City of New York, 2000). This sum includes payments to the disability and health insurance trust funds as well as the retirement trust funds.

provide a basic safety net upon which workers could build with their defined contribution pension accounts.

FISCAL IMPLICATIONS

If the Mayor were successful in negotiating contracts that implemented the recommendations of the Citizens Budget Commission, what would be the fiscal implications? Although precise calculations are impossible until the details of a negotiated settlement are determined, it is feasible to make reasonable estimates of the amounts associated with both the recommendations that would yield savings and those that would require added expenditures. Combining these estimates provides an approximate figure for the net savings to be achieved from following the Commission's recommendations. As summarized in the Table 17, the net savings in fiscal year 2004 would be nearly $1.4 billion.

Table 17
Estimated Fiscal Effect of CBC Collective Bargaining Recommendations
City of New York, Fiscal Years 2001 to 2004

	Fiscal Year			
	2001 [a]	**2002**	**2003**	**2004**
Gross Savings	**$857**	**$2,109**	**$2,851**	**$3,526**
Productivity Initiatives	$319	$974	$1,627	$2,241
Civilian	208	644	1,084	1,489
Uniformed Services	111	329	543	752
Modernized Health Insurance [b]	303	663	720	781
Premium Sharing	267	533	533	533
Purchasing Power	37	129	187	247
Financial Plan Labor Reserve	235	473	504	504
Added Expenditures	**($584)**	**($1,165)**	**($1,653)**	**($2,134)**
Base Pay Changes	(358)	(597)	(861)	(1,131)
Glut Occupations	(40)	(81)	(126)	(171)
Wage Shortage Occupations	(146)	(169)	(193)	(219)
Other Occupations	(171)	(347)	(542)	(741)
Gainsharing for Productivity (one-third to workers)	(106)	(325)	(542)	(747)
Merit Pay (10 percent to top 25 percent)	(119)	(244)	(250)	(256)
Net Savings	**$273**	**$944**	**$1,199**	**$1,392**

Sources: See text.

Notes: [a] Fiscal year 2001 savings and expenditures based on implementation of recommendation in second half of the fiscal year.

[b] Savings are for all participants in the municipal employee insurance program. All other savings and expense estimates are for non-pedagogical employees only.

It is important to note that the estimates associated with the changes in wage policy in Table 17 relate to most of the municipal workforce, but exclude the fiscal impacts associated with such changes for the pedagogical employees represented by the United Federation of Teachers. The Commission's previous report, *Using Collective Bargaining to Improve Public Education,* contained recommendations for wage policy for most of these workers. That report considered the fiscal implications of those recommendations. It found that the costs for higher salaries and other incentives to overcome shortages (about $182 million annually) could be more than offset by the savings from recommendations to increase teacher time in the classroom and from the replacement of retiring teachers with large seniority differentials by newer teachers at lower salary levels (nearly $500 million annually). The Commission recommended using the resulting substantial savings to improve public education through a combination of smaller class sizes and modernized school buildings. Thus, the savings related to the recommendations in that report are not included in this analysis.

Two of the recommendations presented in this report would generate savings. The largest fiscal impact comes from the initiatives to improve productivity. Based on the earlier discussion of potential savings in the Fire Department, it is reasonable to assume that the uniformed services could achieve, over a four year period, productivity savings of about 4 percent annually for a cumulative savings of about 16 percent by fiscal year 2004. Based on current expenditures for the uniformed services, this would be annual savings of $752 million in fiscal year 2004.[89] For civilian workers, the productivity savings in the next four years likely would be proportionately less, because the current overtime practices and other work rules appear to be less problematic. If the productivity gains for this group of workers were to equal the productivity gains achieved in the private sector in recent years, an average of about 2 percent annually, then the annual savings in fiscal year 2004 would be $1,489 million.[90] Together the uniformed and civilian productivity savings in fiscal year 2004 would be over $2.2 billion.

The second recommendation to generate savings is the redesign of the employee health insurance program. As indicated earlier, the combination of employee cost-sharing and use of the City's purchasing power to lower premiums is estimated to yield savings that reach $781 million annually in fiscal year 2004.[91] Thus, the combined savings from the two recommendations in fiscal year 2004 would be $3.0 billion.

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[89] Uniformed services savings are calculated from a base expenditure for personal services and other than personal services by the four departments as reported in the City of New York, *Financial Plan, Fiscal Years 2000-2004,* Adopted Plan, June 8, 2000.

