



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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JUN 7 1978

The Honorable Harry F. Byrd, Jr.
United States Senate

Dear Senator Byrd:

In your letter dated May 9, 1978, you requested that we prepare a report on the budgetary impact of existing and prospective labor contract settlements in New York City. In a subsequent discussion with your office we advised that while we have been following the status of the city's labor negotiations, we are unable to furnish definitive answers to your questions because those negotiations are still in process. Rather than delay responding, however, we would like to furnish you some of the preliminary information which we have developed.

Essentially, there are three main sets of negotiations the city is faced with: (1) the transit workers' contracts expired March 31, 1978; (2) the main body of municipal workers are covered by contracts expiring June 30, 1978; and (3) the teachers' contracts expire in September 1978. The teachers, however, are negotiating in a coalition with the main body of municipal workers. The police and fire unions, on the other hand, have excluded themselves from the coalition and will negotiate independently. As of May 31, 1978, the city has negotiated a proposed agreement with the transit workers and they were in active negotiations with the coalition of municipal workers. The transit contract had not yet been accepted by the union membership, and, in fact, the union leaders had made public statements indicating that they might attempt to re-open negotiations with the city if the terms offered to the coalition exceeded the terms they had won. In essence, then, no contracts have been finally settled as of May 31, 1978.

Assuming that the contracts might offer equal benefits to all employees when finally negotiated, we analyzed the proposed transit contract and projected it over all municipal employees. Our projections indicated that the transit contract over 2 years (fiscal years 1979 and 1980) would cost the city \$18 million and those same benefits extended to the main body of municipal employees over the same 2-year period would cost the city approximately \$870 million.

Our understanding of the transit workers' contract, as outlined below, is based on what we were able to learn of the terms and conditions of the contract by speaking to one of the principals to the negotiation and several city officials who were on the periphery of the negotiation. The representative of the transit workers, who was the other principal, elected not to talk to us about the proposed contract until after it was finalized.

The major terms of the agreement, according to our discussions, are as follows:

- A 6-percent wage increase, payment of which is deferred for 3 months. The increase is, therefore, applicable to the last 21 months (July 1978 to March 1980) of the 24 month contract.
- A \$250 lump sum payment, payable before July 1, 1978, not to be included in the workers base salary for pension computation purposes.
- Cost of living increase I (COLA I) is to be continued and frozen at the rate of \$0.22 per hour and included in the hourly salary rate and base salary for pension computation purposes.
- Cost of living increase II (COLA II) is to be continued and frozen at \$0.40 per hour and included in the hourly rate but not the pension base for employees on board as of March 31, 1978. Under prior agreements this COLA was offset by savings generated from worker productivity. Under this contract, however, the COLA will be paid without consideration of productivity. The contract also provides that previously existing productivity programs will continue.
- Cost of living increase III (COLA III) is to be paid after July 1, 1979, based on the Consumer Price Index rise for the period July 1978 to May 1979. The total COLA III increase will be included in employees' pay checks but will not be included in base salaries for pension computation purposes. This COLA is not expected to add any cost to the contract because it is to be funded totally by measured productivity savings.
- Management's prerogative to hire part-time workers will be recognized in the hiring of 200 part-time change booth clerks in the subway system.

Because the transit operating authority in New York City is an independent authority and has substantial income from fares, the cost of this contract to the city is not major. The city's projections show that its subsidy to the transit system will increase by \$18 million to fund this settlement.

Our preliminary projection of the cost of those conditions, if a similar pact is negotiated with all city workers, is summarized below.

ESTIMATED COST OF A TRANSIT-LIKE SETTLEMENT
IF APPLIED TO OTHER MUNICIPAL UNIONS
TWO-YEAR CONTRACT

	<u>Total payout</u> <u>under</u> <u>contract</u>	<u>Non-tax</u> <u>levy d/</u> <u>share</u>	<u>Tax-levy</u> <u>share or</u> <u>city cost</u>
		(in millions)	
Wage increase - 6 percent	\$ 481	\$ 63	\$418
Bonus - \$250 per employee	66	9	57
Continuation of COLA I <u>a/</u>	-	-	-
Continuation of COLA II	453 <u>b/</u>	58 <u>b/</u>	395 <u>b/</u>
Institution of COLA III <u>c/</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$1,000</u>	<u>\$130</u>	<u>\$870</u> <u>e/</u>

a/ COLA I is already included in employee hourly wage rates and accounted for in the 4-year financial plan.

b/ COLA II might cost somewhat less if the existing productivity programs continue to generate savings in the future.

c/ COLA III is expected to be a no-cost COLA since it is to be paid only out of measured savings from productivity.

d/ The non-tax levy share represents that portion of the city's incremental costs which are normally projected to be passed on to the State and Federal Governments under reimbursable grant programs. This is currently estimated to be 13 percent.

e/ This estimate does not include increased pension costs of approximately \$50 million per year. Since the city funds its pensions on a 2 year lag this cost will not impact on its budgets until 1981.

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A discussion of how the city would fund a settlement of \$870 million is speculative to some extent because the city's offers have been for a 2-year settlement at lower amounts. They have, therefore, been planning on funding those amounts rather than the higher cost projected here.

The city's latest contract offer is for a package estimated to cost \$700 million to be offset by \$78 million in "givebacks" of fringe benefits. These givebacks are to be of the type which will actually reduce the cost of the labor settlement.

