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The Treasure Hunt: Budget Search Behavior by Public Employee Unions

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■ *Numerous public sector wage and benefit disputes revolve around the jurisdiction's ability to pay for union demands, and on many occasions local unions, often with the assistance of their national research staffs, search through the jurisdictions' budgets looking for funds they can "capture." This paper describes the relationships between the local and national unions in this process; lists the sources of information typically used by the unions; reviews typical econometric and comparative approaches used by unions in analyzing public budgets; describes the long-term budget strategies advocated by some unions; proposes an expanded theory of management "hiding" behavior; and discusses the effectiveness of union techniques.*

Bevars Mabry, in his "Pure Theory of Bargaining," states that "an agreement represents the balancing point of power that each party is able to bring to bear on the negotiations."[1] In today's age of information and budget stress, it is not surprising that a key source of power in state and local union contract negotiations is information about budget problems and potential sources of funds to pay for union demands. Frequently in negotiations a jurisdiction will raise the argument of "inability to pay," and this often triggers a search by the local union or its national-level researchers to find money in the jurisdiction's budget. This search may be intensified if the dispute proceeds to mediation, fact-finding, arbitration, and/or a strike.

Despite the frequency of this behavior and the fact that hundreds of millions of dollars in wage settlements can be affected by the success of these searches, previous research into budget analysis by public sector unions is extremely sparse. In a 1970 study of 22 public school districts in California, James Craft coined the term "budget search behavior" and described several techniques used by local teacher unions to locate "fat" in school district budgets.[2] These techniques included searching for possible overallocations of money for hiring new employees; looking for federal or state funds that could pay for wage and benefit increases; reducing costs over which the teachers had control (such as sick leave) and reallocating the savings to increase salaries; and trying to capture contingency funds set aside by management. If these techniques were unsuccessful and management was unwilling or felt unable to pay for the union's proposed package, then an impasse might be reached and militant action might result.

The only other major study is a short manual for public sector managers by Mulcahy and Smith on how to make an effective "inability to pay" case in bargaining and arbitration.[3] In this manual the authors list a number of useful tools, including doing population and income trends for the jurisdiction; comparing the gross tax rates (municipal, school, and special district) for the jurisdiction with other similar jurisdictions; showing the revenue effect of property tax limits on the jurisdiction; showing the expenditure effect of potential unexpected emergencies such as liability claims; comparing management to nonmanagement wage increases; and doing wage and benefit comparisons with surrounding jurisdictions.

Other literature that touches on this topic generally deals with whether or not jurisdictions really "hide" money in their budgets to satisfy union demands and other contingencies and whether unionization of municipal employees has driven up wages and municipal expenditures. There seems to be general agreement among scholars that at least some jurisdictions hide funds and that unionization often has a positive effect on wages and municipal expenditures.[4]

Surprisingly, none of the literature on this topic describes the important role that many national unions play in assisting their locals in the search for "hidden" money. This study remedies this situation by describing the unions involved in this activity and how they process budget data; listing the sources of information they draw upon; describing standard revenue and expenditure analysis techniques used; reviewing econometric techniques used; describing the unique comparative approach used by one national union; listing long-term budget strategies employed by some unions; proposing an expanded theory of "hiding" behavior; and discussing in conclusion the effectiveness of the union techniques. This information should be of interest to public sector managers, other public sector national unions, local unions, citizens who may wish to use similar analysis techniques on their local budgets, and students of public administration and labor relations.

The Unions Involved and How They Process Budgets

The number of national labor unions involved in budget search activity is small, but they have an effect on a large number of public budgets. Table 1 shows that seven national unions utilize permanent staff to analyze state and local budgets, but that only five are really active. Over 1,500 budgets per year are analyzed, with the bulk of these analyzed under the National Education Association's (NEA's) decentralized, computerized, comparative analysis system (this system is described in detail later). Thus hundreds of public budgets covering hundreds of thousands of employees are affected. If one recalls that many union contracts cover two or three years, and thus a budget analysis need be done only periodically, it is clear that the total number of jurisdictions affected over time is considerably higher.

The number of full-time equivalent (FTE), national-level employees devoted to budget analysis varies by union from 7 to 0; the total FTE is 12. The number of national staffers who analyze budgets at least occasionally is somewhat larger, at 19. Frequently a budget analyst is assigned other research work, and analyzes budgets only part-time.

The background of the analysts is generally in economics. No accountants or certified public accountants (CPAs) were found on the national union budget staffs, although some local unions hire outside CPAs to do occasional analyses.

All of these analysts are located in their national unions' research departments. Thus a typical request sequence for budget analysis assistance involves the local union leader on the scene realizing the need for assistance; securing at least the minimum documents needed for analysis; sending these documents to national headquarters; the analysis being assigned, usually by the research director; an analyst spending several days reviewing the budget and producing a written analysis; getting the analysis approved; and mailing it to the local union leader.

