

Put Down That Ax



Alternatives to Layoffs

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While the dire budget problems that plagued states and local governments as a result of the Great Recession are beginning to lift, many jurisdictions still have less money to meet greater needs. Politicians continue to propose layoffs, but our top priority -- and the only real solution to this problem -- is adequate funding for needed services. Any other option means harm to public services and hardship for workers. Where layoffs remain a serious possibility, AFSCME must be ready to propose alternatives.

The Challenge

State budgets deteriorated rapidly because of the Great Recession. By last count, 48 states have faced shortfalls since 2009. Local governments usually ride out economic cycles better than states. But this time, property tax revenues are in free-fall because of the housing crisis. Governments also face tax revolts that lead to unwise property tax limits that benefit mostly the wealthy. And finally, state fiscal stress inevitably means cuts in aid to cities, counties and schools.

As a result, state and local governments across the country have proposed layoffs affecting thousands of workers. Layoffs leave behind a cynical workforce and create administrative headaches for employers. They destroy institutional memory and foster worker distrust. By avoiding layoffs, service quality can be sustained and normal operations can resume more easily as revenues rebound. In some situations, layoffs may be prevented by cutting other costs or, better yet, by engaging workers in changing how work gets done.

Avoiding Cuts in the Bargaining Unit

When times are tough, there are measures that can save money without jeopardizing jobs or cutting vital services.

1. Travel and Capital Purchases

Restricting travel and postponing capital purchases are common strategies to save money during fiscal downturns.

2. Excess Capacity

"Excess capacity," for example underutilized buildings and equipment, is an expense to public employers, but can be a source of revenue. Instead of selling those assets, employers may be able to generate income and keep those assets in case they are needed in the future by renting out public spaces or equipment.

3. Non-General Funds

Special revenue funds for transportation or utilities, for example, may be well-funded, while general funds often pay the salaries of employees doing that work. Where permitted, paying those employees out of special funds, or with federal dollars, can free up general fund resources.

4. Contracted Services

Another place to look for savings is contracted services. Employers spend a lot on contracting out, with very little to show for it. And often while bargaining unit members are being laid off, contract spending continues to increase. Restricting contracting out is another way to save money while preserving services and bargaining unit jobs.

5. Universities, Colleges and Other Non-Profits

Cities may look for an increase in revenues through contribution by universities, colleges and other non-profits in the area. They benefit from services that cities provide. It is worth asking whether these institutions are paying for these services. In many areas, these institutions have been persuaded to contribute a payment in lieu of taxes, or PILOT. Cities could also institute a small tax on tuition.

6. Trash versus Recycling

Tipping fees for dumping trash in landfills can be higher than fees for recycling. Where it is cheaper, cities could take measures to encourage recycling.

Cutting Costs and Changing Working Conditions

These and similar measures may not completely address deep budget problems, leaving public employers seeking more ways to cut costs. Many options affect working conditions and union involvement is critical.

1. Hiring Freezes and Attrition

A hiring freeze is a common step lawmakers take when facing budget deficits. A freeze can be absolute - allowing no new hires, or flexible - allowing replacements for essential services.

There are pitfalls to hiring freezes, however. In some cases, a hiring freeze reduces the bargaining unit while managers continue to be hired. To prevent employers from augmenting a downsized workforce with temps, consultants, interns, welfare-to-work employees, prison labor and other workers, collective bargaining agreements must protect bargaining unit work and ensure that vacant positions are filled with bargaining unit employees once the fiscal situation improves.

2. Restricting Overtime

Overtime restrictions can save a lot of money. Overtime costs in some jurisdictions are more than 10 percent of payroll. While many members depend on overtime pay, temporarily cutting back on it may generate enough savings to keep all members working.

There are drawbacks to restricting overtime. Overtime is often high because of short staffing. Restricting it can exacerbate workload issues. Cutting overtime in 24-hour institutions can be especially problematic.

3. Transferring/Retraining Workers

Moving workers from jobs slated for downsizing to other positions can mitigate the need for layoffs and also tap the experience of the existing workforce. Several AFSCME agreements provide for worker transfers and retraining. In lieu of layoffs, the contract between Multnomah County (Ore.) and AFSCME Local 88 (Council 75), allows workers to try three-month placements to demonstrate their ability to handle a new job.

4. Payroll Lag or Banked Leave

Employers can gain savings by extending payroll cycles over a specific period of time. AFSCME Council 25 and MSEA Local 5 in Michigan avoided layoffs with a "banked leave" program in 2003. Four hours of an 80-hour pay period were banked as paid leave for employees to schedule as they chose. Departing employees got the full value of any unused banked leave deposited in their deferred compensation plans.

5. Early Retirements

Early retirement programs relax pension service requirements or offer incentives to encourage retirement. Like hiring freezes, they may apply to all workers or to particular jobs.

