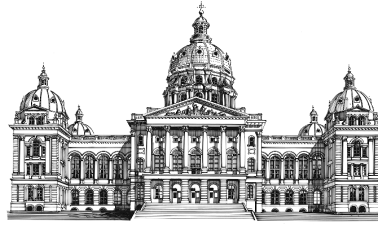

Iowa Legislative Fiscal Bureau

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State Capitol
Des Moines, IA 50319
August 8, 1996

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State Employee Wages

ISSUE

Evaluation of wages paid to State employees.

AFFECTED AGENCIES

All

CODE AUTHORITY

Chapter 20, Code of Iowa

BACKGROUND

A recent report by the Public Interest Institute located at Iowa Wesleyan College titled *Iowa's Privileged Class I - State Government Employees* makes two major findings:

- State government wages and salaries are higher than private wages and salaries in Iowa.
- State government employees in Iowa earn relatively more than private-sector workers in any other state.

The report also contains an evaluation of the wages paid to elementary, secondary, and higher education employees. An evaluation of education employee wages will be contained in a later **Issue Review**. This **Issue Review** will evaluate State employee wages. As used in this **Issue Review**, State employee includes all agencies of State government, including the Department of Transportation, but not including the Board of Regents.

FINDINGS

The Legislative Fiscal Bureau evaluation of State employee wages makes the following findings:

- The goals of Chapter 20, Code of Iowa, appear to have been met.
- The use of overall averages for comparing wages:

- Underestimates the level of private wages due to limitations in the data.
- Ignores differing educational requirements.
- Wage growth for private and State employees has been roughly similar over the past four years.
- Comparing Iowa's State employee wages to other states indicates that Iowa's wages are in the top third for surrounding states. The higher wages seem correlated with lower turnover (Iowa has the lowest turnover of 18 states reviewed) and wages seem to be correlated with the strength of collective bargaining laws.
- Comparing private sector job classifications indicates that entry level wages for State employees are generally higher than their private sector counterparts, however top-level wages for State employees are less than their private sector counterparts.
- Salary levels reported by the Bureau of Labor Statistics understates private sector pay because it does not include self-employed individuals. Iowa has a larger proportion of self-employed households than does the region or the nation.
- Educational requirements for State positions are greater than the remainder of the State job market. Greater educational attainment by employees translates into higher wages.
- Private employee wages are significantly lower than the national average and Iowa State employee wages are somewhat higher than the national average.
- The prohibition of public employee strikes and collective bargaining requirements have the effect of increasing wage rates, but seem to result in workforce stability and consistent delivery of services.

CURRENT SITUATION

This *Issue Review* includes four major sections. First, a review of Chapter 20, Code of Iowa; the Chapter governing public employee collective bargaining in Iowa. Next, an evaluation of wages paid to State employees, including comparisons to state employees in other states as well as private employees in Iowa. Third, a summary of some of the reasons for the wage differential. Finally, a summary of alternatives and budget impacts.

Review of Chapter 20, Code of Iowa

Prior to evaluating the wages paid to State employees, it is useful to examine Chapter 20, Code of Iowa, which is the legislation governing public employer and employee collective bargaining and the resulting wages.

Chapter 20, of the Code of Iowa specifies:

“The General Assembly declares that it is the public policy of the State to promote harmonious and cooperative relationships between government and its employees by permitting public employees to organize and bargain collectively; to protect the citizens of this state by assuring effective and orderly operations of government in providing for their health, safety, and welfare; to prohibit and prevent all strikes by public employees; and to protect the rights to public employees to join or refuse to join, and to participate in or refuse to participate in, employee organizations.”

The General Assembly enacted the last major revision to the Public Employment Relations Act (codified in Chapter 20, Code of Iowa) in 1974. The statute protects the rights of public employees

to join, refuse to join, and participate in employee organizations; permits public employees to organize and bargain collectively; and prohibits strikes by public employees. If the public employer and the employee organization are unable to reach an agreement during bargaining, the statute provides for binding arbitration. The arbitrator may consider only those issues on which the parties had not reached agreement, and is required to consider a variety of specified factors as well as any other relevant factors.

One of the primary reasons for enacting Chapter 20, Code of Iowa, was the elimination of public employee strikes. “[T]he Committee unanimously agreed that disruptions in public service are always undesirable and that strikes are to be avoided if at all possible.”¹ Elimination of public employee strikes was not the only goal, however. “Disruptions in public service are unfortunate and any legislative action would have the elimination of such disruptions as one important goal. But getting to the causes of employee dissatisfaction is a more fundamental goal.”²

Except in one instance, since the enactment of the collective bargaining statute, the collective bargaining salary agreements with the unions have been extended to non-unionized employees as well. The impact of extending the salary agreements to non-union employees is that the collective bargaining agreements have the effect of increasing the entire wage base (and cost) for State employees.

Chapter 20, Code of Iowa, defines the term “public employee” to include any individual employed by a public employer, except those specifically excluded. A copy of the exclusions is contained in **Attachment 1**. In short, public employees include employees of the State, Board of Regents, counties, cities, school districts, or any other public entity (excluding the federal government). In this *Issue Review*, the focus is on wages of State employees which includes all State agencies, including the Department of Transportation but excluding employees of the Board of Regents.