There are, of course, many variations of this typical system. The major variation is the more decentralized NEA system, described below. Another variation is that the local union may have in-house experts or outside

TABLE 1
Major Public Sector Unions and Their National Research Staffs Doing State/Local Budget Analysis

Union	No. of FTE Budget Staff	No. of Staff that Work on Budgets*	Est. No. of Budgets Processed/Year	Comments/Backgrounds of Staff (in order of frequency)
Amalgamated Transit Union (ATU)	0.001	1	1-2	Director of Research does 1-2 yr.; "inability to pay is not accepted as a valid argument"
American Federation of State, County & Municipal Employees (AFSCME)	7.0	11	400+	MA or sometimes BA in economics; JD; MA in labor relations; MPH
American Federation of Teachers (AFT)	1.0	2	50 inquiries responded to; 12-20 full-blown analyses	MA in economics and PhD in education policy
Fraternal Order of Police (FOP)	0.0	0	Unknown, but modest	Outside CPAs hired when needed
International Association of Firefighters (IAFF)	1.0	1	60	BA, partial MBA
National Education Association (NEA)	1.0	1	950**	MPA
Service Employees International Union (SEIU)	2.0	2	50	MA in policy analysis, PhD in economics
Transport Workers Union (TWU)	0.1	1	3-7	BA in economics, partial MA in economics
AFL-CIO Public Employee Department (PED)	0.0	0	none	"let member unions do this"
Laborers International Union (LIU)	0.0	0	none	"do not do public sector analyses"
Teamsters	0.00	0	none	"do not do public budgets"
Totals	12.101	19	1,519+	

*At least occasionally.
**NEA utilizes a unique decentralized, comparative system that is described in the text.

consultants who analyze budgets, and thus the national office is not involved. Generally, only large locals or large intermediate bodies, like District Councils of the American Federation of State, County and Municipal Employees (AFSCME), have professional staffs with educational and analytic backgrounds to handle budget work. (For example, AFSCME's national research department is never involved in analyzing the New York City budget; that is left to professional staff of District Council 37.)

Another common variation is that only a short verbal or written response to the request is prepared, and a full-blown analysis is not done. This frequently occurs when the documents provided are insufficient and non-detailed, when the financial situation is clearly hopeless or very "fat," or when the request is of low priority.

All national unions try to provide an adequate, fast response to local requests. If a "crunch" occurs, however, priority is generally given to requests where a large number of members are involved; where management is proposing layoffs or a wage freeze; where management has explicitly and forcefully raised the "inability to pay" argument; where the requesting local union leader is powerful and in favor in the union's internal politics; where the local is at risk of losing its certification to another union; where the local is in mediation, factfinding, or arbitration; and where the local is about to strike or is on strike.

On occasion a national budget analyst may go into the field to make a presentation; this is most common during factfinding and arbitration, and when the other high priority factors described above are present.

The budget analysis may be summarized by the national analyst or the local leader in the form of a press release, "proving" that funds exist to pay for the union's demands, with the goal of bringing media and public pressure to bear on management negotiators and the legislative body of the jurisdiction.

Usually the budget analyst takes a straightforward advocate's approach and simply argues the union's side of the fiscal question. However, on occasion the analyst may advise the local leader privately that the jurisdiction really does appear to be in poor financial health and that discretion is the better part of valor. Also, it is generally the policy among all these unions to discourage strikes by members, due to the public ill will generated. Hence the analyst may occasionally go into the field and try to defuse a potential strike by arguing *management's* side during a union negotiating team caucus. As experienced negotiators know, this is where much of the real bargaining goes on, between the (usually) more moderate union leadership and the more militant rank-and-file.

The budget analysis is more likely to be a formal document with more definite conclusions if it is to be presented before a factfinder or arbitrator. Documents of 5 to 25 pages are typical.

Oddly enough, budget presentations by the union during negotiations with medium and small jurisdictions are occasionally not countered by presentations from finance or budget directors. This appears to be a case of poor communications between the management negotiator, who is often an outside attorney or a staffer in the personnel office, and the budget office. Instead, the jurisdiction simply relies on the assertion of inability to pay and does not bother to "prove" its case. Arbitrators are not usually sympathetic to this approach by management.

Occasionally, the budget analysis presentation and the entire negotiations are an elaborate sham in which the deal on wages and benefits has already been secretly struck. I am reliably informed of a state negotiation covering 45,000 employees where the lead labor and management representatives agreed to an entire contract package months before negotiations even began, and yet the negotiations lasted four months, ran right up to the strike deadline, and involved a management team of 40 staff and a union team of 200 persons, with only 4 people in the room aware that the settlement had already been reached!

Documents Desired and Used by Unions in Budget Searches

Local unions are urged by their national budget analysts to gather as much information as possible on the finances of the jurisdiction involved to improve the quality of the budget analysis. The desired documents include the following:

