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Thom Reilly[1] and Mark B. Reed[1]

Abstract

The purpose of this study was to examine how local governments are responding to budget shortfalls and to explore how compensation practices across the United States are correlated to changes in service delivery. One hundred thirty-four of the largest cities and counties responded to a mail survey, for a response rate of 45 percent. A large percentage (95 percent) of local governments reported experiencing budget shortfalls. In response, local governments are reducing their workforces, laying employees off and/or utilizing reserves rather than raising taxes and/or scaling back wages and benefits. Type of government (county or city) and collective bargaining were associated with budget shortfalls. Despite the fiscal distress of governments, average cost of living increases were between 2 and 3 percent for each of the two years surveyed and nearly half of respondents reported increases in employee benefits (fewer than 10 percent reported any decreases). Collective bargaining was significantly associated with higher increases in benefits, increased cost-of-living adjustments, and responses to budget shortfalls.

Keywords

budget shortfalls, collective bargaining, public sector compensation

Introduction: Local Government Compensation Responses to Budget Shortfalls

Local governments across the United States are grappling with reduced revenues brought on by the financial crisis and recession. Sales taxes, property taxes, and other forms of local government revenues have been severely curtailed (Boyd 2009; Shubik, Horwitz, and Ginsberg 2009, 3). Most local governments project declining revenues for the next several years and budget shortfalls are actually expected to widen over this period (Hoene 2009; Hoene and Pagano, 2009; Pollack 2009). This drop in revenues, coupled with a faltering economy and increased service demands, has enormous consequences for local governments and their citizens. The large budget shortfalls are jeopardizing the ability of cities and counties to perform core functions (Boyd 2009; Ginsberg and Horwitz 2009). Unlike the federal government, local governments cannot run deficits. To balance their budgets, they must cut spending or raise taxes. Those local jurisdictions

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attempting tax increases face additional obstacles besides these changes being politically unpopular (Shubik, Horwitz, and Ginsberg 2009, 1). Although cutting services may be a more common fix, there are limits to what citizens will allow in these reductions (Shubik, Horwitz, and Ginsberg 2009, 1). Since labor costs make up the largest portion of overall local government spending, reductions in this area are unavoidable. However, with increased unionization of public sector workers, attempts by cities and counties to reduce benefits and salaries have led to tense labor-management stalemates (Horwitz 2009).

The purpose of this study was to examine how local governments are responding to budget gaps and revenue shortfalls and to explore how compensation practices across the United States are correlated with changes in service delivery and the presence of collective bargaining. Type of government (county vs. city), collective bargaining status, and governing board partisanship were used as variables to explore possible associations with budget shortfalls, responses to these shortfalls, and employee compensation including wages and benefits.

The Effects of Unions on Local Compensation

While union membership has been declining in the private sector for the past several decades, public sector union membership has been rising. Government workers are nearly five times more likely to belong to a union than private workers. The number of union workers employed by government for the first time outnumbered union ranks in the private sector in 2009, the result of massive layoffs that plunged the rate of private-sector union membership to a record low of 7 percent (Bureau of Labor Statistics [BLS] 2009). Local, state, and federal government workers made up 51.5 percent of all union members in 2009.

One major reason cited for the escalation in wages and benefits for public sector workers has been the increase in membership in public sector employee unions. Research has confirmed that public sector unions, via collective bargaining processes, positively inflate employee wages and benefits (Belman, Heywood, and Lund 1997; Johnston and Hancke 2009; Kearney 2003; Llorens 2008; McKethan et al., 2006; Reilly, Schoener, and Bolin 2007). Overall, public sector unions raise nonwage benefits for their employees more than they raise wages (Freeman 1986). Kearney and Carnevale (2001) contend that public sector unions support increasing benefits over wages because the costs are less transparent to the community and can be spread out over time. This is supported by Hunter and Rankin's (1988) compensation model which suggest that fringe benefits have grown substantially in the public sector because they are used as political payments by elected officials and the public rarely is aware of what is being awarded to employees.