The argument has been advanced that wages of State employees should be compared to private employees rather than other states’ public employee wages. It is important to note that the statute does not prohibit the comparison to private sector employees if the comparison is shown to be relevant. Section 20.22(9) of the Code of Iowa specifies that during binding arbitration, the arbitrators shall consider, in addition to any other relevant factors:

- Past collective bargaining contracts between the parties including the bargaining that led up to such contracts.
- Comparison of wages, hours, and conditions of employment of the involved public employees with those of other public employees doing comparable work, giving consideration to factors peculiar to the classifications involved.
- The interests and welfare of the public, the ability of the public employer to finance economic adjustments, and the effect of such adjustments on the normal standard of services.
- The power of the public employer to levy taxes and appropriate funds for the conduct of its operations.

It should also be noted that if the occupational make-up of the State workforce is considered in labor negotiations, there is no guarantee that public to private comparisons will result in reduced arbitration awards or savings to the State.

Evaluation of Chapter 20, Code of Iowa Goals

¹ Collective Bargaining Study Committee Final Report, 1970, p. 7

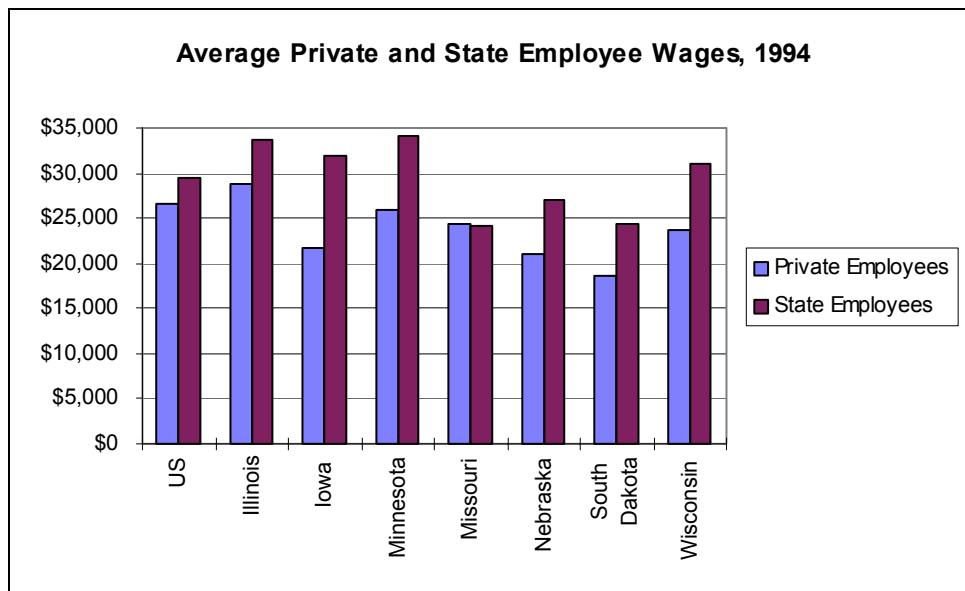
² Collective Bargaining Study Committee Final Report, 1970, p. 2

It is useful to briefly examine the goals of Chapter 20, Code of Iowa, to determine whether the goals set out by the General Assembly have been met. In many ways, the goals of Chapter 20, Code of Iowa, have been met. Public employees have organized and bargained collectively. Several unions now represent State employees. Relations between State employees and government, although sometimes strained, have been relatively harmonious. The goal of preventing employee strikes has been clearly fulfilled as there has not been a public employee strike in the State of Iowa since the enactment of the statute.

Evaluation of State Employee Wages

There are several ways to evaluate State employee wages. Comparisons can be made to employees in other states doing comparable work or private employees in the same labor pool. This *Issue Review* will make limited comparisons to other states and private employees in Iowa, however it is important to first discuss the conclusions drawn from the Public Interest Institute document.

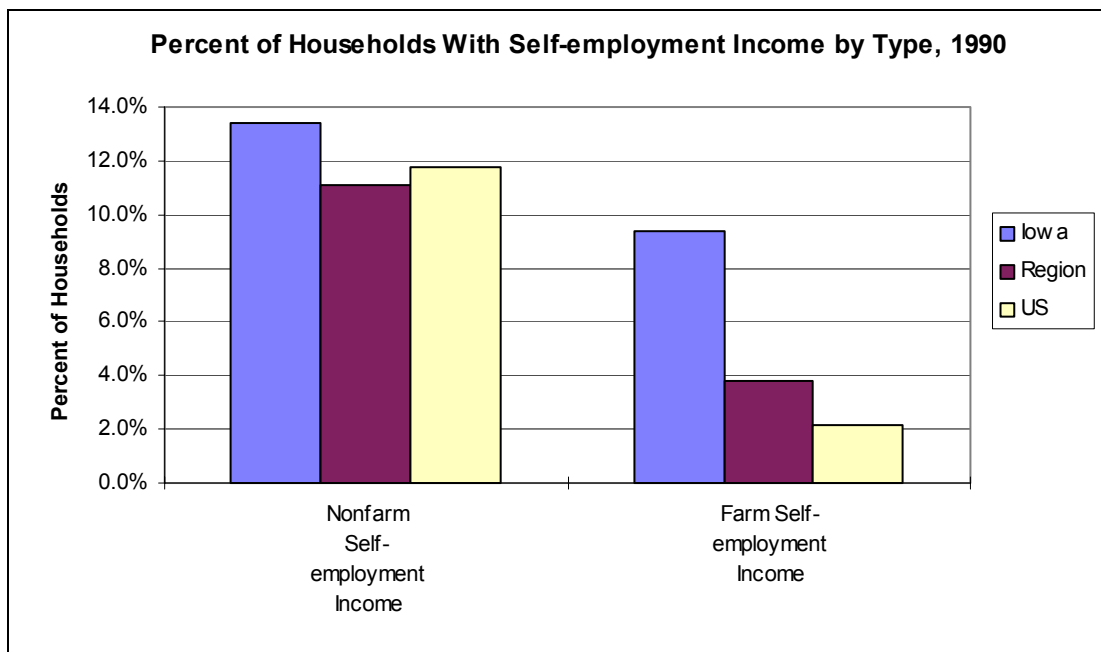
The Public Interest Institute document asserts that "...the discrepancy between average annual wages of private versus state government workers was larger in Iowa than any other state." The Public Interest Institute notes that Iowa private sector workers "earned almost 20 percent less than the same worker on a national scale." Later, the Institute notes that Iowa State employees are paid an average of eight percent more than the national average for state government workers. However, the above average wage differential between State and private employees in Iowa is largely due to below average private sector pay. The following graph shows that Iowa ranks fifth out of seven surrounding states and private employees in Iowa earn on average 81.9% of the national average.



