

# State Notes

## TOPICS OF LEGISLATIVE INTEREST

### September/October 2003



#### State Employee Concessions by Bill Bowerman, Chief Analyst

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#### Introduction

Governor Granholm's fiscal year (FY) 2003-04 budget recommendation did not fund cost increases associated with employee wages and benefits. The Legislature concurred with this recommendation when the FY 2003-04 appropriation bills were enacted. The Administration stated that absorbing these costs within existing resources potentially could result in "thousands" of employee layoffs. Therefore, the Governor instructed the State Employer to negotiate concessions from employee unions to offset FY 2003-04 unfunded employee economic costs. This article provides an overview of the unfunded employee economic costs and the methods that the Administration is proposing to cover those costs.

#### Employee-Related Economic Costs

Economic costs in the FY 2003-04 budget total an estimated \$259.8 million. Of that amount, a little over \$3 million is related to workers' compensation, building occupancy adjustments, and rent. The Governor included funding for those costs in her FY 2003-04 budget recommendation. However, costs related to salaries and wages, insurance, and retirement, totaling \$256.7 million, are not funded in the budget. Of the unfunded economic costs, the 3% Civil Service cost-of-living adjustment (COLA) accounts for \$108.1 million. The balance of the costs relate to health insurance increases and retirement costs that will occur regardless of any salary adjustment. [Table 1](#) outlines unfunded economic costs.

Table 1

FY 2003-04 UNFUNDED ECONOMIC ADJUSTMENTS (Amounts in Millions)		
	Gross	GF/GP
3% Civil Service COLA <sup>1)</sup> . . . . .	\$108.1	\$60.4
Insurance . . . . .	49.5	26.1
Retirement . . . . .	99.1	53.5
<b>TOTAL</b> . . . . .	<b>\$256.7</b>	<b>\$140.0</b>
<sup>1)</sup> Amounts include salaries and wages, retirement, FICA, Medicare, and insurance adjustments related to the 3% Civil Service COLA.		

Source: State Budget Office

#### Employee Concessions

The Administration has stated that employee concessions will be based on an equitable contribution from all employees, regardless of the funding source for the individual full-time equated (FTE) positions. If agreement is not reached with certain bargaining groups, a comparable level of savings will be unilaterally achieved through reduced work schedules and



furlough days, which are authorized by current collective bargaining agreements. The method by which savings are achieved will vary due to the collective bargaining process. The actual amount of savings being sought by the Administration has been reduced from \$256.7 million due to savings generated through the current Plan A Voluntary Work Schedule Reduction Program (\$10 million), a reduction in State contracting costs (\$15 million), and a freeze on travel reimbursement rates for FY 2003-04 (\$1.5 million).

The programs described below were developed by the Office of the State Employer to offset partially the cost of FY 2003-04 unfunded economic costs.

#### BANKED LEAVE TIME

Under this program, full-time employees will continue to work 40 hours per week; however, the base pay for full-time employees will be reduced by two hours each week. The reduced hours will be credited to Banked Leave Time. The pay for part-time employees will be reduced by a pro rata number of hours. The maximum number of banked leave time hours under this program is 104. The above adjustment equates to a 5% pay reduction. The Banked Leave Time will not be counted against the employee's regular annual leave cap. The accumulated Banked Leave Time hours may be used as annual leave, or a State contribution will be made to the employee's 401k or 457 plan upon the employee's separation from the State. The value of the State contribution will be based on the number of accumulated Banked Leave Time hours and the employee's pay rate in effect at the time of the State contribution. The calculation of retirement service credit<sup>1</sup>, longevity payments, step increases, holiday pay, sick and annual leave time accruals, benefit levels, and insurance premiums will not be affected by Banked Leave Time hours. The Banked Leave Time Program, if applied to all classified employees, would generate an estimated \$150 million in savings for FY 2003-04.

