SENATE FISCAL AGENCY
MEMORANDUM

DATE: September 4, 2002

TO: Members of the Senate

FROM: Ellen Jeffries, Deputy Director

RE: Fiscal Impact of November 5, 2002 Ballot Proposals

There have been seven ballot proposals under discussion during 2002. Two of the proposals were on the August 6, 2002, primary ballot: Proposal 02-1, which amended the Constitutional provision governing the operation of the State Officers Compensation Commission; and Proposal 02-2, which allowed investment changes for various Natural Resources funds. Both of these proposals were adopted by voters on August 6.

The remaining five proposals were discussed for the November 5, 2002, general election ballot. The Great Lakes Water Quality Bond ballot proposal was the only proposal of these five to be initiated by the Legislature, and because of this, automatically is placed on the ballot. The straight-party-voting proposal was certified by the Michigan Board of State Canvassers on May 14, 2002; the collective bargaining proposal was certified on August 26, 2002; and on September 3, 2002, the drug reform and tobacco-settlement-revenue ballot proposals were rejected by the Board. The Board of State Canvassers did decide to approve ballot language that will be used for the drug reform and tobacco ballot proposals in case the Board is judicially ordered to add them to the November general election ballot.

The Senate Fiscal Agency's estimate of the fiscal impact for the three certified general election ballot proposals is outlined below; brochures providing detailed information on each of the ballot proposals will be published by September 17.

Straight Party Voting (Proposal 02-1)

A petition was filed in early May 2002 to halt the implementation of Public Act 269 of 2001. The general election ballot in November 2002 will ask voters if this law should be enacted. The primary change in this Act was the prohibition of an option for electors to vote a straight party ticket by casting a single vote. Other election changes in the Act include a training report by local election officials, a requirement for voters not appearing on the registration list to show picture identification, a requirement for an expedited canvass if the vote differential for U.S. president is under 25,000, a requirement that ballot tabulating equipment inform voters of ballot errors when possible and allow voters in polls to correct errors, and misdemeanor penalties for stealing campaign signs and public election personnel accepting payment for campaign work.

The combined fiscal impact of the provisions of Public Act 269 of 2001 could increase the administrative cost of elections for municipal and county clerks. The changes would lengthen the time voters spend at a polling place on election day. Some jurisdictions might choose to hire additional election inspectors in order to alleviate increased congestion within polling places. The salary of election inspectors is determined by municipal clerks and varies across the State. Much of the training of election inspectors is done by county clerks' offices.

Additional costs could be incurred at the county level depending upon the increased number of election inspectors, the exact training requirements, the voting systems used, and other factors that vary by county.

Pursuant to Public Act 530 of 2002, a supplemental appropriation of $80,000 was enacted in FY 2001-02 for the Department of State Bureau of Elections to provide two election worker training videos to every precinct. If the ballot proposal is rejected, this funding may lapse or may be available for general expenditure by the Bureau of Elections.

Great Lakes Water Quality Bond (Proposal 02-2)

This ballot proposal would require the State to borrow up to $1 billion and issue general obligation bonds, pledging the full faith and credit of the State to the payment of the interest and principal on the bonds, to finance sewage treatment works projects, storm water projects, and nonpoint source projects that would improve the water quality of the State. Repayment of the bonds would be from the General Fund of the State.

This bond proposal would have no impact on State spending in FY 2002-03. Implementing legislation (H.B. 5892) would require that the first bond issue be structured so that debt payments would not begin before October 1, 2003. The debt service on the bonds, after October 1, 2003, would be approximately $8 million in the first year, assuming 20-year bonds issued over a 10-year period at a constant interest rate of 5%. The debt service would increase by $8 million per year until the 10th year, when the entire authorized bond issue had been distributed, and the debt service amount would be $80.2 million. The debt service would remain $80.2 million for 11 years, after which it would decrease gradually until all of the bonds were paid off. All of the bonds would be paid off in 30 years. The interest costs would be $605 million, bringing the total cost of the bonds to $1.605 billion GF/GP. Assuming that there are approximately 4.8 million taxpayers in the State, then the total cost per taxpayer of the proposed bond over the 30 years would be $334, or an average of $11 per year.

Collective Bargaining (Proposal 02-3)

This ballot proposal would amend Article XI, Section 5 of the Michigan Constitution of 1963, which established the Civil Service Commission. It would create a constitutional right for State classified employees to bargain collectively for compensation, the agreement reached would be binding without the approval of the Civil Service Commission, and the negotiations could be referred to binding arbitration if an agreement could not be reached.

The proposal would not have an impact on the State budget until FY 2004-05 when the current agreements begin to expire. The current collective bargaining agreements are three-year contracts effective through FY 2003-04 or FY 2004-05. Depending on the outcome of the negotiations, this proposal could cost the State no additional funds or tens of millions of dollars. The amendment is modeled on the Constitutional section for State Police Troopers and Sergeants, which provides for binding arbitration. Over the past 22 years, the compensation rate increases for the State Police Troopers and Sergeants have averaged 1% to 2% greater than the increases for all other State employees. The Office of the State Employer estimates that the State incurs an additional $30 million in compensation costs for a 1% pay increase to State classified employees. Assuming that adoption of the proposal results in a 1% to 2% increase in compensation rates for State classified employees, the proposal would result in approximately $30 million to $60 million in additional expenditures each fiscal year.

If an agreement were referred to binding arbitration, expenses totaling a few hundred thousand dollars could be incurred by each party for the arbitration proceedings. Costs include legal representation throughout the two to three year arbitration process, 10 to 20 arbitration hearings, and meeting facilities. Additionally, an agreement reached through binding arbitration often results in retroactive pay for the employees. The final decision of an arbitrator could be delayed for a few years, at which time retroactive pay would be issued to the eligible employees. To avoid a sudden large expense for retroactive salaries following the resolution of the arbitration, the State would need to put aside sufficient funding annually in anticipation of the arbitrator's decision. Economic adjustments for compensation increases are generally provided for in the annual budget. These amounts would not lapse to the General Fund at the end of the fiscal year, but would need to remain available until the final arbitration decision was made. A saving for the State could result from the interest earned on this money while the agreement was in binding arbitration. Supplemental appropriations also would be necessary if the final agreements required compensation increases above the amounts previously reserved for that purpose and also for expenses related to the arbitration proceedings.

Conclusion

As mentioned previously, the SFA will publish detailed brochures for each ballot proposal by September 17. In the meantime, if you have any questions about the fiscal impact of the proposals, please call me or the specific fiscal analyst assigned to the proposal: Proposals 02-1 and 02-3, Jessica Runnels; and Proposal 02-2, Pam Graham.

/kjh

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