THE PUBLIC SECTOR

Wanted: new model for public-sector comparability studies

by Jonathan Holtzman

The advent of **Assembly Bill (AB) 646,** which requires fact-finding after a bargaining impasse, has revived the wage/benefit comparability analysis in the public sector. AB 646 requires a neutral fact finder to consider a number of factors, including (1) "overall compensation . . . including direct wage compensation, vacations, holidays, and other excused time, insurance and pensions, medical and hospitalization benefits, the continuity and stability of employment, and all other benefits received" and (2) comparison of wages, hours, and conditions of employment with "other employees performing similar services in comparable public agencies."

Public-sector wage and benefit surveying has come a long way in the time I've been practicing, but there's still a lot of room for improvement in at least two respects. First, in the bad old days, many folks surveyed only salaries, ignoring costly benefits such as medical premiums and employer retirement pickups. These days, "total compensation" studies are the norm—except they're still far from measuring "total" compensation. Public-sector surveys must start to account for differences in valuable benefits like retiree healthcare coverage. Second, many studies choose a survey "universe" simply by reference to the population and proximity of other jurisdictions. It's time we started asking whether survey jurisdictions are truly "comparable."

With respect to measuring total compensation, most studies still don't measure the true cost of retirement benefits or the cost of retiree health benefits, which together can total almost 50 percent of salary. Taking retiree healthcare coverage as an example, some jurisdictions have very generous benefits, while others have none at all; the difference in cost can be as much as 20 percent of salary.

Part of the challenge in accounting for postemployment benefits is finding a way to relate them to current benefits like wages. One elegant solution is to use the actuarially determined "normal cost" of the benefit. "Normal cost" represents the amount of the future benefit currently being earned by an active employee. Unfortunately, comparing normal costs across jurisdictions requires a lot of work and sophisticated analysis.

Other postemployment benefits (OPEB) actuarial valuations—which generally contain that information—can be hard to find. Even if you get the valuations from survey jurisdictions, you must account for differences in assumptions, including investment return. Despite the difficulties, accounting for retiree healthcare benefits is crucial because that benefit alone can mean the difference between a jurisdiction being behind the market or well ahead of it. And this approach is consistent with the broad definition of "overall compensation" contained in AB 646.

When it comes to defining a survey universe, many people still use the old combination of population and proximity. That is a very bad approach. Take the Bay Area, for example. Even though a relatively poor city like Vallejo may draw employees from the Bay Area, by almost any measure of community wealth, Vallejo shouldn't be expected to pay Bay Area rates. The fact that it tried to do so was a major cause of its bankruptcy.

In selecting comparable jurisdictions, we should consider measures of community wealth and community demographics in addition to population and proximity. Why? Under AB 646, we are looking for "comparable public agencies." Wealthy enclaves are not comparable to less affluent communities on key issues like ability to pay or the demand for expensive services such as police protection. Thus, a good survey universe should consider such things as household income, home prices, educational levels, and crime rates.

In many ways, poor comparability studies or naïve anecdotal views of what makes a comparable jurisdiction have played a huge role in the crisis many public agencies now face. Bad surveys have had the effect of "ratcheting up" public compensation at a rate that has far exceeded the private sector without accounting for all the costs or benefits of public employment and without due regard for what makes a comparable jurisdiction. The public-sector wage market thus lost its connection with the true labor market. The result: We have firefighters making nearly $200,000 a year, including benefits, and thousands of people apply every time a job opens up. I'm not always a huge fan of capitalism, but it seems to me the market is trying to tell us something.

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