#### FURLOUGH HOURS

The Furlough Program requires full-time employees to take 40 hours of unpaid furlough leave in FY 2003-04. This adjustment equates to a 1.9% pay reduction. All employees, except essential employees, will be furloughed without pay on January 2, 2004. The remaining 32 furlough hours will be scheduled pursuant to the same requirements as annual leave. Employees who work less than 40 hours per week will be required to take a pro rata share of 40 unpaid furlough hours. The Furlough Program also includes a paid furlough day on December 26, 2003. The calculation of retirement service credit<sup>1</sup>, longevity payments, step increases, holiday pay, sick and annual leave time accruals, benefit levels, and insurance premiums will not be affected by the Furlough Program. The Furlough Program, if applied to all classified employees, would generate an estimated \$56 million in savings for FY 2003-04.

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<sup>1</sup>Requires amendments to the State Employees' Retirement Act.



#### PRESCRIPTION DRUG CO-PAY REVISION

The Civil Service Commission had previously approved an increase from \$12 to \$15 for brand name prescription drugs in FY 2003-04. Under the modification proposed by the State Employer, the mail and retail prescription drug program under the State Health Plan PPO will have a new co-pay of \$30 for nonpreferred brand name drugs effective January 1, 2004. All nonpreferred brand name drugs will have a generic substitute available or a therapeutically or chemically equivalent preferred brand name drug available. Preferred brand name drugs will maintain the co-pay of \$15. (Generic drugs are subject to a \$7 co-pay.) The State Employer estimates \$1.5 million in savings from the modification to the prescription drug program, if it is applied to all classified employees.

#### PERFORMANCE PAY

Pay for performance is authorized by Civil Service Commission Rule 5-3.4 (c)(2). Employees who are eligible for performance pay awards are not included in step increase schedules. There are currently 2,974 employees included in performance pay programs. Pay increases for employees in performance pay programs are based on performance evaluations. In FY 2001-02, the cost of performance pay awards totaled \$5 million. As part of the employee concession package, the State Employer is recommending suspension of performance pay awards in FY 2003-04.

#### **Status of Pay Concessions**

The classified State workforce consists of 55,622 employees, with 40,725 (73.0%) exclusively represented by one of eight employee unions. Negotiations with the employee unions are ongoing. The Michigan State Employees Association recently approved negotiated concessions on a vote of 1,237 to 1,063. Tentative agreements have been reached with the Service Employees International Union Local 517, the United Auto Workers Local 6000, and the Michigan Corrections Organization. The total estimated savings from the above concession agreements are approximately \$124 million. While the terms of negotiated and pending agreements will vary among unions, the State Employer plans to achieve equitable contributions from each bargaining unit. For example, the tentative agreement with UAW Local 6000 requires fewer furlough hours due to concessions regarding State contributions to union professional development funds. State employees represented by the Michigan Corrections Organization will not have furlough days due to concessions regarding overtime for pre-shift briefings. The agreements with the unions to date all have included a no-layoff guarantee. If layoffs occur, the Banked Leave Time Program and the Furlough Program will be suspended.

For 14,897 nonexclusively represented employees (NERE), the Civil Service Commission adopted most of the State Employer's recommendations at its October 9, 2003, Commission meeting. The amount of savings that will be generated from NERE concessions totals approximately \$75 million. The Commission did not approve the recommendation to eliminate performance pay awards. However, the State Employer plans to continue discussions on this issue. While the Governor suspended performance pay awards in January 2003 and recently issued Executive Directive 2003-15, which prohibits performance pay awards in FY 2003-04,

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the Department of Attorney General, Department of State, and Office of the Auditor General are not subject to the Executive Directive.

**Conclusion**

The State Employer's plan to offset FY 2003-04 employee-related economic costs partially through employee concessions is currently being negotiated with employee unions. To the extent that negotiations with individual unions are not successful, the State Employer will achieve savings through reduced work hour schedules, furloughs, or layoffs, all of which are authorized under the current collective bargaining agreements. The employee concessions will temporarily solve the issue of unfunded economic costs in the FY 2003-04 State budget. However, the use of these concessions will leave the base continuation budget for FY 2004-05 over \$200 million short, in addition to the task of funding FY 2004-05 economic costs.

**Sources:** FY 2003-04 Governor's Budget Recommendation  
October 2, 2003 State Employer Proposal to the Civil Service Commission  
October 9, 2003 State Employer Presentation to the Civil Service Commission  
Department of Civil Service Annual Workforce Report, FY 2002-03 Third Quarter Update