The National League of Cities (NLC) recent survey cites the growing costs of employee wages (cited by 83 percent), the health of the local economy (81 percent), and employee health benefits (79 percent) as having the largest negative impact on the financial health of a municipality. Hiring freezes/layoffs (cited by 67 percent) and delay/cancellation of capital projects (62 percent) were cited as the primary responses to budget shortfalls (Hoene and Pagano, 2009). A recent report by the Pew Charitable Trusts (Shubik, Horwitz, and Ginsberg 2009) examining budget decisions in large municipalities, found that rather than raising taxes most cities were attempting to cut services, employ workforce reductions, and freeze salaries. Proposed service cuts included recreation facilities, libraries, and trash collection. Attempts at freezing salaries and successfully obtaining wage and benefit concessions from municipal labor unions have been difficult. A common theme being played out in these large cities is for the mayor to threaten layoffs in order to extract concessions. When these have not materialized, layoffs have been employed; however at levels reduced below those initially discussed (Horwitz 2009).

The Study

The present study seeks to examine whether collective bargaining predicts the responses to budget shortfalls made by local municipalities across the United States. Furthermore, we were interested in examining the effects of collective bargaining on employee benefits within municipalities during a time of economic recession.

Variables were selected based on prior research linking them to budget shortfalls in local governments and public sector wages and benefits. Reilly, Schoener, and Bolin. (2007) found county governments tended to have fewer budget shortfalls than city governments most likely due to the fact that counties usually have wider geographical areas and therefore receive tax revenues from more diverse sources than cities which may miss tax revenues from more affluent areas outside the city limits.

The same authors found that local governments with collective bargaining were more likely to see a decline in the number of employees during a budget shortfall. Additionally, Vallenta (1989) and Zax and Ichniowski (1988) found that local government unionism can increase department and city expenditures. Therefore, we predicted that counties would show fewer budget shortfalls and those local governments with collective bargaining agreements will more likely face budget shortfalls. In addition, as mentioned above,, studies have suggested that unionization positively influences earnings for both state and local governmental employees. Accordingly, we predicted that those local governments with collective bargaining agreements in place will result in higher employee compensation.

Finally, we wanted to explore what impact partisan- versus nonpartisan-governing board may have on responses to budget shortfalls and employee composition so we included a partisan/nonpartisan dichotomy in the survey.

Methods

A survey on public sector compensation and related issues confronting local governments throughout the United States was administered to human service directors in the largest 150 cities (populations more than 160,000) and 150 counties (populations more than 360,000) in September 2009. Respondents were also given the option to respond to the survey online and rigorous follow-up was employed. Data collection ended in December 2009.

The survey instrument addressed questions on the general fiscal conditions of the local government as well as on compensation, benefits, health insurance, retirement, and/or pension plans for four different employee groups: management employees, nonmanagement employees, nonmanagement fire employees, and nonmanagement police employees. Collective bargaining status and partisan make-up of the governing body were also addressed. Respondents were asked to respond to their largest employee union, if there were multiple plans. Analysis of responding and nonresponding local governments can be found in Table 1.

Measures

Those respondents who reported experiencing a revenue shortfall in the last two years were asked to indicate how their jurisdiction responded (yes/no) to the shortfall from a list of twelve possible responses (imposed hiring freeze, laid off employees, eliminated vacant positions, offered early retirement, furlough employees, reduce/eliminate public services, reduce benefits/wages, reduce retiree health care benefits, raise taxes/increase user fees, use reserve funds, borrow funds, or other). Then these responses were combined to form six distinct categories (layoffs, reduce/eliminate public services, raise taxes/increase user fees, workforce reduction, reduction in benefits/wages, and borrow funds).

Respondents completed a similar set of questions corresponding to four distinct job categories within the city/county government: nonmanagement, management, fire, and police. For each job category, the respondents were asked to indicate the amount of cost of living allowance (COLA) given to each job category for the FY 07/08 and FY 08/09 and whether the benefits of the group generally, increased, decreased, or stayed the same during this two-year period. Respondents were asked to only include COLA increases and not other forms

Table 1. Budget Shortfall by Shortfall Type

	Workforce Reductions		Reduce Wage/Ben.		Layoffs		Reduce Services		Raise Taxes		Raid Funds	
Variable	%	N	%	N	%	N	%	N	%	N	%	N
Type												
City	94.4	67*	29.6	21	57.7	41	42.3	30	23.9	17	49.3	35
County	82.8	48	25.9	15	56.9	33	31	18	25.9	15	50.0	29
Collective bargaining												
Yes	96.3	77**	31.3	25	63.8	51	43.8	35	26.2	21	60.0	48*
No	79.5	35	22.7	10	47.7	21	27.3	12	25.0	11	34.1	15
Partisan												
Yes	91.0	61	31.3	21	53.3	32	35.0	21	26.7	16	46.7	28
No	90.0	63	22.9	16	61.5	40	38.5	26	21.5	14	53.8	35

*$p < .05$.**$p < .01$.

of wage increases such as merit step increases and longevity. Additionally, the respondents were asked whether the jurisdiction allowed collective bargaining for wages and benefits for this group. Those responding "yes" were then asked whether the collective bargaining agreement had been renegotiated in the middle of its term as a consequence of budget shortfalls.