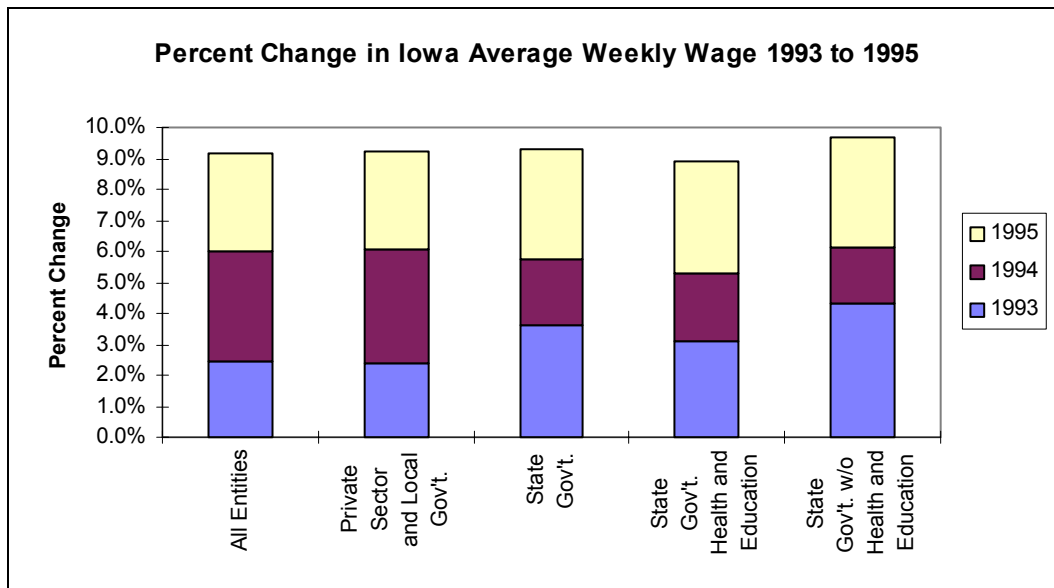
Source: Employment and Wages 1994, Bureau of Labor Statistics, U.S. Department of Labor

There are also data limitations which were not discussed by the Public Interest Institute. The data source used for the comparisons was Employment and Wages 1994, published by the Bureau of Labor Statistics of the U.S. Department of Labor. The report does not include all types of jobs or all types of income. In particular, self-employment earnings are not included in the report. In contrast, virtually all government employees are covered. This has the effect of making private earnings appear less than they actually are, which increases the gap between private and public wages.

Compounding the problem is that the distortion is more pronounced in Iowa than either the U.S. or the Midwest region because Iowa has proportionally more self-employed persons. Not surprisingly, Iowa has proportionally more self-employed farmers. Iowa also has a higher percentage of households earning self-employment income from nonfarm activities. Thus, the Public Interest Institute overestimates the gap both between the public sector and the private sector and between Iowa and other states. The following chart illustrates the disproportionate role played by Iowa's self-employed persons.



It has been asserted that State employees' wage growth has exceeded private sector wage growth. This does not seem to be the case. For those companies which provide data to the Department of Employment Services for covered jobs, wage growth over the 1992 to 1995 time period is roughly comparable between the private and public sectors. The total difference in percentage change for the three years is less than 0.5% among the five groups listed in the following chart. While the distribution in any single year may be higher in the public sector than the private sector, over multiple years the wage growth is similar.