- The proposed budget for the upcoming fiscal year, which usually coincides with the first year of the contract that is being negotiated. This budget must be very detailed to allow a thorough budget analysis; an executive summary will not do. The budget should contain, at a minimum, a budget message laying out management's economic assumptions; detailed revenue estimates; detailed expenditure forecasts, ideally including salary figures for management and other employees; historical information on past actual and budgeted expenditures for several years; information on year-to-date actual costs for the current year and/or projected costs for the current year for each revenue and expenditure line; and information on fund balances, surpluses, contingencies, and interfund transfers. In the school systems this type of proposed budget is often called a "planning" budget.
- Two or three years of the most recently adopted budgets, containing the same information listed above.
- External audit reports for the last two or three years.
- Current year-to-date monthly financial statements and quarterly or six-month budget reviews by the budget office to determine year-to-date budget execution performance.
- State laws, local ordinances, or charter provisions that affect the jurisdiction's ability to transfer money between funds or raise revenues.
- State treasurer's handbook or other guide to how the

jurisdiction must set up and define its accounts.
- Minutes of the jurisdiction's legislative body that might be relevant to economic assumptions, "hidden" money, contingency fund purposes, labor settlements, etc.
- Relevant newspaper clips on fiscal condition, surpluses that have "miraculously" appeared in the past, scandals, extravagant purchases, etc.
- Recent bond prospectuses.
- Promotional literature on the jurisdiction distributed by its economic development office.
- Independent fiscal information produced by citizens' boards, watchdog agencies, or the like.
- Information gleaned from sympathetic legislators or by employees in the bargaining unit, especially clerks or secretaries in the personnel, labor relations, or budget offices, about potential sources of funds.
- Information on recent settlements by other bargaining units or unions in the jurisdiction.
- Data on filled and unfilled positions in the jurisdiction, and calculations on savings from employee turnover.
- Wage and benefit information on all employees.
- Information on the estimated cost of management wage and benefit proposals and union demands.

These data would be supplemented by the national-level budget analyst with information on the jurisdiction's bond rating; economic projections for the state or area (taken from one of the national forecasting firms such as Data Resources, Inc.); Consumer Price Index (CPI) increases; and wage and benefit comparisons with nearby jurisdictions.

Although this list of desired information is impressive, in reality many local unions are able to gather only the proposed budget and perhaps one or two past-year, adopted budgets. Naturally this reduces the quality of the analysis. On occasion this lack of information is due to management noncooperation in providing the desired material, despite the fact that most states have laws making this public information and despite various court cases making it clear that an employer who raises the inability to pay argument has an obligation to provide substantiating information.[5] But frequently the problem seems to be lack of experience and time to gather these data at the local union level.

Standard Revenue Techniques Used

The standard revenue techniques described below refer to techniques used by all unions except NEA to identify "hidden" or "soft" funds. Often the revenue side of the budget is the most lucrative for the union's purposes, since it contains fewer line items and a history of concealment is easier to identify. The general thrust of the union's argument on the revenue side is that revenues for the upcoming contract year are significantly underestimated and that funds are therefore really available for a substantial pay increase, often much larger than the union's proposal. (The same revenues could be used to save jobs, if management is proposing layoffs.)

Thus the first major technique used is a simple spreadsheet comparison of actual-versus-budgeted revenue receipts for the last several years, with the goal of establishing a history of underestimating revenues. This is often done by looking at the grand total actual-versus-projected revenues for each year, as well as at individual major revenue sources. The union often uses the historical percentage of past underestimation, applies it to the proposed budget, and argues that this amount is very likely "to appear" in the actual receipts next year.

The second technique is to examine the proposed budget to see if a reasonable surplus from *this* year appears in next year's proposed budget as a revenue item. It is, of course, suspicious if a jurisdiction has a history of carrying in large surpluses as revenue in the past but now shows no revenue from this source.

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The third technique, particularly with local governments, is to examine and discuss property tax revenues. Here the projected figure is compared to recent actual collections; projected collections are compared to the current year's collections as revealed by monthly financial statements and quarterly or semiannual budget reviews; and projected revenues and the budget message are examined to see if already passed millage or tax rate increases have been incorporated. The jurisdiction's collection rate for current and overdue property taxes is examined (in particular many New England budget documents show the expected collection rate), and any drop below a 98 or 99 percent collection rate is criticized. (For example, the City Charter of New Haven, Connecticut, requires a "tax estimate based on last year's percentage of collections, *less one percent.*" This underestimate alone provided $2 million for one local in negotiations.) Jurisdictions with low property tax collections are urged to have annual or biannual property reassessments; to assess at 100 percent of full-market value; to penalize tax delinquents severely; to increase the interest payments on delinquent taxes; to set up a public "rogue's gallery" of the worst tax offenders; and to avoid unnecessary waivers of exemptions from taxation.[6] If property tax rates in the community are low, management may be urged to raise rates, although the union will be somewhat reluctant to do this because it may upset local residents.

The fourth technique is to check *all* enterprise and other funds maintained by the jurisdiction to see if they are generating surpluses or are draining resources from the general fund. If they are generating surpluses, then the union will argue that these surpluses should be transferred to the general fund (if that is where the bargaining unit is) and used for pay raises, unless a state law or federal regulation forbids such a transfer. (It will be argued that local ordinances can be changed by the local council.) Similarly, if enterprise funds are not self-supporting and drain money from the general fund, then the union will argue that user fees should be raised to make the funds self-sufficient. (Similar arguments may be made in a situation where a dependent school system is proposing low wage increases and the parent city or county government budget has a healthy surplus.)

A fifth, related technique is to question management about user fees and charges in general and to ask for proof that these charges reflect the costs of providing service, that they have increased with inflation, and that they are in line with other jurisdictions.

A sixth technique is to request information about balances that may be left over in old bond funds and ask that these balances be transferred to the general fund.