Data Analysis

Our first set of analyses examined bivariate associations between the variable of experiencing a budget shortfall and the following variables: type of respondent (city or county), elected official partisanship, and allowance of collective bargaining. We then tested the bivariate associations between each of the six categorized shortfall responses and the same variables listed above.

For each job category, we then first tested bivariate associations between the items asking whether benefits generally increase, decreased, or stayed the same and the following variables: collective bargaining for the job category, type of respondent and whether the elective officials in government were partisan. A series of bivariate analyses were also conducted with the same independent variables noted above.

Although we were also interested in examining whether budget shortfalls and employee compensation varied by region, the small cell sizes for the Midwest ($n = 11$) and Northeast ($n = 8$) regions resulted in unstable percentage estimates. Additionally, given that our sample underrepresented these regions (see below); the generalizability of results utilizing this variable would be tenuous at best.

Findings

Budget Shortfalls and Budget Shortfall Responses

Nearly all (95.3 percent) of the county and city respondents reported experiencing a budget/revenue shortfall in the past two years. The most common response to a budget shortfall was to make a workforce reduction (89.1 percent) followed by layoffs (57.4 percent), borrowing funds (48.9 percent), and reducing or eliminating services (37.2 percent). The least common response was raising taxes or fees (24.8 percent) followed by reducing wages and benefits (27.9 percent). Slightly fewer than half of respondents reported having a partisan city or county council while a solid majority (64.8 percent) reported allowing for collective bargaining for wages and benefits. The average COLA for each job category (management/nonmanagement, police, fire) ranged from 2.09 percent to 2.90 percent.[1]

We examined the association between budget shortfalls and the following variables: type of respondent (city vs. county), partisanship of council (yes/no) and allowance for collective bargaining (yes/no). Bivariate analyses showed a significant association between having a budget shortfall and type of respondent as well as collective bargaining (results not shown). Specifically, a significantly lower percentage of counties reported budget shortfalls (89.7 percent) relative to cities (100 percent), $p < .01$ (Fisher's exact test). Additionally, a significantly lower proportion of respondents without collective bargaining (88.6 percent) reported shortfall relative to respondents with collective bargaining (100 percent), $p < .01$ (Fisher's exact test).

For cities/counties reporting revenue or budget shortfall for the past two years, we examined whether type of respondent, collective bargaining, and partisanship of council was associated with the following budget shortfall responses: workforce reduction, reduce wages/benefits, layoffs, reduce/eliminate services, raise taxes/fees, and borrowing funds. As observed in Table 1, workforce reductions were significantly more likely in cities than in counties. The use of collective bargaining was significantly associated with a greater likelihood of responding to the budget shortfall through the use of workforce reductions, reductions in services, and the raiding of funds. The partisanship of the county/city council and type of respondent was not associated to any of these budget shortfall responses (Table 1).

Wages and Benefits

In every job unit except management (i.e., nonmanagement, police, fire), a majority of respondents reported that the jurisdiction allowed collective bargaining for these groups. Of those locales with collective bargaining for these job units, less than one-quarter reported renegotiating contacts for the particular job unit. On average, each bargaining unit received a 2 to 3 percent cost-of-living adjustment (COLA) over the 2007–08 and 2008–09 fiscal years. Police and fire employees received the highest COLA while management received the lowest average COLA. Across all job units, respondents reported increases in benefits despite budget shortfalls. Nearly half of respondents reported increases in benefits for police and fire personnel, while fewer than 10 percent of respondents reported decreases in benefits for nonmanagement, fire, and police employees.

Table 2 presents the bivariate associations of benefits for each employee unit and the following variables: (1) type of respondent, collective bargaining, and council partisanship. Collective bargaining was significantly associated with employee benefits for nonmanagement, fire, and police employees. For each of these job units, respondents reporting collective bargaining indicated significantly higher increases in benefits over the two-year fiscal year period. Neither type of respondent nor partisanship was significantly associated with benefits.

Table 3 shows the bivariate results of an analysis testing whether type of respondent, collective bargaining, and partisanship were associated with average COLA over the two-year fiscal year period for each job unit. For each job unit, only collective bargaining was significantly associated with average COLA with those respondents reporting the allowance of collective bargaining having higher average COLA values compared to cities/counties without collective bargaining allowances for these job units.

