

SENATE BILL 5 FISCAL ANALYSIS
(Revised to reflect final passage on March 30, 2011)
April 4, 2011

In an effort to assist state and local officials and members of the General Assembly understand the potential fiscal impacts of Senate Bill 5, the Office of Collective Bargaining (OCB) examined the bill with a focus on three provisions for which the Office had access to reliable data:

- Limiting state and local government payments for health insurance to 85 percent of total premium cost;
- Eliminating Step pay increases once current contracts expire;
- Eliminating longevity pay once current contracts expire.

Using FY2010 data for State of Ohio Exempt/Collective Bargaining Payroll Costs the office was able to estimate that:

- The State of Ohio would have saved at least \$191.3 million from two of these three provisions, or \$3,298 for each of the state's approximately 58,005 employees. Additional provisions would likely provide other direct and indirect savings through improved efficiencies and workforce management flexibilities, but estimates of those savings cannot be immediately calculated, therefore they were not included in total savings figures;
- Local governments would save at least \$1.087 billion from these three provisions, based on an extrapolation of state per-employee costs to the number of local government employees, and adjusted to include additional health insurance cost savings that localities would experience. Given that the bill is expected to lead to the end of "pension pick-up"—the local government practice of paying for a portion of employees' pension contributions—actual savings would likely be far higher. A precise calculation of pension savings would require a detailed analysis of the more than 3,000 local government collective bargaining contracts which is beyond the Office's capabilities to perform, therefore estimates of those savings were not included in total savings figures.

STATE GOVERNMENT SAVINGS: \$191.3 million

Health Insurance Premium Costs

In FY 2010, state government employees paid approximately 15 percent of the cost of their health insurance premiums and state government paid the remaining 85 percent. Senate Bill 5 has been amended to require a 15 percent threshold, down from the bill's original threshold of 20 percent, therefore the state would realize no savings from this provision.

Estimated Savings from Eliminating Step Pay Increases: \$75.9 million

Step pay increases above and beyond the annual pay increases negotiated in union contract, would have been \$75.9 million. While Ohio's severe economic and fiscal crisis mandated the current union contract eliminate these costs for FY2010 and 2011, the state otherwise would have incurred them. Senate Bill 5 eliminates Step increases and will save the state approximately \$75.9 million beginning in FY2013 if enacted.

Savings from Eliminating Longevity Pay: \$115.3 million

State employees currently receive longevity pay of 0.5 percent a year after serving for five years. This continues until employees reach their 20th year of service. In FY2010, the state spent \$115.3 million on longevity pay. Under Senate Bill 5 longevity pay would be eliminated, saving the state the complete figure of \$115.3 million beginning in FY2013 if enacted.

Total FY2010 State of Ohio Savings From SB 5 (in millions)

Step Pay Elimination	\$ 75.9
Longevity Pay Elimination	\$115.4
TOTAL SAVINGS	\$191.3

Though Senate Bill 5 would only apply to collective bargaining agreements reached with bargaining unit employees, provisions of the contract are typically applied to all State employees, therefore figures for all 58,005 employees have been used in these calculations, producing a per-employee savings of \$3,298. These are savings that the state would have realized if Senate Bill 5 had been in law and applicable to the current state contract.

LOCAL GOVERNMENT COST SAVINGS: \$1.087 billion

According to the State Employment Relations Board (SERB) FY 2010 Annual Report, local governments and school districts employ approximately 300,000 workers statewide. Though the Ohio Legislative Service Commission (LSC) Fiscal Note and Local Impact Statement on Senate Bill 5 does not contain comprehensive wage information for these workers, the OCB has made conservative calculations to help evaluate the bill’s potential savings to local governments and school districts.

Step and Longevity Estimated Savings: \$989.4 million

Given that the basic elements of state and local government union contracts generally track one another, multiplying the state’s per-employee savings of \$3,298 [\$191.3 million /58,005] by the approximate number of local government and school district employees [300,000] results in an estimated savings of \$989.4 million from elimination of Step and Longevity provisions.

Health Insurance Estimated Savings: \$97.9 million¹

Whereas state employees pay 15 percent of their health insurance premiums, local government and school district employees generally pay less. Using information from SERB’s “2010 Annual Report on the Cost of Health Insurance in Ohio’s Public Sector”, which provides total health insurance costs by type of locality, the OCB calculated estimates of savings under SB 5’s provisions capping localities’ health insurance costs at 15 percent of total premium costs. Currently, county governments pay, on average, 85 percent of health insurance premiums, so this provision would yield little savings for most counties. However, cities, school districts, and townships generally pay greater portions. Therefore, SB 5 holds the promise of significant savings. It is estimated that for these localities, SB 5 would provide \$97.9 million in health insurance cost savings.