"Hiding" behavior is defined as definite knowledge by budget managers that certain line items are pessimistic by a specific amount and that that amount is being intentionally concealed from the union (and perhaps other actors).

A seventh technique is to check the proposed budget revenues from federal and state sources against documents issued and statements made by the funding sources themselves. Often management is reluctant to include such revenues until they are absolutely certain, while the union will argue that a reasonable certainty is all that is required.

An eighth technique is to ask whether management has put in place a sophisticated cash management system to maximize interest revenues and to compare proposed interest revenues with last year's and with the current year's projected revenues to see if they appear reasonable.

A ninth technique is to examine budget revenues over time for multiyear cycles. One school's analysis found that a four-year property reassessment cycle, combined with an equalizing state aid formula, resulted in a very good revenue year, followed by a very poor revenue year and two recovery years. Since negotiations had been taking place in the poor revenue year, the union was always faced by a dismal revenue picture.

A tenth technique is to examine growth over several years in total actual revenues; this is a good sign of health.

An eleventh technique is to question miscellaneous declines in revenue items and to request that management substantiate its estimates. Any history of revenue discoveries that have "miraculously" appeared in past years immediately after settlement is reached can be raised at this point.

A twelfth technique is to use econometric forecasting data from one of the large consulting firms to cast doubt on the pessimism of management's economic assumptions about revenues that are directly affected by the local economy, such as local income taxes, sales taxes, and business-related fees.

A final technique is to use the jurisdiction's bond rating, bond prospectuses, economic development literature, independent audits, or watchdog agency reports to argue that the jurisdiction's health justifies a reasonable pay raise.

At this point, one may be somewhat overwhelmed by the amount of data requested by and questioned by the union. This is part of the union's tactics, to request so much information that management cannot respond to every item and to remind management and especially any factfinder or arbitrator that the budget is simply a collection of guesses about the future.

Standard Expenditure Techniques

On the expenditure side, the union will attempt to show management, union members, and any factfinder or arbitrator that management's estimates for next year are too high, that much of the money will actually not be spent, and that the difference is available for pay increases (or to avoid layoffs). To do this, it is extremely important to have detailed information; many budgets made available to the public contain only summaries of key line items such as "Personnel Costs-City Manager's Office." The ideal budget from the union's point of view contains the proposed and current salary and benefits for every employee, as well as details on every supply line item and capital cost.

The first standard expenditure technique is to go through the budget and identify items listed as "contingencies," "anticipated surpluses," "reserves," etc. While sometimes these reserves are legitimately needed for encumbrances (purchase orders already issued but not yet paid), often a misleading label is used, and the funds really are available for a pay raise.[7] Management may argue that it needs a 1 to 5 percent "cushion" for unexpected problems;[8] the union may try to show that sufficient padding has already been incorporated in the budget. The union will argue that contingencies, even if located in enterprise funds, should be transferable for a pay raise.

The second technique is to examine the accuracy of management projections in the past. This is done via spreadsheet for grand total versus actual expenditures for several years and for various major expenditure categories.

The third technique is to project current year-to-date expenditure trends for the current year and compare them to next year's projections by management.

The fourth technique is to examine the issue of vacancies, "salary savings," or "credit for turnover." These expenditure savings arise because during the course of the year current employees leave and their positions are vacant for some time until filled; because the new replacement employees are often paid less than the old senior employees who left; and sometimes because vacant positions are carried for long periods as padding or because management is debating over how to fill them. Benefits as well as salaries are saved by this technique. A union trying to make this case will request a list of all filled and unfilled positions and the dollar value of each. The union will also examine the expenditure side of the budget to see if each department has a line item (a credit) for "credit for turnover" or something similar. Some jurisdictions omit these savings altogether; more sophisticated ones put in underestimates of the savings.[9] One union tries to detect these underestimates by using the rules of thumb that overall salary and benefit savings should total about 3 percent of total salaries and benefits; or that in small white collar units savings should be about 1 or 2 percent and that in large blue collar units savings should be about 4 to 10 percent.

The fifth technique is to examine the inflation assumptions built into the expenditure side for major purchases such as electricity, fuel oil, gasoline, supplies, etc.

The sixth technique is to see if wage and benefit increases have already been built into the expenditure projections, and if so, how much they are.

The seventh technique is to look for management-related items that can be used to embarrass the management team. Actual examples include: large salary increases for a mayor and his secretary; a large raise for the management negotiator; other large management raises; extravagant-sounding purchases such as "wave machine-$250,000," "limousine service," "superintendent's travel," "school board airplane," etc. Even in a nondetailed budget, it may be possible to identify large questionable increases in divisions that are exclusively composed of management personnel. At this point, any recent scandals involving management employees might be raised.

The eighth technique is to look for information on consultants or contractors who are being brought in to do bargaining unit work. The budget may reveal that such contracting out is not cheaper than doing the work in-house.

The ninth technique is to criticize the creation of new divisions and positions when existing members are being offered low pay increases and especially when existing workers are being threatened with layoffs.

The tenth technique is to examine the capital budget to see if projects that actually take several years to construct are being budgeted for one year only.