Discussion

The findings that have emerged from this study of public sector compensation practices have produced several important findings. Over 95 percent of the jurisdictions indicated they were facing a budget shortfall which underscores the fiscal crisis facing local governments. In response to their budget shortfall, local governments appear to be reducing their workforces, laying employees off, borrowing and utilizing reserves and reducing or eliminating services rather than raising taxes and/or reducing current wages and benefits. Raising taxes during a recession is not only politically risky but in many cases almost impossible in many jurisdictions due to state laws, ballot initiatives, and constitutional restrictions that complicate and/or prohibit them from being enacted (Shubik,

Table 2. Benefit Increases/Decreases by Personnel Unit

	Nonmanagement						Management					
	Increase		Same		Decrease		Increase		Same		Decrease	
Variable	%	*N*	%	*N*	%	*N*	%	*N*	%	*N*	%	*N*
Type												
City	35.2	25	56.3	40	8.5	6	18.6	13	68.6	48	12.9	9
County	37.9	22	56.9	33	5.2	3	22.2	13	68.4	39	8.8	5
Collective bargaining												
Yes	48.6	35	45.8	33	5.6	4**	34.8	8	56.5	13	8.7	2
No	21.8	12	70.9	39	7.3	4	17.0	17	72.0	72	11.0	11
Partisan												
Yes	43.3	26	51.7	31	5.0	3	29.3	17	62.1	36	8.6	5
No	29.2	19	63.1	41	7.7	5	12.3	8	75.4	49	12.3	8

	Fire						Police					
	Increase		Same		Decrease		Increase		Same		Decrease	
Variable	%	*N*	%	*N*	%	*N*	%	*N*	%	*N*	%	*N*
Type												
City	40.0	26	52.3	34	7.7	5	42.2	27	51.6	33	6.2	4
County	43.3	13	50.0	15	6.7	2	41.5	22	54.7	29	3.8	2
Collective bargaining												
Yes	50.0	32	43.8	28	6.2	4*^	48.6	36	48.6	36	2.7	2*
No	22.6	7	67.7	21	9.7	4	28.6	12	61.9	26	9.5	4
Partisan												
Yes	51.4	19	37.8	14	10.8	4	45.5	25	49.1	27	5.5	3
No	35.1	20	61.4	35	3.5	2	35.6	21	59.3	35	5.1	3

*$p < .05$. **$p < .01$.

Table 3. Average Cola Benefits by Personnel Unit

	Nonmanagement			Management			Fire			Police		
Variable	*M*	*SD*	*N*	*M*	*SD*	*N*	*M*	*SD*	*N*	*M*	*SD*	*N*
Type												
City	2.67	1.71	63	2.13	1.60	61	2.88	1.85	58	3.01	2.00	56
County	2.34	1.46	54	2.05	1.53	53	2.71	1.36	28	2.76	1.7	48
Collective bargaining												
Yes	2.91	1.53	68**	2.86	1.44	21**	3.20	1.64	61	3.34	1.81	73**
No	1.99	1.55	47	1.87	1.87	89	1.92	1.50	25	1.86	1.59	30
Partisan												
Yes	2.57	1.84	55	1.98	1.54	53	2.94	1.61	25	2.75	1.60	50
No	2.46	1.40	59	2.16	1.61	58	2.76	1.78	50	2.99	2.11	52

*$p < .05$. **$p < .01$.

Horwitz, and Ginsberg 2009). The growing power of politically influential unions in the public sector has made wage and benefit concessions a difficult and challengingly path to pursue. In instances where unions have been willing to make concessions, it has been for future employees. Thus, they protect what they have for the existing membership, but sacrifice wages/benefits for those yet to be hired. These responses will clearly exacerbate the ability of local governments to deliver essential services in their communities.

As predicted, both types of government and collective bargaining were associated with budget shortfalls. A significantly lower percentage of counties and those without collective bargaining agreements faced budget shortfalls. However, the overwhelming majority of local jurisdictions reported shortfalls. As suggested earlier, county governments typically encompass larger geographical areas and therefore receive tax revenues from more diverse sources. This may account for this finding.

