# State Notes

TOPICS OF LEGISLATIVE INTEREST

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## A Brief History of State Employee Wage Increases and Concessions: FY 1997-98 through FY 2006-07

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As a result of the current Michigan budget deficit, the State is continuing to explore a number of cost-saving measures. Cutbacks in the amount that is used to fund Michigan's State employee payroll are often included in efforts to reduce General Fund expenditures. The following provides an overview of wage adjustments for State classified employees beginning in fiscal year (FY) 1997-98, along with a discussion of the possible savings from employee concessions through banked leave time and furlough days based on the past impacts of such measures.

### Background

The Michigan Civil Service Commission (CSC) is authorized by the Michigan Constitution in Article XI, Section 5, to regulate all conditions of employment in the State Classified Civil Service. Appointed by the Governor, the CSC is made up of four bipartisan members who in turn select a State Personnel Director to implement their decisions via the Department of Civil Service. The Employee-Employer Relations Rule (Rule 6-2) established by the CSC in 1983 provides for a system of collective bargaining to determine conditions of employment, including compensation for State classified employees.

At present, over 70.0% of the total State classified work force is represented by unions eligible to bargain collectively on behalf of State employees. Employees ineligible for collective bargaining unit representation include those in supervisory, managerial, and confidential positions as well as employees in business/administration services. The terms and conditions of employment of these nonexclusively represented employees (NEREs) are established through a process administered by the CSC Employee Relations Board. Serving as a Coordinated Compensation Panel, the Employee Relations Board recommends a Coordinated Compensation Plan for NEREs to the CSC. Both collective bargaining agreements and Coordinated Compensation Plans are subject to review, revision, and final approval by the CSC.

The contract negotiation and administration function of the Office of the State Employer (OSE) also collaborates with the CSC and the individual Executive branch departments and agencies to oversee all collective bargaining negotiations. The OSE formulates, executes, and administers labor relations policies for State classified employees.

The State Personnel Director, also authorized under Rule 6-2, establishes bargaining units of eligible employees into broad occupational groups with a community of interest. The 10 units include: Safety and Regulatory, Labor and Trades, Security, Human Services Support, Scientific and Engineering, Technical, Enlisted State Police, Institutional, Human Services, and Administrative Support. These units are exclusively represented by a number of unions, including: the Michigan State Employees Association (MSEA), the Michigan Corrections Organization (MCO), the State Employees International Union (SEIU) Local 517M, the Michigan State Police Troopers Association (MSPTA), the American Federation of State, County, and Municipal Employees (AFSCME) and the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW).

Contracts for State employees are usually negotiated every third year, although any increase in wages must be approved annually by the Legislature. The Michigan Constitution also specifies that increases in compensation may become effective only at the start of the State fiscal year, which begins on October 1. Once a collective agreement on a contract has been made, the Constitution requires that the CSC submit any authorized increases in the rates of compensation to the Governor, who then passes on the increases to the Legislature as part of the annual Executive budget recommendation. The Legislature has 60 calendar days following transmission of the Executive recommendation to reject or reduce the rate of compensation increase; otherwise, the increase will automatically go into effect at the start of the next fiscal year. A two-thirds vote of the members elected to and serving in each house is required for a rejection or reduction of the recommended increase. If the Legislature makes reductions, they must be applied uniformly to all classes of employees and the Legislature may not adjust pay differentials already established by the CSC. Rates of compensation may not be reduced below those in effect at the time the increases are transmitted to the Legislature.

**History of Collective Bargaining Agreements**

The annual increases approved by the State Legislature over the past 10 years are summarized in Table 1. Although NEREs are ineligible for exclusive representation, the wage increases extended through collective bargaining agreements to other areas of the civil service are generally recommended for NEREs as well by the Coordinated Compensation Plan.