The eleventh technique is to examine the budget for any productivity information that may be useful in bargaining. Sophisticated budgets often now include workload, productivity, and effectiveness information for each department and division. If these divisions can be matched to the bargaining unit and if substantial productivity gains are shown, a powerful argument can be made for a pay raise.

The twelfth technique is to use the budget or other data to calculate the savings generated by any ongoing strike and try to have these funds allocated for a pay raise.

The thirteenth technique that might be calculable from the budget is to compare the ratio over time of management to line personnel or costs. If this ratio is increasing over time, then management's priorities can be criticized and the argument made that more funds should go to line workers.

The final standard expenditure technique is simply to list any other large expenditure increases (over about 15 to 20 percent) and ask management to justify these increases.

Two prevalent techniques that relate somewhat to the expenditure side but are not, strictly speaking, budget analysis techniques are wage comparisons and CPI comparisons. For large, important negotiations these comparisons can be quite elaborate and encompass wages (and benefits) in nearby jurisdictions, in the private sector, and in recent settlements. They may also include measures of inflation.

Econometric Techniques

Two of the national unions, AFSCME and the Service Employees International Union (SEIU), occasionally supplement the standard budget analysis described above with a full-blown econometric analysis. This is only done for state negotiations, since econometric forecasts are not available for local jurisdictions.[10] Because the analysis is fairly costly and takes up to a month of an econometrician's time, these analyses are done only for large, high priority state disputes. SEIU has one econometrician on staff available for this type of analysis; AFSCME has two. All have backgrounds in mathematical economics. (These staff are in addition to the budget analysts listed in Table 1.) Since the disputes are high priority and the analyses highly technical, the econometrician frequently makes a presentation in the field at the bargaining table or before a factfinder or arbitrator.

A typical econometric analysis focuses largely on the revenue side, since that side is more amenable to modeling. The analysis usually starts with a review of the current economic situation in the United States and a national economic forecast for the next two years, drawing on a national model constructed by one of the large econometric firms such as Wharton or Chase Econometrics. All standard economic indicators are discussed and forecast, including inflation, gross national product (GNP), unemployment, interest rates, personal income, before-tax profits, etc.

The analysis then proceeds with a review of the status and two-year outlook for the state economy, focusing on comparing state to national trends. Typical indicators used include personal income, total nonagricultural employment, manufacturing employment, real disposable income, population, unemployment rate, and CPI.

The heart of the econometric analysis begins with an overview of state revenues, a discussion of the governor's revenue estimates and his or her view of the state economic outlook, and a discussion of any third-party revenue forecasts. Then each individual major revenue source is modeled, forecast, and discussed.

Modeling is usually done using fairly simple least squares equations. For example, in a 1982 SEIU analysis of Pennsylvania's budget, personal-income tax receipts were modeled as a function of the personal-income tax rate and the personal-income tax base, where the latter was a weighted average of tax-year and fiscal-year personal income for the last ten years. This equation had an R^2 of .9965, and it was used to project receipts for the next two years, based on DRI's estimates of personal income in the state for that period. The discussion of each revenue item highlights under-estimates by the governor's staff of revenue that may be available for a pay raise.

The analysis may then proceed with a brief review of the expenditure side. This may involve comparing the change in the rate of spending to the projected inflation rate, an analysis of the size and nature of the estimated state surplus, and a review of shifts in spending priorities. Modeling is not usually done.

A Unique Comparative Approach

One of the national unions, NEA, has taken advantage of the relative standardization of school budgets across the country to create a unique, comparative, computerized system of budget analysis. NEA originally used all of the "standard" techniques described earlier to analyze budgets individually, document by document. However, beginning in 1970, NEA's budget analyst and top managers began thinking about and designing a system that would allow state affiliates to do their own analyses. The system became operational in 1976, and it has been in use ever since. It is accepted and used extensively by the local and state affiliates and deemed a success by NEA management.

The system utilizes the NEA mainframe computer to which all NEA state affiliates have access and which they can use for their own internal operations (payroll, accounting, salary schedules, etc.). Using the system for budget analysis involves training staff in system use, inputting relevant data, and doing the analysis.

Usually two people at each state affiliate are trained: a data input operator and the research director who actually does the analysis. Training usually takes one or two days.

Data input follows a standardized format. The length of time it takes—two to three hours per school district—is a major complaint among system users. About 2,000 school district budgets in 15 states, including 2 million individual data items, have been entered into the system.

Numerous reports of four major categories can be generated by the analysis system. The first category comprises internal analysis of revenue reports. Popular reports include: (1) a revenue detail report, which lists proposed and actual revenues for each major revenue item for the last seven years (through 1986-1987) for a particular school district; (2) a revenue summary report, which lists total local, state, and federal proposed and actual revenues for the last seven years; and (3) a revenue highlights report, which shows the percentages of total revenue received from federal, state, and local sources, the percentage of proposed versus actual received from each level of government, and the surplus or deficit of dollars received from each level of government, all for the last seven years.

The second category consists of expenditure analysis reports, which include seven-year analyses such as: (1) an expenditure detail report, which shows proposed-versus-actual expenditures for items of interest such as principals' salaries, supervisors' salaries, and teachers' salaries; and (2) an expenditure highlights report, which shows the percentage of the budget for each year that each key line item constitutes (such as administration, transportation of pupils, total instructions, etc.).