Interstate Comparison of State Employee Wages

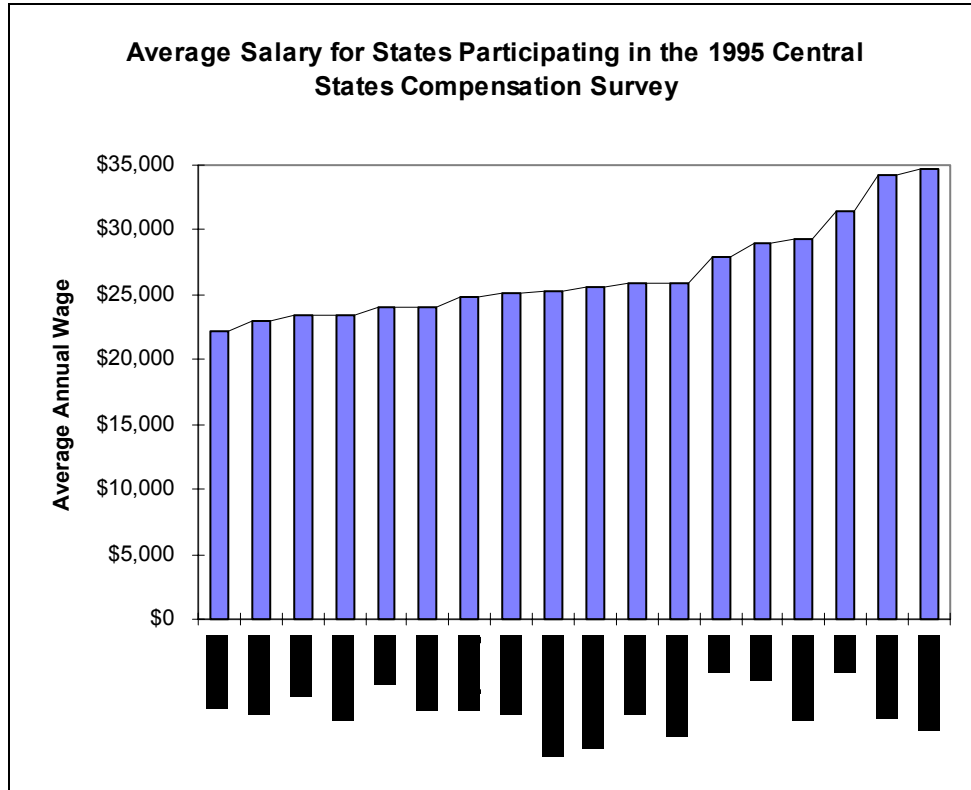
Chapter 20, Code of Iowa, specifies one basis for determining the wages of public employees is a comparison to other public employees. To accurately compare state employee wages in one state to another, the best data source is the Central States Compensation Survey which compares state employee pay on a state-by-state basis for 18 states in the central portion of the U.S. The survey includes approximately 150 employment classifications ranked by average salary in descending order. The data, in Iowa's case, is for State employees (including Department of Transportation) but does not include data for the Board of Regents.

One method of wage comparison is to look at the average number of ranks across a series of job classifications. The lower the number of average ranks, the higher the average pay. Utilizing data from the 1995 Central States Compensation Survey, of the 18 states surveyed, Iowa had average ranks of 4.6 out of a possible 18. As a comparison, the lowest number of average ranks was for Colorado, with average ranks of 2.3 of the approximately 150 classes for which information was provided. Minnesota, with average ranks of 3.9, is the lowest of the states surrounding Iowa. A rank of one means that the state is the highest paying state for that particular job classification. As a note, Illinois did not participate in the survey, so no data exists for comparison.

Attachment 2 contains 12 different graphs of average wages for specific job classifications comparing Iowa to surrounding states. The employment classes selected include both blue and white collar jobs in state government. These graphs indicate that in some cases wages paid to State employees are higher than other states, and in other cases they are lower than other states. This illustrates the limitation in dealing with overall averages for all classes of employees. With over 1,000 job classifications and 22,000 FTE positions in Iowa State government, an overall average masks that some classes of employees may actually be paid less than the average for comparable positions in other states.

Overall, the Central States Compensation Survey ranked Iowa as having the third highest average salary for State employees. As noted previously, no data for Illinois is available in this data source.

Using 1994 Employment and Wages from the Bureau of Labor Statistics, Illinois' average state employee salary was \$1,700 higher than Iowa's. It therefore seems likely that Iowa would rank fourth if data for Illinois was included.



When comparing state employee wages, it is helpful to look at cost of living differentials. The following table lists the relative cost of living for the capital cities for Iowa and surrounding states. There are many limitations in making this type of comparison, however. For comparison purposes, the Legislative Fiscal Bureau has chosen capital cities with the rationale that many Iowa State employees are employed near the seat of government. For Iowa, where the capital city is also the largest population center, the Des Moines cost of living index is representative of the conditions experienced by many State employees. In Iowa, approximately one-third of State employees work in Polk County. For states such as Missouri where the capital city is not one of the major population centers, the proportion of State employees working in the capitol city is presumably less.

The following table lists the cost of living index for the capital cities in states surrounding Iowa (where available). The U.S. national average for the index is equal to 100. For example, if a city has a cost of living index of 95, this means that it is 95.0% of the national average, or 5.0% less than the national average.

For Missouri and Nebraska, making adjustments for cost of living would raise the average salary for state employees significantly from the data reported in the Central States Compensation Survey. The average salary for Iowa would increase 4.6% and Minnesota's average salary would decrease slightly. Data was not available for Madison, Wisconsin, or Pierre, South Dakota. The cost of living differentials help explain some of the gap in wages between Iowa and surrounding states.

City	Cost of Living Index
Des Moines, IA	95.4
Jefferson City, MO	89.0
Springfield, IL	96.3
Madison, WI	N/A
Minneapolis/St. Paul, MN	100.9
Pierre, SD	N/A
Lincoln, NE	88.4
U.S. National Average	100.0

