



“IN THE KNOW:” Labor costs and the Budget

During these lean times, most of us are figuring out what to cut from the family budget and ways to put a little more in the piggy bank. Choices range from small sacrifices (cutting out that extra cup of coffee) to major life-changing decisions (giving up a car to make ends meet). Imagine making these choices when nearly 60% of what has to go out the door is still up in the air.

That’s what Philadelphia is now facing.

This week – Thursday, March 4th – Mayor Nutter will give his annual budget address to the city.

Yet, of the four unions that represent around 20,000 of the city’s 23,000 workers, only one – the Fraternal Order of Police – has a contract, the terms of which were set by an arbitration panel in December 2009. Contracts for the other three unions on issues including employees’ wages and benefits – which make up almost 60% of the general operating budget – are still unresolved.

With so many major question marks, will the city be forced to talk about service cuts and layoffs? [“In the Know:” Labor Costs and the Budget](#) will explore the strong connection between labor costs and the budget.

--March 1, 2009

First of all, tell me which municipal unions are we talking about?

Around 20,000 of the city’s 23,000 workers are represented by four unions:

- The Fraternal Order of Police (FOP), Michael Lutz Lodge 5 represents current and former police officers and sheriff’s deputies.
- The International Association of Fire Fighters (IAFF), Local 22 represents active and retired firefighters, paramedics and officers of the Philadelphia Fire Department.
- The American Federation of State, County and Municipal Employees (AFSCME), District Council 33 represents active city workers who have manual labor or “blue collar” jobs, including sanitation workers, clerical employees and prison officers.
- AFSCME District Council 47 represents active city workers who have non-manual labor of “white collar” jobs, such as accountants and engineers.

When did their contracts expire?



All four contracts expired in June 2008. Newly elected mayor Michael Nutter got the unions to agree to one-year contracts so his administration could study how to deal with rising health care and pension costs. When the recession went from bad to catastrophic, the city then pushed for wage freezes and benefit concessions, which upset the unions. When the one-year contracts expired on June 30, 2009, nothing happened. Except for the FOP (as we will explain), the other unions are still operating under the terms of the one-year contract.

Why is nailing down their contracts so important to the budget?

Employee wages and benefits are by far and away the biggest slice of the city's general operating budget: 59.2%. The next largest is contracts and leases at 30.9%. So you can see how significant the outcome of the four municipal unions' contract negotiations is to the city.

What does this translate into in actual numbers?

In the current fiscal year (Fiscal Year 2010), employees' wages cost \$1.358 billion and employees' benefits cost \$830.7 million out of a total city budget of around \$3.7 billion.

Does Philadelphia have a budget deficit?

The bad news is "yes." But the good news is that it's not as bad as last year's, which at one point amounted to \$2.4 billion over five years. Earlier this month, the city's Finance Director said the five-year deficit could be between \$500 million and \$700 million, and at least \$100 million during the July 1, 2010 – June 30, 2011 fiscal year.

How can the city afford higher salaries and benefits?

According to the Nutter administration, it can't.

So the city must be taking a hard line against the unions, right?

It's hard to know. Putting aside the settled FOP contract and the Firefighters' union contract, which is now undergoing a binding arbitration process, there has been virtually no news on negotiations with the two AFSCME unions that represent the city's non-uniformed workers. The administration obviously expects talks to continue since, on November 1, 2009, the city renewed a nearly \$2 million one-year legal services contract for its chief negotiator, Ballard Spahr LLP.

The mayor is facing reelection next year. Is he worried about angering the unions?



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No mayor likes to be at war with his own workforce. But this mayor is closer to the business community than to the unions. In the 2007 Democratic mayoral primary – which, in this one-party town, all but decides the mayor’s race – the FOP and Firefighters unions endorsed Congressman Bob Brady. AFSCME District Council 47 supported Congressman Chaka Fattah. Only AFSCME District Council 33 remained neutral.

Are the unsettled contracts hurting the city?

Resolving the contracts could end up hurting the city if the terms of the contracts – on wages, benefits, pensions, work rules and other issues – favor the unions. On the other hand, it could help the city if the unions are forced to accept major changes. Under these circumstances, either side might feel that it’s best to keep the contracts just as they are: in other words, unsettled.

Are pensions the biggest sticking point?

Pension issues are always a problem in city-unions negotiations, but they could now get worse. According to a just-released actuarial report, the pension board has only 45% of the funds it needs to pay retired workers and what it has promised to pay employees who are still working but will retire some day. The city’s Finance Director says escalating pension costs are the biggest problem facing the city. For more information about problems with the pension fund, see http://www.philly.com/philly/hp/news_update/85797507.html.

I thought the city bargains with the unions. Why are arbitration panels involved?

State law prohibits police officers and firefighters from going on strike. Their contracts are usually negotiated through an arbitration process. Each side presents their demands to three-member arbitration panels – each with a member from the city, a member from the union, and a neutral chairperson. The panel holds hearings, much like a court, and then awards a contract, whose terms are binding on all the parties. On the other hand, the city negotiates directly with AFSCME District Councils 33 and 47.