**Table 1**

**Summary of Wage Adjustments - State Classified Civil Service**
**FY 1997-98 through FY 2006-07**

| Date | % Increase | Lump Sum Payments | Total of Base Wage Increase | Total Net Additional Costs[1)] |
|---|---|---|---|---|
| October 1, 1997 | 3.0% | --- | $74,373,564 | $91,884,837 |
| October 1, 1998 | 3.0 | $150 | 70,729,881 | 85,679,128 |
| October 1, 1999 | 3.0 | --- | 67,176,183 | 70,575,563 |
| October 1, 2000 | 2.0 | --- | 71,365,615 | 85,784,873 |
| October 1, 2001 | 2.0 | 375 | 74,264,397 | 90,984,774 |
| October 1, 2002 | 2.0 | --- | 51,589,607 | 65,140,376 |
| October 1, 2003 | 3.0 | --- | 69,039,426 | 93,550,677 |
| October 1, 2004 | 4.0 | --- | 96,047,856 | 131,155,231 |
| October 1, 2005 | 1.0 | --- | --- | --- |
| April 9, 2006 | 1.0 | --- | 37,762,968[2)] | 41,324,339[2)] |
| October 1, 2006 | 2.0 | --- | --- | --- |
| April 8, 2007 | 2.0 | --- | 77,516,083[2)] | 99,060,147[2)] |

1) Net additional costs include FICA, retirement, cost saving measures, etc.

2) Due to the phased in implementation of the cost-of-living adjustments (COLA) the Net Additional Cost to the State of $41,324,339 in FY 2005-06 and $99,060,147 in FY 2006-07 represents approximately 75% of the full-year cost of the COLA.

**Source:** Michigan Office of the State Employer

January 1, 1996 – December 31, 1998

The collective bargaining agreement approved for January 1, 1996, through December 31, 1998, included a number of wage increases as well as a schedule of lump sum payments. While contractual provisions such as changes in health care benefits begin on January 1 at the start of the calendar year, wage increases do not become effective until October 1 at the onset of the State's fiscal year.

In both FY 1997-98 and FY 1998-99, the State's work force received a 3.0% increase in wages, with NEREs and Business/Administration employees receiving an additional lump sum payment of $150 in FY 1998-99. For this contract period, the net additional cost to the State, including base wage increases, lump sum payments, and the impact of FICA, retirement, and health care costs, was $177.6 million (Table 1).

January 1, 1999 – December 31, 2001

In December 1998, the CSC approved a three-year collective bargaining agreement for fiscal years 1999-2000, 2000-01, and 2001-02. The negotiations included a base wage increase of 3.0% for FY 1999-00 and an increase of 2.0% for FY 2000-01 for all State classified employees. For FY 2001-02, all State employees excluding employees classified as Institutional received an increase of 2.0% in addition to a lump sum payment of $375. State Institutional employees, represented by AFSCME, received a base wage increase of 4.5% for FY 2001-02, with no lump sum payment. These contract negotiations resulted in a net additional cost to the State of $247.3 million.

January 1, 2002 – December 31, 2004

The contract negotiated between the representative unions and the OSE for January 1, 2002, through December 31, 2004, included FY 2002-03, FY 2003-04, and FY 2004-05. During this period, hourly rates for State employees were increased by 2.0% at the start of FY 2002-03, 3.0% at the start of FY 2003-04, and 4.0% at the start of FY 2004-05, for a total increase of 9.0% during the contract period and a net additional cost to the State of $289.8 million.

It is important to note that even with the annual wage adjustments, the average annual salary of State full-time equated (FTE) employees grew by only 1.1% at the start of this period (Table 2). The early-out retirement plan option that was offered to State employees during a window in FY 2002-03 decreased the size of the State work force, as well as the average salary of State employees. This reduction was primarily due to the departure of high wage earners who took advantage of the early retirement option and their replacement with much lower (entry-level) wage earners.

**Table 2**

**Summary of FTE Salary and Total State Employee Payroll**
**FY 1997-98 through FY 2006-07**

| Fiscal Year | Number of Employees Statewide | Avg. FTE Salary (not including health care & retirement benefits) | % Change in Average Salary | Total State Employee Payroll (in billions) |
|---|---|---|---|---|
| 1997-98 | 58,675 | $38,714 | | $3.21 |
| 1998-99 | 60,066 | 40,140 | 3.7% | 3.46 |
| 1999-2000 | 61,493 | 41,473 | 3.2 | 3.70 |
| 2000-01 | 63,158 | 42,640 | 2.8 | 3.94 |
| 2001-02 | 60,881 | 43,722 | 2.5 | 3.92 |
| 2002-03 | 55,505 | 44,221 | 1.1 | 3.82 |
| 2003-04 | 54,615 | 45,885 | 3.8 | 3.76 |
| 2004-05 | 54,859 | 48,235 | 5.1 | 4.17 |
| 2005-06 | 53,824 | 49,462 | 2.5 | 4.41 |
| 2006-07 | 53,922[a)] | 51,000[a)] | 3.1 | NA |