Source: ACCRA Cost of Living Index, Fourth Quarter 1995

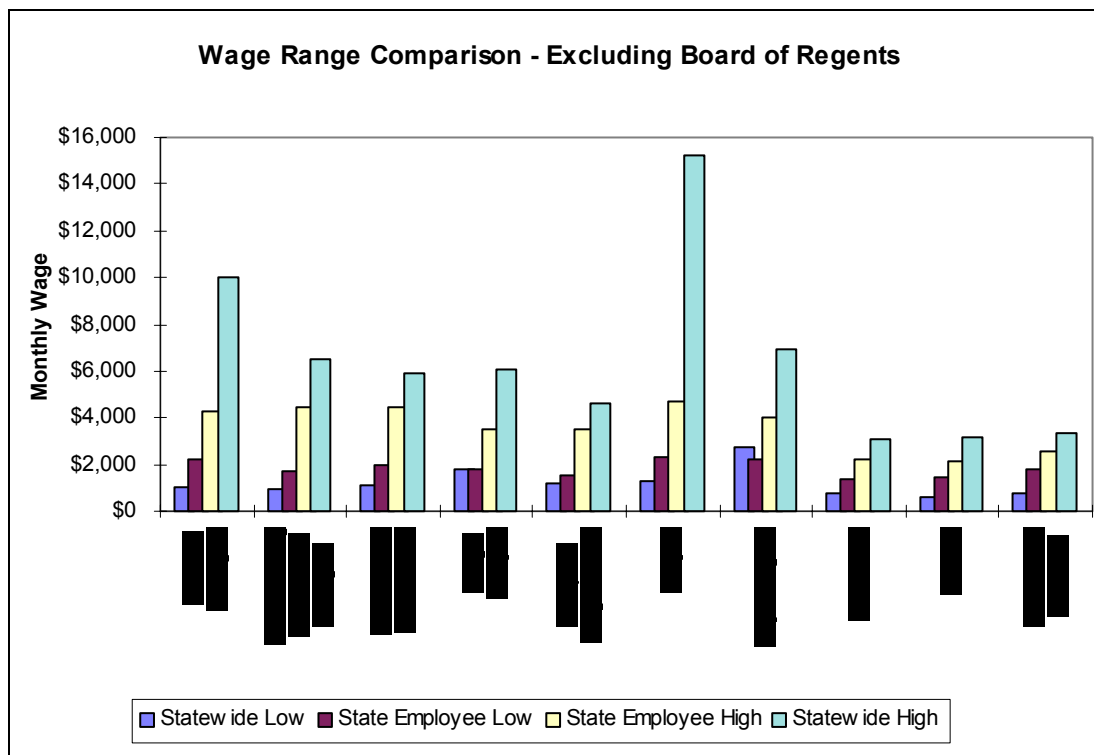
N/A = Not Available

Public v. Private Wages

Due to the problems noted previously with overall wage data sources, it is more accurate to compare wages of specific occupations paid to private and State employees. Unfortunately, no data source exists expressly for this purpose. In lieu of that data, the Legislative Fiscal Bureau sampled ten specific occupations from the Iowa Statewide Wage Survey 1995 published by the Department of Employment Services and compared those occupations to comparable classes in State government. The range for State employees was taken from the entry level wage for a specific class to the highest wage for a class series (e.g., Secretary 1 through Secretary 4). This was then compared to the absolute range reported in the Wage Survey. For the purposes of this ***Issue Review***, it is important to note that the statewide category contains all employees for which unemployment compensation is withheld including State employees.

In nine of 10 cases, the entry level wage for the sampled classes was more for the State employees than it was for the statewide group (psychologists were the one exception). In all cases the highest wage for the sampled classes was higher for the statewide group than for the State group. This is often referred to as the "compression effect" of State employee wages. In many cases starting wages for State positions exceeds private sector pay while wages for top level positions are less than in the private sector.

The following table graphically illustrates the "compression effect".



These results are confirmed by the Occupational Compensation Survey published by the Bureau of Labor Statistics. Generally, public sector positions begin at higher wage levels but “cap out” at lower levels. Although the data is not specific to Iowa, it points to the necessity of considering occupational weightings when attempting to quantify the differences between public and private wages.

Explaining Wage Differentials

Clearly, some wage differential exists between State and private employees. There are several explanations for the wage differential.

- Government jobs tend to have higher educational requirements.
- The prohibition of public employee strikes and collective bargaining requirements have the effect of increasing wages.
- Entry level wages for many jobs in the public sector are higher than similar entry level jobs in the private sector. However, the potential wage growth for many State employees is less than for similar professions in the private sector.
- Outsourcing, a practice undertaken both by public and private employers, can mask the true wage differential.
- Although not necessarily a wage differential, one difference between State and private employers is the ability of private employers to provide non-monetary compensation to their employees. Differences in employer contributions for benefits (insurance, retirement plans, etc.) although significant, have not been evaluated because of the difficulty in obtaining

accurate, comparable data. These factors will tend to understate the private sector wage amounts and make State employee wages appear relatively higher.

Educational Differential

The relationship between education and earnings has been well established, most notably by the Bureau of the Census through its Current Population Reports. Using Census reports, job descriptions supplied by the Iowa Department of Personnel (IDOP), and payroll data for 1995, the Legislative Fiscal Bureau examined the relationship between qualifications and earnings for all non-Regents employees.³ The following table illustrates the positive impact education has on earnings. The U.S. data is taken from a Census publication entitled “Educational Background and Economic Status: Spring 1990”, and is expressed in 1996 dollars. The State employee data is based on the LFB survey of IDOP and payroll data.

E f f e c t o f E d u c a t i o n o n E a r n i n g s		
	U.S. Average	State of Iowa Employees
High School Graduates	\$ 15,073	\$ 20,620
* More Than High School	18,754	30,634
Bachelor Degree	29,614	36,060
** Advanced Degree	46,660	39,634

* Derived from weighted average of persons with some college, associates degrees, and vocational training.

