# Beware of the ‘Delayed Settlement Implementation’ Time Bomb

## Postponing a settlement implementation can end up costing your district more than you think

**By ROBERT GREITZ**

Let’s face it: Labor negotiations in the current economic environment are tough. Boards have little money and they are faced with a strict 2 percent tax levy cap. The cost of employee health insurance keeps rising, and the public outcry over the costs associated with public education casts a long shadow over all negotiations.

In many cases, these complications leave board members exasperated and feeling hopeless as to how a settlement can be reached with a minimum of acrimony and rancor. Don’t forget that negotiations with school employee groups require both sides to agree on the settlement. Having a third party issue a binding decision is not an option.

With all of that in mind, NJSBA’s Labor Relations department has noticed an interesting trend: the teachers unions are proposing a “great deal” for the board. Specifically, unions have been proposing either (1) delaying implementation of a settlement or (2) only paying half of a settlement for part of the contract period.

In making such a proposal, the union typically asserts that it will actually save the board money. Negotiations committees, of course, should always be skeptical when the union says that its proposal will be “better” for the board. But particularly with delayed or partial implementation proposals, in many cases the math simply does not support the union’s assertions.

**Costing out the proposal** To understand that the financial realities of the union’s proposal, the board must actually cost out the proposal. In many instances, these calculations will demonstrate that the board will actually wind up spending more than it can afford, with problematic long-term implications.

To illustrate this point, let’s take a look at an actual union proposal, which we shall refer to as “District X.” (Note that all identifying characteristics of this district have been changed to protect its identity.) In District X, the parties had been negotiating for quite some time, and started the new school year with an expired contract. The board was willing to settle at a 2 percent increase in each of the three years (with some givebacks on the union’s side that concerned the school schedule). The union rejected the board’s proposal, maintaining its insistence that its members receive an annual increase of 4 percent in each year.

During one of the sessions, the union came forth with a proposal of 3.5 percent in each of the three years, but stated that the board only needed to pay “half of it – or 1.75 percent in each year.” To demonstrate the beneficial nature of its proposal, the union showed the board the chart below.

Based upon this chart, the union insisted that its proposal would save the board money. However, what the union’s chart failed to take into account, and what the board almost overlooked, was the cumulative nature of the 3.5 percent increase. Simply put, the union was not proposing a 1.75 percent increase in each year, it was proposing that the board only pay half of that year’s 3.5 percent settlement in each year.

**UNION-PROVIDED SETTLEMENT CHART**

**BASE YEAR TOTAL = $701,293**

| | 3.5% Settlement | 2.0% Settlement | 1.75% Settlement |
|---|---|---|---|
| Year One | $725,838 | $715,319 | $713,566 |
| Year Two | $751,243 | $729,625 | $726.053 |
| Year Three | $777,537 | $744,218 | $738,759 |
| 3-Year Cumulative Increase | $76,244 | $42,925 | $37,466 |
| | 10.88% | 6.12% | 5.34% |

While it is true that in the first year the board will only see an actual cost increase of 1.75 percent, all salary guides created would be based upon a 3.5 percent settlement.

This means that in the second year the board will have to pay out the remaining portion of the first year settlement, plus half of the second year’s 3.5 percent increase (for an effective full 3.5 percent in the first half of the second year.) The same reasoning would apply in the third year.

This delayed implementation inflates the salary base each and every year.

The following chart will illustrate the costs to the board comparing a 2 percent settlement to the union's proposal of paying only half of the 3.5 percent settlement in each year.

This means that the Base Year total of $701,293 would increase in Year One to $713,566, followed by an increase in Year Two to $738,540, with Year Three increasing to $764,390. Plus, there is the additional half of the 3.5 percent increase in the third year which must be accounted for going forward.

As illustrated above, in most cases, these "only pay us half the increase" or "delayed implementation" proposals from the union are nothing more than a sugar-coated effort to increase the base year and get around the absolute need to fix any problems with the existing salary guide, such as balloons or a high cost of increment.