A third category consists of priority and balance reports. These include: (1) current year and a base year priority report, showing the percentage and dollar shift in school board priorities among major categories of spending that has occurred over the last seven years; and (2) a revenue-expenditure balance report, showing the actual revenues, expenditures, and balances for the last seven years.

The fourth major category includes comparative reports, of which popular versions are: (1) a comparable measure revenue report, which shows the revenues from local, state, and federal levels, year-end balances, and total receipts and balances for the school district in question and for six other nearby school districts, with all amounts shown on a "per average daily attendance" normalized basis; and (2) a cross-district expenditure report, showing a comparison across ten school districts of actual average expenditures per pupil in key categories such as general instruction, special instruction, general support, and total expenditures.

In the comparative area the capability exists to compare the school district in question with statewide and national averages, if desired.

Almost all the reports use several different measures, including absolute dollar amounts, percentages, and dollar amounts normalized by average daily attendance.

As shown in Table 1, budget analyses done by this system total about 950 per year. Only one analyst at headquarters is needed to maintain the system, do training, and plan system modifications. A typical user of the system at the state affiliate level accesses eight or nine of the reports described above, examines these for key items and trends, then summarizes these items verbally or in writing in a presentation during bargaining.

Long-Term Budget Strategies

Several of the unions involved, particularly AFSCME and SEIU, urge their locals to go beyond the short-term strategy of analyzing the budget by getting involved early and deeply in the budget process. Suggested strategies for local unions and intermediate bodies include the following.

First, obtain budget data early in the budget process, before management becomes very busy and secretive.

Second, try to influence preliminary estimates of inflation and economic growth issued in the original budget "call" sent out (usually by the budget office) at the beginning of the budget process.

Third, try to "convert" line department heads into union allies.

Fourth, form coalitions with interest groups, citizen lobbies, and taxpayer groups who want better service.

Fifth, gain access to the chief executive and members of the legislative body, and lobby hard for improved wages and benefits and against tax decreases and loopholes.

Sixth, testify at public hearings on the budget.

Seventh, try to improve the jurisdiction's long-term revenue picture. This involves increasing the "tax justice" of all major taxes; stopping all legislation that would decrease the tax base; trying to expand the tax base in income, sales, property, and other major revenue sources; improving tax enforcement; increasing the progressivity of state and local income taxes; and increasing luxury taxes such as excise taxes on liquor and tobacco.

An Expanded Theory of "Hiding" Behavior

Before discussing the effectiveness of the union's budget search techniques, the question of whether management actually "hides" funds that can be "found" by the unions needs to be reexamined.

As mentioned earlier, scholars generally agree that at least some "hiding" behavior by some state and local managers occurs. The unions discussed here have no doubt on this topic. But previous writers have tended to assume that money is either "hidden" or "not hidden." This implicit assumption and theory can be expanded.

In an expanded theory, all jurisdictions are placed on a "budget accuracy continuum," which runs from extensive "hiding" behavior on one extreme; through limited hiding but a gut feeling among top managers that some budget estimates are "soft" and will generate unanticipated funds; through total honesty and attempted accuracy in all budget estimates; and ends at the other extreme with overoptimistic forecasts throughout the budget.

In this continuum, "hiding" behavior is defined as definite knowledge by budget managers that certain line items are pessimistic by a specific amount and that amount is being intentionally concealed from the union (and perhaps other actors). This is distinguished from a "gut feeling," but no specific knowledge, that some line items are "soft." Note that under this definition a contingency account simply labelled "contingency" would not be "hiding," but an account labelled "contingency for expected liability claims" *would* be "hiding" if the budget director was reasonably certain that account funds could be used for union raises or other purposes.

On this continuum my sources and experience indicate that some jurisdictions occupy the "hiding" extreme; that most jurisdictions are in the next area on the continuum (limited hiding but good "gut feelings"); that a few try to be totally accurate in all estimates; and that *very* few or none are consistently overoptimistic. This distribution occurs because most states require balanced local and state budgets and substantial political penalties are imposed on managers who create any sort of fiscal crisis.[11]

If this formulation is accurate, the question naturally arises, "What causes different jurisdictions to occupy different positions on the continuum?" Causal factors involved probably include: the recent success or failure by management in concealing "hidden" or "soft" funds; the attitude of local factfinders and arbitrators; any recent attempts to hide funds that have backfired; the professional budget analysis and bargaining capability of the unions usually faced by management; the professional training and personal inclinations of the budget, personnel, and labor relations directors and the chief executive; the "good government" orientation of the community; demands by citizen boards and groups for open, accurate budgeting; the inclination of the legislature to "rubber stamp" the budget; the inclination of the legislature to make sudden, unreasonable demands for funds during the middle of a budget year, thus encouraging the budget office to hide funds; and attention paid by top managers to professional publications, which generally advocate accurate budgeting.[12] A key factor is probably the size of the surplus: a very large surplus is probably unconcealable anyway; a moderately large surplus is probably the most likely to be hidden, since it might well become a target for unions and citizens; a small surplus would be tempting to hide because budget managers would be nervous that it would not be quite large enough to end the year in the black; while a truly tight budget (in exact balance or with a projected deficit) would probably encourage open budgeting, since management has everything to lose and nothing to gain by concealing the true fiscal condition.