Are members of AFSCME District Councils 33 and 47 allowed to strike?

Yes. If you don’t remember the three weeks of uncollected trash during AFSCME District Council 33’s strike in blistering hot summer of 1986, consider yourself lucky.

What does the FOP contract say?



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Some key provisions of the contract, which is a five-year deal because it is retroactive to July 1, 2009, include:

- Guaranteeing 3% salary hikes in July 2010 and again in July 2011, with mandatory city-FOP discussions about wage increases for the remainder of the contract.
- Moving to a self-insured plan in 2011 where the city will pay actual medical bills rather than a specific amount for every employee (irrespective of whether or not they have medical bills). (In the short term, contributions per employee will decrease by \$200/month.)
- Converting to a hybrid pension program that will allow all new hires to choose between either a traditional defined benefit program, but with higher contribution rate (6% of salary instead of the current 5%) or a defined-contribution 401(k) style plan with some form of city match and, after they leave government, the ability to take whatever they have contributed and earned with them or roll the savings into another retirement account.
- Permitting the city to furlough (or temporarily layoff) officers for up to 30 unpaid days each year.
- Allowing police officers with more than five years of service to move outside the city.

You can read the entire arbitration award by going to:

[http://www.seventy.org/Downloads/Policy & Reform/2009 FOP Arbitration Opinion and Award.pdf](http://www.seventy.org/Downloads/Policy%20&%20Reform/2009%20FOP%20Arbitration%20Opinion%20and%20Award.pdf).

Didn't the arbitration panel understand that the city still has a budget deficit?

The panel pointed out that the economy seems to be tentatively emerging from the recession, offering the city a chance to raise wages. The city vigorously disagreed and its representative on the panel issued a written dissent from the contract award. When all new costs and savings are compared, the city estimates that the FOP contract will cost about \$123.5 million more than it budgeted for over five years.

Which side won: the city or the unions?

Both sides got some wins, although there are a number of unknowns, such as how many new employees will opt for the new pension plan. The city says it expects savings of at least \$190 million over 30 years and can control unpaid furloughs for up to 30 days. The city also likes the hybrid pension plan, which is the only one in the nation for uniformed workers. The union got guaranteed wage increases for at least two years and the residency requirement lifted for a big chunk of their members.

Won't the other unions demand at least what the FOP got?



Leaders of the other unions were not very happy with the changes on health care and pensions. But they would like to see similar wage increases for their members. Expect the Firefighters' contract to largely mirror the FOP's. The other two unions negotiate directly with the city so the process is very different.

Why didn't the city appeal the FOP award?

According to Mayor Nutter, the long-term benefits of the contract are worth the extra costs on the front end. He was probably concerned that trying to reopen the matter could result in an even worse award for the city. Just because the city didn't appeal doesn't mean it was overjoyed with the award, especially the change in the residency requirement, which could open the door for an exodus of city workers whose tax dollars the city desperately needs. However, the residency change is not appealable under arbitration law.

Does City Council have anything to do with the union contracts?

So far, City Council seems to have wiped its hands of getting involved. In the summer of 2009, the mayor asked for Council's help in creating a cheaper pension plan for new employees. Although the bill was introduced, Council ended up withdrawing it since it would have put them at odds with the unions, whose members support many of their campaigns. The mayor is trying to woo members of Council to make sure they are not at odds over the budget.

I thought I heard that Council is unhappy that the city didn't appeal the FOP contract award.

At least one member is. Councilman Bill Green called the decision not to appeal "irresponsible" and a "short-term fiscal disaster." His main points were that (a) long-term planning is impossible with so many unknowns, such as the amount of wage increases in the last three years of the contract, (b) similar contracts with the other three unions could put the city in a \$350 million hole over five years, and (c) the absence of structural reforms in dealing with health care and pensions. You can read Councilman Green's letter at:

[http://www.seventy.org/Downloads/Policy & Reform/Councilman Green Letter On FOP Award.pdf](http://www.seventy.org/Downloads/Policy%20&%20Reform/Councilman%20Green%20Letter%20On%20FOP%20Award.pdf).

How are other cities dealing with labor costs and their budgets?



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One fascinating story is unfolding in Los Angeles. After Moody's Investment Services threatened to downgrade the city's credit rating because of difficulties in closing its \$212 million deficit, L.A.'s City Council told agency heads to cut 3,000 jobs, on top of the 1,000 positions already eliminated. Council's action is seen to be aimed at getting the unions representing that city's 22,000 workers to make concessions. Although New York City's contracts with its police officers and firefighters don't expire until the summer of 2010, Mayor Michael Bloomberg is trying to negotiate some cost-saving changes in pension and health care plans. The budget he introduced in January 2010 calls for eliminating 20 fire companies and he warned that state budget cuts could force him to lay off over 3,000 police officers.

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