[90] Civilian savings are based on total personal service spending less the uniformed services and less compensation for pedagogical employees at the Board of Education. Other than personals service (OTPS) spending related to civilian employee activities is calculated as total OTPS spending minus such spending by the uniformed departments, the Board of Education, and citywide spending for debt service, public assistance and medical assistance. Data from the City of New York, *Financial Plan, Fiscal Years 2000-2004,* Adopted Plan, June 8, 2000.

[91] In the text of the earlier section on health insurance, the saving for cost sharing was estimated at $533 million in fiscal year 2000 and the projected savings from use of purchasing power at $314 million in fiscal year 2004. However, if both recommendations are implemented, then the projected savings from use of purchasing power are lowered because of the effect of cost sharing on the base year expenditures. The resulting net savings to the City in fiscal year 2004 is $781 million rather than $848 million.

This substantial sum does not include resources identified by the Mayor in the City's Financial Plan for merit pay raises. The Plan includes an item that grows from $325 million in fiscal year 2001 to $800 million in fiscal years 2003 and 2004 (when the Mayor assumes a wage freeze). If this sum is adjusted to exclude the portion that would be allocated to teachers, then $504 million additional is available for compensation increases for non-pedagogical workers in the City's Financial Plan. This brings the total resources available for such additional compensation to $3.5 billion in fiscal year 2004.

The Citizens Budget Commission's other recommendations, which require additional spending for higher employee compensation, would consume about two-thirds of these resources. The most expensive recommendation relates to increases in the base pay of municipal workers (again, excluding the teachers). Giving substantial raises to those occupational groups that are in shortage due to noncompetitive salaries was previously estimated to require a one-time adjustment averaging 19 percent or $146 million in the first year. Subsequent annual adjustments to offset the effects of projected inflation would bring the added cost in fiscal year 2004 for these shortage workers to $219 million. The other municipal workers would be divided between those who should receive base pay adjustments that keep pace with inflation and those who are in a glut situation and who, therefore, should receive base pay increases that would be one-half the rate of inflation. The costs of these base pay increases in fiscal year 2004 would be $912 million, bringing the total cost of base pay adjustments in that year to $1,131 million.[92]

In addition to these base pay increases, the Citizens Budget Commission recommends that municipal workers receive added compensation in the form of merit pay and gainsharing for productivity initiatives. If the total productivity savings described above were shared on a "one-third to workers and two-thirds to the City" basis, then the additional pay for workers would reach $747 annually in fiscal year 2004. If a merit pay system provided rewards averaging 10 percent of base pay for the top 25 percent of all workers in a given group, then the annual cost in fiscal year 2004 would be about $256 million.[93] Thus, these two recommendations would together cost over $1.0 billion in fiscal year 2004.

[92] The $146 million figure for one-time raises is drawn from Tables 10 and 11 and the accompanying text. This base year figure is increased using inflation rates of 2.4, 2.6 and 2.6 based on the City's Financial Plan assumptions. The employees in a glut category are the uniformed employees shown in Table 7 and Board of Education non-pedagogical workers; their share of total wage and salary expenditures is calculated based on their share of total municipal employment. This wage base was inflated at rates of 1.2, 1.3 and 1.3 percent. All other non-pedagogical employees were assumed to receive increases at the projected rate of inflation, and their share of total wage and salary expenditures is estimated based on their share of total municipal employment. All salary and wage spending is increased by 22 percent to reflect pension and fringe benefit costs that rise with salaries, as indicated in footnote 49 and the related text.

[93] Merit pay cost is based on 10 percent of non-pedagogical wage and salary expenditures under the assumption that the Citizens Budget Commission base pay recommendations are implemented at the cost described above.

The Citizens Budget Commission recommendation for changing the structure of the municipal employee pension systems can reasonably be assumed to be budget neutral. That is, the intention is not to save City funds, but to protect against unexpected, and unjustified, increases in pension fund contributions. The transition from a defined benefit to a defined contribution plan should be accomplished in a way that neither reduces the payment to workers nor puts an added burden on taxpayers. A reasonable basis for the defined contribution would be the percentage of payroll projected to be required to support the current defined benefit plan. Similarly, the recommendation to streamline welfare fund administration is not intended to produce City savings; it would yield greater benefits for workers from the current level of contributions.

In sum, the Citizens Budget Commission's recommendations would promote the goals that citizens should seek from the current round of collective bargaining: The cost of services would be reduced with net savings of almost $1.4 billion available for fiscally prudent purposes. The quality of services would be enhanced due to the ability to recruit needed workers with suitable competencies and due to financial incentives for better performance by work groups within agencies. And public servants would be better paid through a combination of base pay increases and incentives in the form of gainsharing payments and merit pay.