Early retirement programs do not save money if all vacant positions are filled right away. Public employers can save money when positions are kept open for one to two years, for example, or when only a fraction of positions are filled immediately, such as one new hire for every two retirements.

Many “early out” packages subsidize the cost of health benefits. Others include lump sum bonuses or other inducements. The State of Iowa offered an early retirement program in 2010 that paid \$1,000 per year for each year of service up to 25 years and provided health insurance for 5 years.

Early retirement plans can also backfire. When one state offered a generous buyout, a flood of employees retired early, raising the cost to the retirement system, and AFSCME members in some departments faced serious understaffing. Any buyout plan should be carefully fashioned to reach the desired number of participants. Essential positions are refilled.

6. Voluntary Furloughs and Reduced Workweeks

Furloughs are temporary periods of non-work/non-pay status, such as one furlough day per month or per pay period. Reduced work schedules substitute a 32-hour workweek for a 40-hour week, for example, with a corresponding cut in pay. Many public employers have instituted furloughs and reduced work schedules in recent years.

Furloughs can be mandatory or optional based on seniority. The employer can maintain health benefits and agree not to contest Unemployment Insurance claims filed by employees on furlough.

One way to lessen the impact of a furlough is to spread the cut in pay over several pay periods (e.g., a fiscal year) so employees see a small amount taken out of each paycheck versus a full day out of one paycheck, for example. The employer still has the savings at the end of a specified time while employees feel the effect of such cuts to a smaller degree over time.

The union must ensure that seniority, leave accrual and benefits are protected for employees on furlough or reduced hours. Contract language can also prevent non-bargaining unit members from performing work regularly done by those on reduced schedules.

A variation on the reduced workweek is a shared work or short-time compensation program. Instead of being laid off, employees' work schedules are reduced and they collect Unemployment Insurance to make up some of their lost salary. Twenty-three states and the

District of Columbia allow such programs, each with their own rules and regulations. State unemployment offices have details.

Work Redesign

Redesigning how work gets done to improve quality and reduce costs is one possible long-term solution to fiscal problems. Redesign can also decrease the risk of privatization. AFSCME Council 31 in Illinois prevented privatization and job cuts in the Glen Ellyn School District by reengineering custodial and maintenance work. While this reengineering required "leaner" work groups, it saved jobs by making costs competitive with contractor bids.

1. Flattening Government Hierarchies

Front-line workers know that layers of middle management often contribute little to the work we do. Flattening of the management structure is a common result of work redesign. Several jurisdictions have passed legislation specifying the span of control, or the ratio of managers to workers.

In 2010, AFSCME Iowa Council 61 pushed for, and the legislature passed, a minimum span-of-control requirement of 15 staff for each supervisor for state employees. Agencies that cannot meet the requirement must face a review panel, which includes union representation. Supervisors whose positions are cut cannot bump union members from their jobs.

2. Contracting In

In addition to scrutinizing new proposals to privatize work, AFSCME affiliates have worked to "contract in" work that is currently outsourced. In Portland, Maine, AFSCME Local 481 (Council 93) and the city have a labor-management partnership that identifies privatized work that can be done more cost-effectively in-house. In numerous jurisdictions across the country custodial work, food service work, wastewater treatment work and information technology work, just to name a few, have all been brought back in house as promised savings from privatization failed to materialize and, indeed, costs often increased.

3. Formalizing Partnerships

Labor-management partnerships have been formalized in many places, so that the creativity and changes they generate are ongoing. In some jurisdictions, workers and managers form teams to improve processes and implement innovations. Such programs can save millions of dollars while preserving jobs.

Effective Contract Language

In spite of the array of alternatives, many AFSCME locals may still face layoffs. The following contract provisions can give the union some flexibility:

- Notification - Prior to any layoff action, the employer should give advance notice to the union. Ninety days is preferable, with 30 days a minimum.
- Counter-proposal - The union should have the opportunity to discuss the situation with the employer prior to a layoff notification, and offer alternative ways to save money.
- Seniority - Layoffs should proceed in inverse order of seniority with all temporary, provisional and seasonal employees laid off first. The last laid off should be the first recalled, with no new hires until all employees have been recalled. Performance evaluations should not be a factor in layoffs.
- Grievances -The union should have the right to grieve layoffs.

Meeting the Challenge

Adequately funding state and local services is a continuing challenge. AFSCME members have been through previous fiscal downturns and devised ways to make the best out of a bad situation. Those strategies may be needed again. To minimize the chances of future layoffs, this may also be the time to create effective partnerships to permanently change how work gets done.

For more information on state and local policy issues,

- Center on Budget and Policy Priorities (www.cbpp.org)
- Economic Policy Institute (www.epi.org)
- U.S. Government Accountability Office. State and Local Fiscal Outlook. <http://www.gao.gov/special.pubs/longterm/state/index.html>

For information on ways to increase local government revenues, see “Digging for Dollars” at www.afscme.org.

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