[a)] Estimated

**Source:** Michigan Civil Service Commission Annual State Workforce Reports FY 1997-98 – FY 2005-06

January 1, 2005 – December 31, 2007

In December 2004, the CSC approved a three-year collective bargaining agreement covering FY 2005-06, FY 2006-07, and FY 2007-08. The contract calls for wage increases applied at six- month intervals, first in October and then in April. These increases will result in an approximate increase of 10.4% during the three-year period if the recommended FY 2007-08 increases are fully appropriated. In FY 2005-06, employee wages rose 1% in October 2005 and again in April 2006. For both FY 2006-07 and FY 2007-08, the wage increase is set at 2.0% for October 2006, April and October 2007, and April 2008. For FY 2005-06 and FY 2006-07, the full-year cost of the wage adjustments is only partially represented due to the phase-in method. The amounts of $41,324,339 in FY 2005-06 and $99,060,147 in FY 2006-07 represent approximately 75.0% of the total cost incurred by the State. These costs do not include the wage increases set for FY 2007-08 that will begin on October 1, 2007.

**State Employee Concessions – Fiscal Years 2003-04 and 2004-05**

The most recent concessions made by State employees occurred in FY 2003-04 and FY 2004-05. Employee costs due to previously negotiated cost-of-living adjustments of 3.0%, as well as increases in health insurance and retirement costs, were estimated to increase by $256.7 million. Due to continuing declines in State revenue, Governor Granholm did not include funding for these increases in her FY 2003-04 Executive budget recommendation. Instead, the State Employer negotiated concessions from employee unions to offset a portion of those anticipated cost increases.

The first concession agreed to by State employees and the State Employer was a banked leave time provision. In FY 2003-04, employees continued to work 40 hours per week; however, their base pay was reduced by two hours each week, to a maximum of 104 hours. The two hours per week for which State employees were not paid were instead placed into a separate banked leave time account and did not count toward an employee's regular annual leave cap. The accumulated banked leave time hours may be used as regular annual leave or remain in the employee's banked leave time account until separation from State employment, at which time the State will make a contribution to the employee's 401k or 457 retirement plan for the banked leave time hours. The amount of the State's contribution for the banked leave time is based on the employee's rate of pay at the time of separation. The banked leave time provision equated to a 5.0% pay reduction for State employees; however, employees did receive their 3.0% base wage adjustment that had been previously negotiated. The amount saved from this provision in FY 2003-04 was an estimated $150.0 million.

Beginning in January of FY 2004-05, a second concession was agreed to by the State Employer and State employees regarding banked leave time. The provision continued in the same manner as in FY 2003-04; however, the second concession required employees to bank, on average, what amounted to 3.2 hours per pay period. Some unions agreed to continue the banked leave time concession at the start of the fiscal year (October 1) without disruption from the previous concession, while other unions did not begin the second concession until January 1, 2005. On average, and depending on whether an employee began the second concession on October 1 or January 1, employees worked 40 hours per week but had their pay reduced by an average of 1.6 hours per week. This equated to a 4.0% pay reduction but again employees were able to retain their previously negotiated raise of 4.0% in their base pay. The second concession of banked leave time hours saved $147.3 million in FY 2004-05.

Concessions agreed to by State employees and the State Employer during FY 2003-04 also included a furlough program. The furlough program required full-time State employees to take 40 hours of unpaid leave in FY 2003-04. The unpaid leave time equated to a 1.9% pay reduction for State employees. All employees, except essential employees, were furloughed without pay on January 2, 2004. The remaining 32 hours of unpaid furlough leave were scheduled by the employees themselves subject to the same requirements as apply to annual leave. The furlough program also included a paid furlough day on December 26, 2003. The furlough program did not have any effect on an employee's retirement service credit, longevity payments, step increases, holiday pay, sick and annual leave time accruals, benefit levels, or insurance premiums. The amount saved from this program in FY 2003-04 was an estimated $56.0 million.