The city's fiscal year 1979 executive budget indicates that \$617 million will be available during 1979 and 1980 for labor settlements and other contingencies. The sources for that funding are as follows:

	(in millions)
Amount included in 4-year financial plan	\$138
Contribution by N.Y. State	100
Overestimate of pension cost included in 4-year plan	71
"Surplus" in current year's budget (1978)	170
Additional revenues and underspending 1979-1980	<u>138</u>
Total	<u>\$617</u>

We attempted to verify the availability of these amounts as possible funding sources. While our work was constrained because the amounts in question are budget estimates subject to change, we have been able to learn the following:

\$138 million included in 4-year plan

This amount was included in the plan as the city's share of the anticipated cost of COLA II.

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\$100 million contribution by N.Y. State

City officials told us that the Governor pledged \$100 million from State funds to assist in the 2-year contract settlement. We visited Albany and met with a State budget official who told us that the State was planning to provide the first half of its share of such funding as part of a total city aid package. The details of the funding for that aid package will require some State or Federal legislative action before it is firm. Details of the State's 1980 funding sources are as yet uncertain.

\$71 million overestimate
of pension cost

City officials told us that the cost of the city's pension contribution had been overestimated by about \$39 million for 1979 and \$32 million for 1980. We discussed these amounts with the actuary who showed us his estimates and explained that he had initially overestimated the needs of certain funds. The overestimates became evident upon a detailed review of the computations and when they were discovered he brought them to the attention of city budget officials.

\$170 million "surplus"
in 1978 budget

This \$170 million in available funds resulted primarily from projected underspending by city agencies during fiscal year 1978.

We discussed this underspending with representatives of the Office of the Special Deputy Comptroller for New York City, whose recent review of spending levels for the entire year projected them at roughly the same levels projected by the city. We analyzed the work of the Special Deputy Comptroller's staff and we reviewed the city's actual spending reports as of February 1978. Our work indicated that most of the projected underspending was reasonable. We do, however, have reservations about that portion of the underspending which city officials claim will result from a tightening of the procedures under which agencies can obligate appropriations at the end of the year. While this may result in reduction of spending, city officials could offer no support for the \$50 million specifically earmarked to be saved under these new procedures.

There has been some controversy about the propriety of using this 1978 underspending to pay for the costs of the 1979 labor contract. If this controversy is not resolved in favor of the city, the availability of these funds to pay for the wage settlement would be uncertain. The matter,

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however, may be resolved in another way. If the language in the labor contracts identifies certain benefits as having been earned by employees in 1978, the costs of those benefits might be considered as 1978 expenses, and the 1978 underspending could then be applied to pay for those expenses.

\$138 million in underspending, additional revenues, and added budget cuts in fiscal years 1979 and 1980

The largest component of this amount is an estimated \$80 million to be derived from the sale of the right-of-way for the construction of Westway, a highway project. These revenues were originally projected to be received in fiscal year 1978.

Before the project goes forward the city must obtain permits from Federal and State agencies. The Federal Environmental Protection Agency has already recommended against the project and although city and State officials believe all objections will eventually be overcome, the realization of these revenues is uncertain at this time.

The city is also projecting \$20 million in additional revenues for fiscal year 1979, primarily in increased sales and personal income taxes. The Office of the Special Deputy Comptroller has reviewed the city's econometric projections of these items and found them reasonable.

Most of the remaining \$38 million is expected to result from underspending similar to that being experienced in fiscal year 1978.

Given the uncertainty of several of the funding sources, there is a risk in relying on such sources to fund a wage settlement. It should be noted, however, that the city always has the option of making various budget cuts to fund the cost of the wage package.

In any discussion of the funding of pay increases it is important to keep in mind that the city has other funding problems as well, as its budget is still far from being balanced. Enclosure I shows the extent of the city's budget balancing problem assuming the transit settlement were extended to the other municipal unions.

As arranged with your office, we plan to make copies of this report available to other interested parties. We would be happy to meet with you to discuss any of these matters further.

Sincerely yours,

R.F.KELLER

Acting Comptroller General
of the United States

Enclosure

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ESTIMATED IMPACT OF A TRANSIT LIKE
SETTLEMENT ON CITY'S FINANCIAL PLAN

	Fiscal year		Total
	1979	1980	
	(in millions)		
True gap 4-year plan	\$1,022	\$1,104	\$2,126
Add estimated cost of settlements:			
Transit contract	18	-0-	18
Transit contract extended for municipal unions	440	430	870
Amount included in plan	<u>(69)</u>	<u>(69)</u>	<u>(138)</u>
Revised gap	<u>1,411</u>	<u>1,465</u>	<u>2,876</u>
Less proposed measures to close the gap:			
Previously announced Pledged by State for labor settlement	457	704	1,161
Savings in pension costs	50	50	100
City estimate of 1978 budget underspending	39	32	71
Underspending and additional revenues fiscal years 1979 and 1980	170	-	170
Underspending and additional revenue to cover cost of transit pact	104	34	138
Total of identified measures	<u>838</u>	<u>820</u>	<u>1,658</u>
Remaining gap	573	645	1,218
Less: Pension liability which will not be funded	(115)	(100)	(215)
Operating expenses which will be paid with borrowed funds	<u>(450)</u>	<u>(300)</u>	<u>(750)</u>
Remaining gap if transit settle- ment were extended to all municipal employees	\$ 8	\$ 245	\$ 253
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