Even though 95 percent of the local governments responding reported budget shortfalls, each of the four groups reviewed in this study continued to receive cost-of-living adjustment (COLA) increases averaging between 2 percent and 3 percent for each of the years surveyed. Multiyear contracts may factor in to this. Public safety units had higher COLA than management and nonmanagement. This may be due to public safety enjoying considerable taxpayer and voter support (Boyd 2009), but there were a higher percentage of jurisdictions with collective bargaining agreements for public safety units. The existence of collective bargaining contracts means that these COLA increases will continue to occur during the duration of the agreements unless the city or county is successful in opening up the existing contract for renegotiation. This forces governments to exercise budgetary discretion in other places.

Across all four job units, respondents reported increased benefits despite budget shortfalls. For nonmanagement, fire, and police units, few reported decreases in benefits (approximately 7 percent). Clearly, existing collective bargaining agreements in some jurisdictions reduce the ability to unilaterally reduce wages and benefits. However, the fact that less than a quarter of collective bargaining units in each of the four job units reported renegotiating existing contracts is a contributing factor as well. In addition, decision making on how to respond to budget problems at the local level can take considerable time and involve multiple actors. The time period for the data collection for this study may not capture new collective bargaining or employment agreements with workers and any renegotiation that ultimately may take place.

As predicted, collective bargaining was significantly associated with employee benefits for nonmanagement, fire, and police units. For each of these units, jurisdictions reporting collective bargaining indicated significantly higher increases in benefits during the two-year period. Additionally, for each of these units, collective bargaining was associated with higher COLAs compared to local governments where collective bargaining does not exist. Finally, the use of collective bargaining was significantly associated with a greater likelihood of responding to a budget shortfall through workforce reduction, borrowing funds, and reduction in services. Where bargaining is strong, local governments were more likely to reduce the labor force rather than decrease salary and benefit levels. This interaction may lead to inefficient outcomes during the recession, with local government employees receiving above-market wages and benefits, and, in turn, citizens facing reduced service capacity.

The local governments that responded to the survey had workforces that were more unionized than the latest figures from the BLS on local union membership. This higher rate of unionization could be a result of surveying larger local governments where collective bargaining practices may be more common. Additionally, some respondents may have included supervisors in their managerial ranks which may have inflated the number of unionized management employees.

Compensation increases for state and local government employees have been trending upward for the last several years and have been substantially higher than those for workers in the private sector from 2005 to 2008. Given local government responses to budget shortfalls in this survey (as well as others), there appears to be fewer regional and municipal workers and less capacity to deliver core services. This study did not capture any additional wage increases that local government employees may have received during this survey period such as merit increases, step increases, and/or longevity pay. While it is reported that benefits have generally increased during this survey period, this may or may not be a result of more generous benefits being extracted. Rising health care costs are a major budgetary drain on local governments and paying for these may account for significant compensation increases.

In light of this discussion, it is important to consider limitations to this study. First, data collection methods in this study relied on self-reports that may be susceptible to response bias. Second, the survey focused on the largest county and city governments. The extent to which smaller local governments have similar or different experiences and practices is not clear. Finally, the survey did not capture the size of the budget shortfall, and this may have influenced the choice regarding some responses. Despite these limitations, this research offers important insights into public sector compensation practices in the United States.

Conclusion

The fiscal stress on local governments is projected to continue for the next several years; and the choices available for cities and counties appear to be limited. The workforces of local governments are becoming increasingly unionized. As a result, wages and benefits have been increasing; even during tough economic times. The inability (or unwillingness) of many jurisdictions to raise taxes and the reluctance of public sector unions to agree to wage and benefit reductions will leave many state and local governments with limited options and make it increasingly difficult to offer the same level of services in their jurisdictions.

As more media attention is focused on public sector compensation as well as the high levels of unfunded liabilities for pensions and OPEB benefits such as retiree health care (and a real or perceived inequity with private sector workers), there is a limit to the reduction in essential services and requests for additional revenue that taxpayers will accept. The most effective measure public managers can employ is to insist on increased transparency in all aspects of public sector wages and benefits. This includes more public discussion and deliberation on employee wage and benefits packages, collective barraging agreements, and long-term financial commitments that may affect future generations. COLA increases during tough economic times and increases that exceed inflation need to be publicly justified. Finally, local governments need to be prepared to explain why wage and benefit reductions are not being considered when dealing with budget shortfalls.

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Note

1. A total of 134 surveys were returned for a response rate of 45 percent. Respondents from the Northeast and Midwest were underrepresented, while respondents from the West and South were overrepresented in the sample. Additionally, there were significantly a higher proportion of respondents from cities (56.9 percent) relative to nonresponders (45.2 percent), $p < 0.05$.

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Bios

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