TABLE 1: LOCAL GOVERNMENT HEALTH INSURANCE COSTS UNDER CURRENT LAW					
<i>(Source: SERB, “2010 Annual Report on the Cost of Health Insurance in Ohio’s Public Sector and OCB analysis)</i>					
TYPE OF LOCALITY	TOTAL EMPLOYER HEALTH INS. COSTS		TOTAL EMPLOYEE HEALTH INSURANCE COSTS		AVG. COST OF HEALTH CARE TO EMPLOYER PER ENROLLED EMPLOYEE
	AMOUNT (in millions)	%	AMOUNT (in millions)	%	
CITY	\$427.7	91.6%	\$39.5	8.4%	\$11,134
SCHOOL DISTRICTS	\$1,280.2	89.3%	\$153.7	10.7%	\$10,132
TOWNSHIP	\$35.8	96.0%	\$1.5	4.0%	\$12,494
COUNTY	\$359.4	85.4%	\$61.3	14.6%	\$8,991
TOTAL	\$2,103.1	89.2%	\$255.9	10.8%	\$10,688

Note: Numbers may not add to total due to rounding

¹ Estimated cost and savings computed using SERB average single and family healthcare cost for employer and employee by locality.

TABLE 2: LOCAL GOVERNMENT HEALTH INSURANCE COSTS UNDER SENATE BILL 5

(As passed by Senate)							
TYPE OF LOCALITY	TOTAL EMPLOYER HEALTH INSURANCE COSTS (in millions)	%	TOTAL EMPLOYEE HEALTH INSURANCE COSTS (in millions)	%	AVG. COST OF HEALTH CARE TO EMPLOYER PER ENROLLED EMPLOYEE	AVG. SAVINGS PER ENROLLED EMPLOYEE COMPARED TO CURRENT LAW	TOTAL SAVINGS BY LOCALITY TYPE (in millions)
CITY	\$397.1	85%	\$70.1	15%	\$10,337	\$797	\$30.6
SCHOOL DISTRICTS	\$1,218.8	85%	\$215.1	15%	\$9,646	\$486	\$61.4
TOWNSHIP	\$31.6	85%	\$5.6	15%	\$11,057	\$1,437	\$4.1
COUNTY	\$357.6	85%	\$63.1	15%	\$8,946	\$45	\$1.8
TOTAL	\$2,005.2	85%	\$353.9	15%	\$9,997	\$691	\$97.96

Note: Numbers may not add to total due to rounding

Additional, Uncalculated Savings Likely from Elimination of “Pension Pickups”

State of Ohio employees pay 10 percent of their salaries to a public employee retirement fund, and state government pays 14 percent. According to the LSC Fiscal Note on Senate Bill 5, more than 2,532 local governments currently pay all or part of their employee’s share of pension contributions. Senate Bill 5 would free local governments from paying any portion of their employees’ share and require employees to pay the full 10 percent of their pension contributions. No estimates of this savings can be reliably made without an analysis of all local government contracts, but it is reasonable to expect that savings would be significant and that it would increase the overall savings of \$1.087 billion that local governments will realize under Senate Bill 5.

FY2010 Estimated Local Government Savings From Senate Bill 5 (in millions)

Health Insurance Cost Decrease	\$ 97.9
Step and Longevity Pay Elimination	\$989.4
Estimated Total Savings	\$1,087.3

TABLE 3: Average Savings Per Employee by Locality Type

TYPE OF LOCALITY	AVG. SAVINGS PER EMPLOYEE FROM STEP/LONGEVITY ELIMINATION (From Page Two)	AVG. SAVINGS PER EMPLOYEE FROM HEALTH CARE REFORMS*	AVG. SAVINGS PER EMPLOYEE
CITY	\$3,298	\$468	\$3,766
SCHOOL DISTRICT	\$3,298	\$268	\$3,566
TWP	\$3,298	\$871	\$4,169
COUNTY	\$3,298	\$80	\$3,378

* Total healthcare savings applied to all employees not only those enrolled in health insurance plans. This calculation, based on the data from Table 2, lowers average savings per employee.

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