

Public Act 312 Drives Up the Cost of Local Government

About 75% of
a municipal
budget is
personnel;
Of that, 50%
is public
safety!

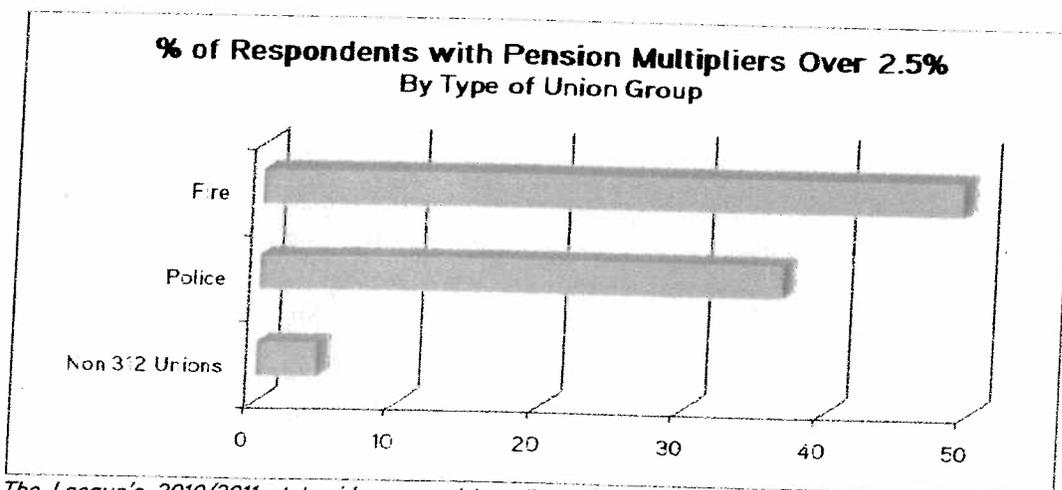
Public Act (PA) 312 of 1969 established a system of mandatory binding arbitration for contract negotiations between municipalities and public safety employee unions. Despite its good intentions, PA 312 has created a system that severely impedes local elected and appointed officials' ability to control their largest cost: personnel.

Among other things, PA 312 gives power to an individual arbitrator to determine police and fire wages and benefits. A heavy reliance on external pay data in the PA 312 process means public safety employees often have significantly more generous compensation packages than other employees working for the same municipality.

Local leaders find themselves in an untenable position with regard to "internal equity," or how to create fairness among all employee groups. Worse yet, as local revenue—and their ability to pay—declines they are powerless to reduce public safety wages and benefits.

The disparity between public safety employees and other employees is particularly stark in the area of retirement benefits. The 2010-2011 Michigan Municipal League Wage and Salary Survey finds a significant difference in pension multipliers offered to different types of employee unions. A multiplier, along with years of service and final average earnings, determines what the pension payment will be for the retiree. The higher the multiplier, the more generous the pension payment and the more costly the benefit is to the employer.

Police and Fire unions are almost ten times more likely than other union groups to have the most generous pension multipliers!



The League's 2010/2011 statewide pay and benefits survey includes benefit information from 543 employee groups in 204 communities.

Over 49 percent of fire unions have a pension multiplier over 2.5 percent, along with 37 percent of police unions. Fewer than five percent of non-312 unions are afforded pension benefits at that level.

Another indicator of the increased costs spurred by PA 312 is that, according to the survey, public safety employees are more likely to have defined benefit pension plans than other municipal employees. Employers in all sectors across the country have been moving away from defined benefit plans to better control costs, yet union groups governed by PA 312 continue to be provided these costly benefits at much higher rates. Nearly 80 percent of fire unions and 70 percent of police unions have access to defined benefit pensions, while non-312 unions are nearer 50 percent and continue to decline at faster rates.

City Managers across Michigan report:

"As soon as we conclude negotiations with our two Police Units our two Non-Public Safety bargaining units immediately ask for improvements to try to "catch up."

"We extend some of the same wage and benefits improvements to the other bargaining units to maintain labor peace and positive organizational morale."

"There is no doubt that our city government has spent hundreds of thousands of dollars due to PA 312."

"Absent the threat of PA 312, we would have stuck to a reasonable pension multiplier and avoided this unfunded legacy cost."

"There is no doubt that the fear of going to Act 312 arbitration has affected the course of negotiations."

There are direct, indirect, and "invisible costs" to PA 312 despite fewer arbitration cases in recent years. Local elected and appointed officials will go to great lengths to avoid binding arbitration because it can be extremely costly in terms of political harmony, employee morale, and direct financial costs. Arbitration decisions often have a ripple effect across other employee groups, multiplying the direct costs many times over.

The sponsor of PA 312 was Coleman A. Young, who went on to become Mayor of Detroit. Once he experienced the effect of PA 312 firsthand, as the leader of the City of Detroit, Mayor Young changed his mind dramatically and concluded, ***"We know that compulsory arbitration has been a failure. Arbitration awards have caused more damage to public service in Detroit than the strikes they were designed to prevent."***

HAMTRAMCK'S HORROR STORY

Many communities that have gone through the PA 312 process have lost much more than legal fees.

In 1999, despite offering three and four percent annual salary increases, Hamtramck entered PA 312 arbitration in an extremely fragile budget situation. They showed that they did not have the ability to pay the union demands, which were a "serious threat to the City's economic survival and its ability to maintain basic services." But the arbitration award ruled on behalf of the union, citing "comparable communities," and ruled that the City could reallocate funds within its budget to pay for larger increases. The City was also denied any changes for employee contributions to health care.

IN 2000, HAMTRAMCK ENTERED EMERGENCY FINANCIAL MANAGEMENT.