Effectiveness of the Unions' Budget Techniques and Strategies

How effective are public sector unions in their long-term budget strategies and in effort to uncover "soft" or "hidden" funds?

First, as to long-term budget strategies, most local unions are too involved in recruitment, servicing members, fighting off decertification attempts, and negotiating contracts to have much time for what they see as lower priority items such as monitoring and protecting jurisdictions' tax bases. Short-term crises tend to drive out long-term issues. This is not as true at the state as at the local level, since state union bodies and units tend to be bigger, have more professional staff, more professional lobbyists, and more funds.

Second, as to short-term analytic successes in general, there is no doubt, as discussed earlier, that some managers "hide" or have "soft" estimates of funds. On many occasions union budget analysts (if they are called upon) are able to uncover these funds and make a plausible argument that the jurisdiction has the ability (if not the willingness) to pay for the union's demands. Many arbitrators, factfinders, mediators, and negotiators are impressed and have been swayed by these arguments. However, even an effective budget analysis cannot win a favorable settlement on its own. By raising the argument of inability to pay, management puts the union on the defensive. An effective budget analysis can only bring the union back to a slight deficit or perhaps an evenly matched situation and will almost never put the union on the offensive. Unions therefore deem a budget analysis successful if an arbitrator, factfinder, the media, and other actors ignore *both* sides of the inability-to-pay question and make their decisions based on other criteria, such as wage comparisons and inflation.[13]

Third, as to the particular short-term successes of each approach, the NEA's comparative approach is highly efficient and can quickly produce voluminous reports. Its use of seven years of historical data and its ability to compare across ten school districts are effective. However, this system may miss a few nuggets of useful information that could be gleaned by the lengthier technique of examining each line in the budget. (Since the NEA system produces so many data that are interesting from a research point of view, it is regrettable that a similar system can probably never be set up for local and state budgets other than the Census of Governments, due to their wide variations in format and functional breadth.)

The standard, budget-by-budget approach used by most unions is effective in negotiations but very time consuming for the national unions. Even if the union budget analyst goes through every line item and understands the budget almost as well as management, *both sides* typically know little about the true economic and fiscal health of the jurisdiction. A jurisdiction can have a reasonable surplus and a good-sized contingency fund for one year and yet be in long-term jeopardy. Indeed, Albritton and Dran reported in a 1987 article in the *Public Administration Review* that even the simple term "surplus" is extremely slippery and that "it makes no sense to jump to conclusions about fiscal status until . . . arbitrary one-year indicators are assessed over longer periods."[14] What is needed is a comprehensive, multiyear forecast of revenues and expenditures and a long-term assessment of the jurisdiction's economic and fiscal health.[15] Yet these types of data are rarely developed by management or presented in bargaining, so that a neutral but informed observer might liken the proceedings to a boxing match between two blindfolded men, where neither really has the information to fight intelligently.

This leaves econometric forecasting, which is multiyear and concerned with economic as well as fiscal health. Is this the answer? Not really, for two reasons. First, this method can only be used for the 50 states, not for the tens of thousands of local jurisdictions and school boards. (Although individual managers could certainly do more in the way of multiyear forecasting.) Second, this method is not always accurate. Mulcahy and Smith mention a Massachusetts state negotiation in which a union used econometric analysis to "find" new state revenues, and the settlement was reached that workers would receive a substantial raise if those revenues materialized.[16] Mulcahy and Smith's book went to press before the denouement of the negotiation, which was that the revenues did *not* materialize, the union lost much of its pay raise, and workers were very upset. Even econometrics is subject to numerous errors and to radical shifts in the direction of the national and regional economies.

In conclusion, it seems that both labor *and* management are still far from able to predict short-term fiscal futures for individual state and local governments. Despite this fundamental inability, national public employee unions are actively engaged in detailed budget research to support their positions in wage and benefit disputes, and they can be expected to continue this budget search behavior in the future.

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Notes

I am grateful to the union staffers who were a major source of information for this article.

This study draws on interviews in July 1986 and in 1987 with staff of all the national public sector labor unions engaged in state, local, and school budget analysis; on numerous samples of their work; on three internal budget analysis manuals prepared by the unions; on two years of experience with AFSCME, in which I analyzed over 100 local and state budgets; on three years in budget analysis on the management side of the table; and on various free-lance analyses performed as a consultant. Throughout this article the terms "public employers" and "jurisdictions" refer to cities, counties, school boards, special districts, states, and their agencies. Federal agencies are not included in this definition or in the scope of this article, since federal unions cannot bargain (directly) over wages and benefits.

1. Bevars Mabry, "The Pure Theory of Bargaining," *Industrial and Labor Relations Review,* vol. 18 (July 1965), pp. 479-502.
2. James A. Craft, "Public Employee Budget Negotiations: Budget Search and Bargaining Behavior," *Public Personnel Review,* vol. 31 (October 1970), pp. 244-249.

