New York City Independent Budget Office

Focus On:
The Preliminary Budget

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The Big Unknown: How Much Could Union Settlements Cost?

The largest unknown in the Mayor's Preliminary Budget is how much collective bargaining agreements will cost given that contracts with all of the city's unionized labor force have expired, in some cases as long ago as 2007. The Mayor's budget includes a labor reserve that totals $1.4 billion for the years 2014-2016 ($265 million for 2014, $465 million for 2015, and $714 million for 2016) to cover the cost of two consecutive annual 1.25 percent raises following three years—and in some cases five years—of zero percent increases. This total will prove insufficient if the city and the unions ultimately settle for terms more generous than those assumed in the budget. Such a shortfall would have to be covered through some combination of savings elsewhere in the budget, drawing on reserves put away for other purposes, or additional revenues.

New York City municipal labor negotiations are traditionally structured in "rounds" with settlements in a given round typically adhering closely to a pattern of raises, with all contracts in a round spanning a similar number of years. Note that while the duration of the contracts in a given round is typically the same, the dates covered can vary significantly. For example, the city and many of its unions settled contracts for two consecutive 4 percent annual raises during the years from 2008 through 2010. District Council 37's contract in the 2008-2010 round expired in March 2010, while the teachers' last contract from the round *prior* to the 2008-2010 round expired only a few months earlier in October 2009.

A number of unions, including those representing the teachers and school principals, never reached agreements with the city during the 2008-2010 round. But even those unions that did reach agreements for that round have now reached the end of those contracts, in some cases three or more years ago.

Possible settlements of the over 150 expired contracts could involve many different combinations of retroactive pay, new raises, one-time "bonus" payments, or no raises at all. To provide some context to the discussion of the magnitude of the possible costs the city faces in settling these contracts, IBO has estimated the costs of a handful of scenarios. In selecting these particular scenarios IBO is not suggesting that these are the only possible solutions, nor do we recommend any particular deal. We assume that the expense of settlements covering years up to and including 2014 would have to be paid with resources from this fiscal year, and recurring future costs funded in subsequent years.

Although the city's balance sheet includes a labor reserve for 2008 through 2013, it is our understanding that these funds have already been committed to accrued liabilities other than the expired contracts and therefore we assume that they will not be available to help pay for settling the expired contracts. The estimated annual costs in the following paragraphs *do* assume the use of the labor reserve money that has been set aside for 2014 through 2016 to offset some of the costs of settlements for those years.

These estimates cover all city workers—including non-union staff who traditionally receive raises that follow the union pattern. Employees of city-subsidized entities such as the public library systems and cultural institutions, the Health and Hospitals Corporation and the housing authority, who are not guaranteed contracts matching the pattern for city workers, are excluded. Our estimates also include projections for payroll taxes and the additional pension contributions necessitated by higher salaries. The estimates are for the city-funded costs, including expenses for Department of

Environmental Protection workers who are paid via water charges rather than the city's general revenues.

Some Scenarios. If the city and those unions that did not settle contracts during the 2008-2010 round when two consecutive 4 percent raises were the pattern—teachers and principals are the largest groups in this category—were given the pattern for that round and no raises were given to any workers for the subsequent round of contracts, the cost would be $3.3 billion in 2014. This figure includes retroactive pay from prior years plus the impact of those retroactive increases on current 2014 labor costs.

Cost of Settling Expired Labor Contracts: Selected Scenarios
Dollars in millions

Settlement for Prior Round	Settlement for Current Round	2014	2015	2016
4%, 4%	Nothing	$3,336	$413	$62
4%, 4%	2%, 2%, 2%, 2%	$7,142	$2,412	$2,041
2%, 2%	1%, 1%, 1%, 1%	$3,391	$941	$631
4%, 4%	5% bonus in third year	$4,202	$563	$62
$5,000 bonus	Nothing	$500	n.a.	n.a.
Nothing	$5,000 bonus in third year	$736	$397	n.a.

NOTES: Pattern was two 4% raises. Amounts shown are net of labor reserve of $265 million in 2014, $465 million in 2015, and $714 million in 2016.
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An alternative scenario uses the two 4 percent raises from the previous pattern followed by annual 2 percent raises for all workers in the subsequent round. This would cost $7.1 billion in 2014, $2.4 billion in 2015, and $2.0 billion in 2016. (The decline in cost in 2016 is attributable to the somewhat larger labor reserve in that year.) The cost of a less generous settlement with two consecutive 2 percent raises for those unions which did not settle in the 2008-2010 round and 1 percent raises for all workers in each year of the next round would be $3.4 billion in 2014, and $941 million in 2015 and $631 million 2016.

One-time cash payments or bonuses could also be part of a settlement either in combination with, or instead of, a recurring wage increase. One key distinction is that bonus payments are not included in the base wage for future contracts. Another is that they are not included as earnings when calculating pension benefits. A scenario that included the two 4 percent raises for those unions that missed the 2008-2010 round of settlements plus a bonus payment to all current workers equal to 5 percent of salary paid in the third year of the subsequent contract would require $4.2 billion for 2014 and then $563 million in 2015 and $62 million in 2016. For most city workers, the 5 percent payment would occur in 2014 or 2015.

Bonus payments could also be a specific dollar amount rather than a percentage of current salary. For example, if instead of retroactive pay raises for those unions that missed the 2008-2010 round, the city were to pay a bonus of $5,000 to current workers then on the payroll, the amount to be paid out of the 2014 budget would be $500 million. Alternatively, simply paying a $5,000 bonus to all workers in the current round without any accompanying wage increase would cost $735 million in 2014 and $397 million in 2015.

Obviously, the percentage or size of any bonus payment could be adjusted, not to mention the size of the annual wage increase, to help tailor a settlement with widely different budgetary costs. The estimated budget impact in 2014 for the handful of scenarios discussed here range from $500 million to $7.1 billion. Given that these estimates already include the use of the 2014 through 2016 labor reserve allocations, all of these scenarios would require finding significant amounts of additional resources in the budgets for 2014 and subsequent years to pay for a settlement that would take effect this year.