In addition to the two concessions agreed to by State employees in FY 2003-04, there were two other changes involving prescription drug co-pays and performance pay. Although the Civil Service Commission already had approved an increase in co-pays from $12 to $15 for brand name prescription drugs for FY 2003-04, the State Employer negotiated a revised increase to $30 for nonpreferred brand name drugs purchased via mail or retail pharmacies. All nonpreferred brand name drugs were required to have a generic substitute available or a therapeutically or chemically equivalent preferred brand name drug available. Preferred brand name drugs retained the originally approved increased co-pay of $15 for FY 2003-04. The savings that resulted from the increased co-pay for nonpreferred drugs were approximately $1.5 million in FY 2003-04. These co-pay provisions remain in effect in the current fiscal year.

Finally, performance pay awards authorized by CSC Rule 5-3.4(c)(2) were initially suspended for FY 2003-04 in another cost-saving measure. An estimated 3,000 employees were eligible for performance pay awards in FY 2003-04. Those eligible for these awards are not included in step increase schedules but rather are given awards based on performance evaluations. The estimated savings that resulted from suspending these performance pay awards in FY 2003-04 were $5.0 million. Performance pay awards for those eligible to receive annual lump sum payment awards have not been resumed since FY 2003-04.

**Potential Savings from Furlough Days in FY 2007-08**

Though much discussion has been held regarding possible furlough days in the current fiscal year, the budget negotiations reached for the shortfall in FY 2006-07 now ensure that furlough days will not have to be implemented this year for most departments and agencies. However, it remains a possibility that furlough days could be part of the FY 2007-08 budget that is yet to be finalized.

Based on current salaries and employees in Executive branch departments and agencies, one furlough day would save an estimated average of $8.0 million (gross) (Table 3). The total number of State employees who could be affected by furlough days in FY 2007-08 is estimated at 38,400. The average hourly wage per employee is estimated at $26. The number of furlough days that employees may have to take in FY 2007-08 will depend on the budget cuts necessary to meet the budget targets that ultimately will be set by the Governor and legislative leadership. Based on the above estimates (using FY 2006-07 averages), 40 hours of furlough, or five days on average, could save the State upward of $40.0 million in FY 2007-08.

**Table 3**

**State Employees' Average Hourly Base Wage and Estimated Furlough Day Savings by Department and Agency - FY 2006-07**

| State Department/Agency | Number of Employees* | Average Hourly Base Wage | Base Wage Savings per 8-hour Furlough Day (gross) |
|---|---|---|---|
| Agriculture | 537 | $27.35 | $117,496 |
| Attorney General | 540 | 34.74 | 150,077 |
| Auditor General | 139 | 34.29 | 38,130 |
| Civil Rights | 123 | 28.50 | 28,044 |
| Civil Service | 201 | 28.22 | 45,378 |
| Community Health | 2,968 | 28.48 | 676,229 |
| Corrections | 7,113 | 25.60 | 1,456,742 |
| Education | 352 | 29.06 | 81,833 |
| Environmental Quality | 1,445 | 28.39 | 328,188 |
| Executive Office | 53 | 30.67 | 13,004 |
| History, Arts, and Libraries | 199 | 26.33 | 41,917 |
| Human Services | 9,395 | 23.80 | 1,788,808 |
| Information Technology | 1,714 | 29.83 | 409,029 |
| Labor & Economic Growth | 3,262 | 27.47 | 716,857 |
| Management & Budget | 984 | 25.98 | 204,515 |
| Military Affairs | 477 | 25.36 | 96,774 |
| Natural Resources | 1,495 | 25.23 | 301,751 |
| State | 1,642 | 22.26 | 292,407 |
| State Police | 1,137 | 26.74 | 243,227 |
| Strategic Fund | 178 | 29.54 | 42,065 |
| Transportation | 2,901 | 25.62 | 594,589 |
| Treasury | 1,578 | 25.67 | 324,058 |
| **Total/Weighted Average** | 38,433 | $25.99 | $7,991,119 |

* Excludes security personnel, human services support, enlisted State Police, and institutional employees.

**Source:** Department of Civil Service, February 2007