** Derived from weighted average of persons with masters degrees, professional degrees, and doctorates.

Thus, State employees, like U.S. workers generally, are likely to see increased earnings based on level of education. Two caveats need to be mentioned. The table should not be used for a strict comparison between State employees and employees nationally because the definition of earnings is not identical and key State employees are omitted from the sample. Elected and appointed officials are the main groups not represented. Most of these individuals are likely to have some post-secondary education, but there are no requirements as such. Additionally, the data is based on minimum job requirements. Many employees exceed the minimum education requirements for their positions. Nonetheless, the table is an attempt to address the fundamental concept that workers with higher education levels, no matter who the employer is, are likely to receive higher compensation.

The role of education on the public/private wage differential was not addressed by the Public Interest Institute. The effect is important for two reasons:

- *Iowa’s private sector workers are less likely to have post-secondary education than their out-of-state peers.*

³ The process was undertaken by classifying each job as requiring either a high school degree, post-secondary training (including associates degrees), bachelor degree, or post-graduate (including professional and doctorate degrees). Due to gaps in job description data, some jobs could not be classified and were completely omitted for comparison purposes. These omissions represented approximately 9.1% of State FTE positions, and 10.4% of total payroll.

- *State government jobs are more likely to require post-secondary education than private sector jobs.*

This is another case of a data distortion magnifying the State/private wage gap both within the State and compared to other states. Although Iowa's population contains proportionally more high school graduates than the U.S. (84.9% vs. 80.2%), Iowa lags the nation in college graduates.⁴ Just 18.4% of Iowans over the age of 25 are college graduates (1993), compared with 21.9% for the U.S. Of the State jobs surveyed by the LFB, however, 26.7% required at least a bachelors degree. It should come as no surprise, therefore, that State employee wages unadjusted for education would exceed private employee wages, and that the wage gap in Iowa would exceed the wage gap for other States. Again, the estimate of education level for State employees is probably underestimated by this survey, indicating the education gap between private and public employees is probably even larger than the data suggests.

Impact of Collective Bargaining Laws on Wages

As the following table illustrates, there seems to be a connection between the strength of collective bargaining laws and the wages paid to employees. The most important factor would seem to be whether binding arbitration is part of the salary process. A brief literature survey by the LFB indicates that Iowa is one of the few states which has mediation, fact finding, binding arbitration, and prohibits strikes by public employees.

State	Mediation	Fact Finding	Binding Arbitration	Wages and Benefits Bargained?	Average Salary*
Iowa	Yes	Yes	Yes	Yes	\$ 31,434
Minnesota	Yes	No	Yes	Yes	34,680
Wisconsin	Yes	Yes	No	Yes	29,225
South Dakota	Yes	Yes	No	No	25,258
Nebraska	Yes	Yes	No	Yes	25,838
Missouri	No	No	No	No	22,252

Source: Labor and Employment Arbitration, Volume III, Bornstein and Gosline, 1991
 *Central State Compensation Survey, 1995

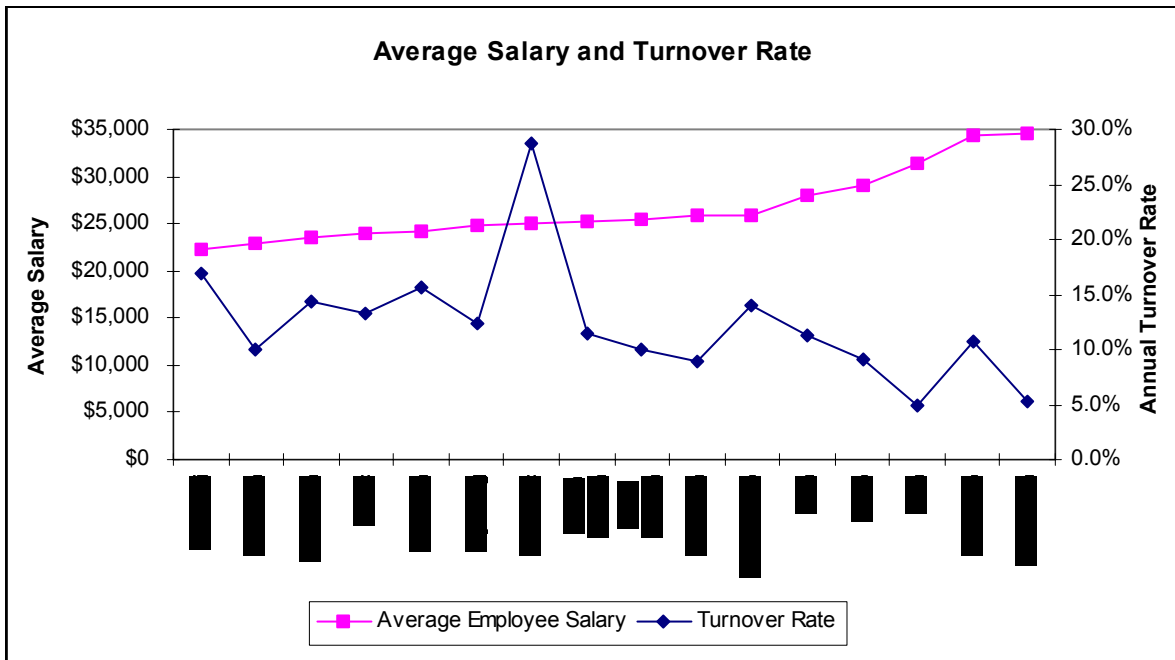
Workforce Stability

One of the goals of Chapter 20, Code of Iowa, is to promote stability in the delivery of services. One method of accomplishing this is to retain existing employees and minimize turnover. Of the 18 states which participated in the Central States Compensation Survey, Iowa's annual turnover rate was the lowest reported at 5.0% annually. The next lowest turnover rate was Minnesota at 5.3%. The average of 16 states (two states did not report the information) was 12.3%.

