



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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December 5, 2014

TO: The Honorable Jay Inslee

FROM: David Schumacher
Director

SUBJECT: FINANCIAL FEASIBILITY OF COLLECTIVE BARGAINING AGREEMENTS AND ARBITRATION AWARDS SUBMITTED BY OCTOBER 1, 2014

By law¹, the Governor shall submit a request for funds necessary to implement the compensation and fringe benefit provisions in collective bargaining agreements and arbitration awards only if the agreements are submitted to the Director of the Office of Financial Management (OFM) by October 1 and the Director certifies these provisions as being “feasible financially for the state.” If the Director does not certify the agreements as feasible financially for the state, the Governor is prohibited from submitting a request to the Legislature for funds necessary to implement the compensation and fringe benefit provisions.

This memorandum is provided to inform you that the agreements and arbitration awards submitted to OFM by October 1, 2014, are feasible financially for the state in considering the state’s obligations to provide services for the health and safety of our citizens in combination with the current and forecasted economic and revenue conditions for Washington.

Summary of Negotiated Collective Bargaining Agreements and Arbitration Awards

OFM negotiated eight collective bargaining agreements for general government and higher education unions. In addition, OFM negotiated one marine union agreement and two non-state employee union agreements. OFM also negotiated with the super coalition the health care terms that will be included in and be a part of each collective bargaining agreement. The following agreements were reached as a result of arbitration awards: one agreement for a general government union, ten agreements for marine unions, two agreements for the Washington State Patrol, and two agreements for non-state employee unions. Finally, 14 agreements were negotiated between institutions of higher education and unions representing classified staff at the institutions. Attached is the summary of the major elements of the above-referenced agreements and arbitration awards that we provided to the Joint Committee on Employment Relations on October 3, 2014.

Feasible Financially for the State

The general government, higher education and non-state employee agreements were negotiated based on the June 2014 quarterly revenue forecast for Washington prepared by the Economic and Revenue

¹ Requests for funds necessary to implement the compensation and fringe benefit provisions of collective bargaining agreements and arbitration awards are governed by chapters 41.56, 41.80 and 47.64 RCW.

Forecast Council. At that time, the Near General Fund-State² (NGF-S) revenues for the 2015-17 biennium were forecasted to be 8.6 percent higher than the revenues forecasted to be collected in the 2013-15 biennium. The revisions to the 2015-17 NGF-S revenue forecast have continued to increase the forecasted revenues in the September 2014 forecast. The November 2014 quarterly revenue forecast again increased the NGF-S revenues another \$273 million. The NGF-S collections are projected to total \$36.98 billion for the 2015-17 fiscal biennium, an 8.6 percent increase from the 2013-15 biennium.

Washington's economy continues to grow slowly. The forecast continues the trend of modest improvement that the state has seen over the past months. Although there are downside risks to the forecast, the combination of falling gas prices, increases in the growth of personal income, and other signs of a continued modest recovery resulted in the small positive change from the September forecast.

The agreements funded from transportation revenues were negotiated based on the February 2014 quarterly transportation revenue forecast prepared by OFM through the Transportation Revenue Forecast Council. Washington's transportation revenues come from numerous taxes, fees, permits, tolls and other revenues. Fuel taxes comprise the largest share of transportation revenue.

The February 2014 transportation revenue forecast for the 2015-17 biennium was \$4.73 billion. The November 2014 transportation forecast of revenues for the same period was \$4.833 billion. Although not all revenue sources are projected to be higher, the total revenues are projected to be greater than the current biennium. These forecasts did not include revenues from tolling.

The general government and higher education agreements have modest general wage increases. These increases are generally no more than 3 percent in the first year, and no more than 1 percent in the second year. An additional .8 percent increase in the second year included in many of these agreements is limited to the lowest paid employees. There are also targeted wage increases to address issues of recruitment, retention, change in duties and compression.

State employee wages have been stagnant for six years. The temporary salary reduction implemented in the 2011-13 biennium was restored in the 2013-15 biennium, putting employees back to pre-2011 wages. At the same time, health care and pension contributions increased as well as inflation, meaning employees have experienced a net loss of wages since 2008. This is in comparison to wage increases in comparable local government positions and increased employment in the private sector. These modest increases are important in order to maintain a quality workforce, be able to recruit talent, stem the workforce turnover within state government, and continue to provide vital services to the public.

The increases in the non-state employee union agreements are also modest. These agreements represent some of the lowest paid workers in Washington. Yet they provide vital services to our citizens, especially the elderly and most vulnerable citizens. The agreement terms that have a cost further state policies on quality and again aim to reduce the overall cost of the services provided.

²² The Near General Fund includes revenues to the General Fund, Education Legacy Trust Account, and Washington Opportunity Pathways Account.

Consistent with the other agreements, the agreements and arbitration awards for agreements funded by transportation revenue are modest as well. The terms in these agreements are generally consistent with the other state-negotiated agreements. In addition to general wage increases, there are small targeted investments, such as increased uniform allowance for master, mates and pilots mates or employer-paid parking for Washington State Patrol officers for department-issued vehicles assigned at the General Administration building. Similar to the issues affecting general government employees, these small increases are needed to recruit and maintain a quality workforce, and reduce turnover resulting from disparate compensation and benefits provided by the state in contrast to other employers.

In order to reach full agreement with each union, agreement was reached with the super coalition on the health care terms³. This agreement maintains the current contribution percentage for employees. In addition, the agreed upon terms aim to reduce the overall cost of health care by providing flexibility in plan design and focusing on wellness incentives.

Conclusion

The 2015-17 collective bargaining agreements submitted to OFM by October 1, 2014, are feasible financially for the state. The request for funds necessary to implement the compensation and fringe benefit provisions of these agreements can be included in the Governor's proposed 2015-17 biennial operating budget and transportation budget that will be submitted to the Legislature.

cc: Joby Shimomura, Chief of State, Office of the Governor
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Roselyn Marcus, Assistant Director for Legal and Legislative Affairs, OFM
Glen Christopherson, Assistant Director for State Human Resources Division, OFM

³ The negotiation for health care terms does not result in a separate agreement. The health care terms are included in and become a part of each separate collective bargaining agreement. The benefit of this negotiation is that all agreements include the same health care terms.