While there are some ways in which this type of proposal can actually work for the board, in most of the proposals NJSBA has seen from the local employee associations, such a proposal occurs when the cost of increment exceeds the settlement rate, or when the union wants the board to engage in some sort of fiction toward the public that a lower-than-agreed-upon increase was given. This does nothing more than "delay" the increase.

| BASE YEAR TOTAL = $701,293 | | |
|---|---|---|
| | Real 2% Settlement | Union-Proposed Half of 3.5% Settlement |
| Year One | $715,319 | $713,566 |
| Year Two | $729,625 | $738,540 |
| Year Three | $744,218 | $764,390 |
| 3-Year Cumulative Increase | $42,925 | $63,098 |
| | 6.12% | 8.997% |

While the salary guides ultimately created will typically "cost correctly," as they will be within the settlement rate, there are problems for the board as the cost of increment going forward is not corrected and the final year "base" amount is much higher when negotiations start for the next contract.

**Next Round Negotiation Problems-** Furthermore, these types of proposals also set the board up for a problem in the next round of negotiations. In this scenario (assuming no breakage issues, where higher-paid employees retire and are replaced by lower-paid employees) the board will be using the amount of $777,537 as the "base year" amount off of which it begins the next round of negotiations. This means that even before the cost of increment is considered, in the next round of bargaining the board must come up with $13,148 (1.72 percent). This is the minimum starting point for salaries. So even if the board manages to settle at zero in the first year of the next contract, its costs will increase at least 1.72 percent simply to pay the existing employees as they move up the salary guide.

What is the reason the union is seeking to "delay" the implementation of the increase? In most cases it is because the cost of increment is high and/or there are structural problems with the guides (such as balloons). The union holds the salary guide sacrosanct, often voicing statements like "nothing can ever be done to change the structure" or "nothing can delay our dedicated staff from reaching maximum as fast as possible." The board shouldn't be swayed by such arguments; while the race to the salary guide maximum may be of paramount concern to the union, it's of no concern to the board.

The bottom line is that there is not only a 2 percent cap which severely restricts the board's finances, but there is also increasing public pressure being exerted on boards to hold the line on employee salaries. Many boards do not want and cannot afford a high settlement. If the cost of increment is higher than the board's goal for a settlement rate, the guide needs to be restructured, period. (This means using strategies such as possible step insertions or step freezes.) The union does not "own" the guide and it must come to grips with the reality of the situation – this is not 2004 anymore. The guide problems will not "work themselves out" and the salary guide has to be fixed, or at least moved in the right direction. A salary guide can be created within the confines of any settlement (even one below the cost of increment) without the need to "delay the implementation of the increase."

In short, in many cases the union's proposed delayed implementation not only increases the union's expectations in the next round of bargaining, but can cause severe financial problems going forward. In the example above, the board will somehow have to find the extra money to meet the costs of the delayed implementation and the salary guide before it even comes to any settlement number in the next round of negotiations. In many cases, this will result in large first-year settlements or other gimmicks and tricks.

Some union leaders seem to think that our current harsh economic environment will improve, the financial limitations on boards will disappear in the near future and there is no need to worry about the cost of increment or any of these problems. There is no evidence to support either of these arguments, as the 2 percent tax levy cap and other financial constraints appear to be here to stay for a long while.

With that in mind, boards cannot put off fixing the problems by "delayed implementation of the increase," as it will only make the problems worse in the future. Boards must be vigilant in analyzing the actual costs of any union proposal and be leery of any proposal that delays implementation of the increase, because in many cases these types of proposals have a financially debilitating impact at the expiration of the contact being negotiated, and adversely affect each year of the agreement.

Delayed settlement implementation proposals are a little like a time bomb that has a long fuse. The true costs aren't avoided, they're just delayed slightly. When these costs explode, they make a big financial bang. sl

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