As the following chart demonstrates, higher average wages are correlated with lower annual turnover. It should be noted that turnover and wages affect each other. Higher wages result in less turnover and lower turnover results in higher wages. Regardless of the direction of the correlation, high turnover has a cost which is rarely included in evaluations of wages. Although lower wages may save money in the short run, excessive turnover results in reduced services and increased costs as problems easily solved by a longer tenured employee take longer to solve by

⁴ U.S. Bureau of the Census, "Educational Attainment in the United States: March 1993 and 1992". For persons 25 years old and older.

someone of less experience. However, what constitutes excess turnover is not examined in this *Issue Review*.



Outsourcing

The State of Iowa, like other states as well as private firms, uses outsourcing in an attempt to reduce employment and increase efficiencies. If below-average wage jobs are contracted, the effect is to overstate the gap between private and public sector wages. If above-average wage jobs are contracted, the effect is to understate the gap between private and public sector wages. As the State utilizes outsourcing, the eliminated positions become a part of the private sector data base and are no longer a part of the State's, even though the services performed are still State funded. The LFB is currently unable to quantify the magnitude of this effect.

ALTERNATIVES

The General Assembly may wish to review the goals of the collective bargaining statute to determine if the goals are still valid today. If the General Assembly wishes to make cost the number one priority, a number of steps could be taken to reduce costs. Covered and noncovered employees could be treated differently or wage comparison criteria could be changed from the current criteria. However, in the attempt to reduce costs, it would be likely that additional risk would be incurred. The risk could include returning public employees' right to strike for elimination of some collective bargaining protections for employees. Risk may also include reduced level of services to or poorer quality services received by lowans due to increased turnover or less qualified staff.

BUDGET IMPACT

The General Assembly provided a General Fund appropriation of \$27.0 million for FY 1997 salary adjustment. Total wages and benefits for all State employees including the Board of Regents is estimated at \$2.04 billion for FY 1996.

STAFF CONTACT: Larry Sigel (Ext. 16764) Jon Muller (Ext. 14611)

Attachment 1

20.4 Exclusions.

The following public employees shall be excluded from the provisions of this chapter:

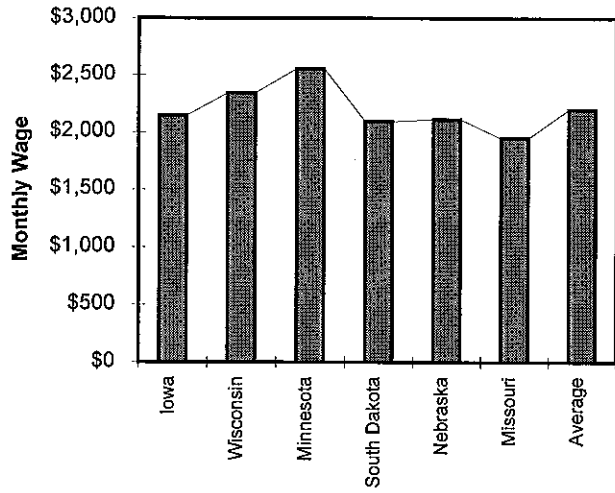
1. Elected officials and persons appointed to fill vacancies in elective offices, and members of any board or commission.
2. Representatives of a public employer, including the administrative officer, director or chief executive officer of a public employer or major division thereof as well as the officer's or director's deputy, first assistant, and any supervisory employees.
"Supervisory employee" means any individual having authority in the interest of the public employer to hire, transfer, suspend, layoff, recall, promote, discharge, assign, reward or discipline other public employees, or the responsibility to direct them, or to adjust their grievances, or effectively to recommend such action, if, in connection with the foregoing, exercise of such authority is not of a merely routine or clerical nature, but requires the use of independent judgment. All school superintendents, assistant superintendents, principals and assistant principals shall be deemed to be supervisory employees.
3. Confidential employees.
4. Students working as part-time public employees twenty hours per week or less, except graduate or other postgraduate students in preparation for a profession who are engaged in academically related employment as a teaching, research, or service assistant.
5. Temporary public employees employed for a period of four months or less.
6. Commissioned and enlisted personnel of the Iowa national guard.
7. Judicial officers, and confidential, professional, or supervisory employees of the judicial department.
8. Patients and inmates employed, sentenced or committed to any state or local institution.
9. Persons employed by the state department of justice, except nonsupervisory employees of the consumer advocate division who are employed primarily for the purpose of performing technical analysis of nonlegal issues.
10. Persons employed by the credit union division of the department of commerce.
11. Persons employed by the banking division of the department of commerce.
12. Persons employed by the savings and loan division of the department of commerce.
13. The appointee serving as the coordinator of the office of renewable fuels and coproducts, as provided in section 159A.3.

[C75, 77, 79, 81, § 20.4]

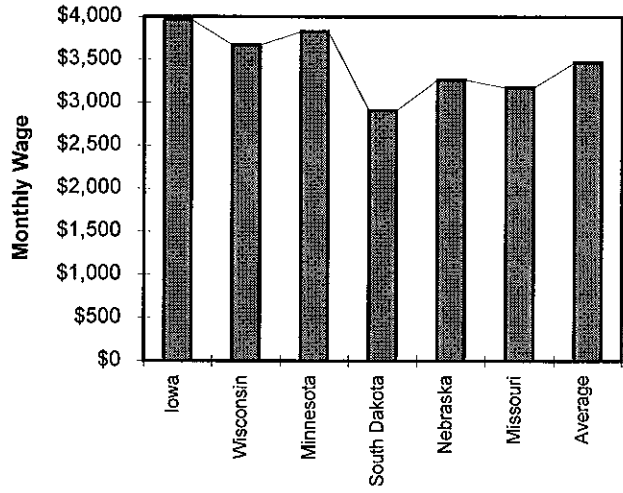
83 Acts, ch 186, § 10012, 10201; 86 Acts, ch 1246, § 612; 86 Acts, ch 1245, § 230; 89 Acts, ch 296, § 5; 89 Acts, ch 158, § 3; 91 Acts, ch 254, § 3; 94 Acts, ch 1119, § 9

Attachment 2

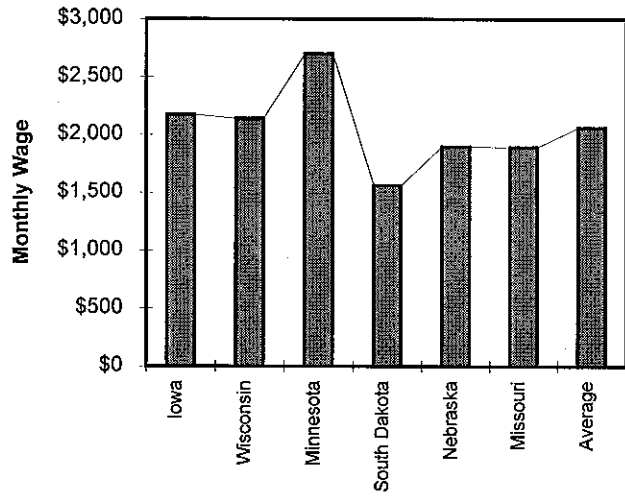
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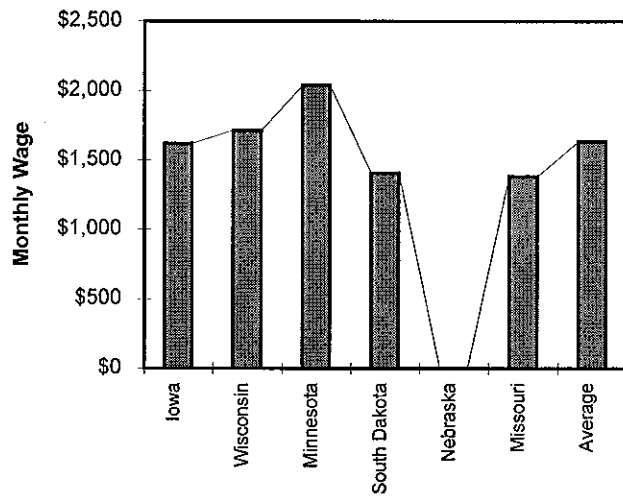
Civil Engineer 2



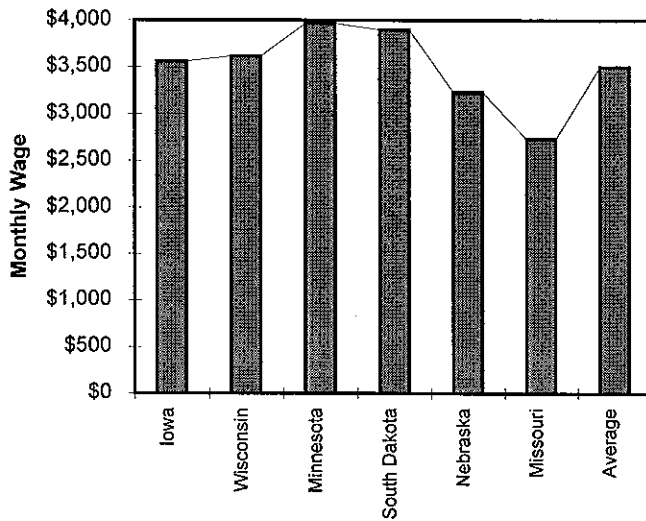
Automotive Mechanic 2



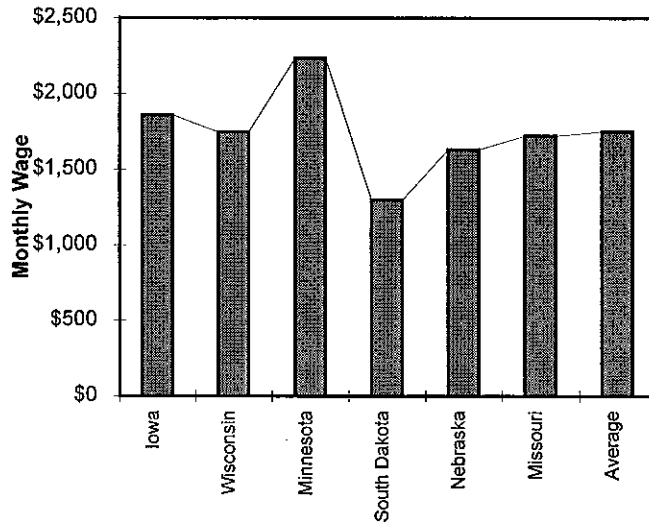
Clerk Typist 2



Computer Systems Analyst



Cook 2



Attachment 2