3. Charles C. Mulcahy and Marion C. Smith, *Problems and Solutions Resulting from Inability to Pay in the Public Sector* (Washington: International Personnel Management Association, 1978).
4. See John F. Hulpke and Donald A. Watne, "Budgeting Behavior: If, When and How Selected School Districts Hide Money," *Public Administration Review,* vol. 36 (November/December 1976), pp. 667-674, who state that "school district budgets tended to underestimate revenues and overestimate total expenditures"; Richard C. Kearney, "Municipal Budgeting and Collective Bargaining: The Case of Iowa," *Public Personnel Management,* vol. 9 (March-April 1980), pp. 108-115, who found that 6 of 23 Iowa local budget directors acknowledged hiding money in their budgets for late pay or benefit increases; Milton Derber *et al.,* "Bargaining and Budget Making in Illinois Public Institutions," *Industrial and Labor Relations Review,* vol. 27 (October 1973), pp. 49-62, who found that 12 of 30 Illinois school, state, and local agencies hid money via overbudgeting or special revenue accounts; David T. Stanley, *Managing Local Government Under Union Pressure* (Washington: Brookings Institution, 1972), who found that 4 of 19 local governments studied hid funds in departmental accounts; Kenneth M. Jennings *et al.,* "Budgetary Influences on Bargaining in Mass Transit," in Harry Kershen, ed., *Collective Bargaining by Government Workers* (Farmingdale, NY: Baywood Publishing, 1983), pp. 67-73, who found that 1 of 16 transit managers surveyed admitted "padding" budgets for union settlements; and K. K. Ramen, "Municipal Financial Reporting: 'Managing' the Numbers," *Public Budgeting and Finance,* vol. 1 (Autumn 1981), pp. 56-61, who concluded that no amount of accounting rule setting by national bodies will eliminate "managing" of budget numbers.

   I have been reliably informed by management of three examples of "hiding behavior": an urban jurisdiction that consistently underestimated its "salary savings" or "credit for turnover," thus hiding a little cushion in each departmental budget; another urban jurisdiction that budgeted each year for a phantom fire station whose construction was consistently delayed; and a state government that, during union negotiations, simply sat on hundreds of mailbags full of checks made out to the state, thus making the revenue picture look unexpectedly grim. (The management budget analyst in charge of the phantom fire station confided that it was very important to hide funds in an account where only the budget office knew about the money and had access to it. Otherwise line departments or city councilmembers might try to capture the funds for themselves. Unions are not the only competitors in the budget game!)

   For a review of studies of the impact of unionization on municipal wages, expenditures and service delivery, see D. T. Menthe and J. L. Perry, "Impacts of Collective Bargaining on Local Government Services," *Public Administration Review,* vol. 40 (July 1980), pp. 359-371.
5. The case law on this matter includes the famous case *NLRB* v. *Truitt Manufacturing Co.* [351 US 149 (1956)] in which the U.S. Supreme Court established the right of a union to examine a private company's books and financial data, after the company raised the inability to pay issue. Various other cases have extended *Truitt* in the private sector. See Florian Bartasic and Roger C. Hartley, "The Employer's Duty to Supply Information to the Union," *Industrial Relations Law Digest,* vol. 16 (July 1973), pp. 35-48. Two little known public sector cases which may be of even more relevance are *Warden* v. *Bennett,* 94 LRRM 2383 (FL Dist. Ct. App., 1976) in which a Florida court held that a union organizer was entitled to state junior college financial information and working papers used in preparing the college budget, when requested, under the Florida Public Records Act; and *NEA-Kansas City* v. *Unified School District #500, Wyandotte County,* 105 LRRM 2772) (Kan. Sup. Ct., 1980) in which the Kansas Supreme Court held that "information on financial resources of school districts, including annual financial reports and audits, . . . tentative budget requirements and allocations, treasurer's reports . . . and other such information" was available by right to the union, and this right was not negotiable under the Kansas Professional Negotiations Act.

   Once as a test of the public availability of budgets I required eight students in a state and local government course to obtain their home town budgets for use in this type of budget analysis. Only half of the students were able to secure budgets from management and local libraries that were suitable even for minimal analysis.
6. Several of the unions regularly object to the granting of tax breaks to corporations seeking to locate in the community, arguing that factors other than taxes are key in such decisions and that this practice creates an unnecessary burden on taxpayers and unions.
7. The most intriguing contingency fund I ever found was in a small Connecticut town budget; it was labelled "Gonorrhea Reservoir—$10,000."(?)(!)
8. Vasche and Williams found that nationwide state-level reserves and contingencies were about 1.6 percent of general fund expenditures in 1986-87, that individual states had reserves ranging from 0 to about 6 percent, and that a reasonable reserve for the state of California was and is about 5 percent. This latter estimate was based on revenue estimating errors that were experienced in recent years. See Jon Vasche and Brad Williams, "Optimal Governmental Budgeting (of) Contingency Reserve Funds," *Public Budgeting and Finance,* vol. 7 (Spring 1987), pp. 66-82. Most of the unions analyzed here would argue that a 5 percent reserve is too large, since many sophisticated revenue forecasting systems, such as New Orleans', are able consistently to estimate with smaller margins of error. See the statement by L. E. Madere in "Revenue and Expenditure Forecasting Techniques," in Llewellyn Toulmin, ed., *Local Financial Management in the '80s: Techniques for Responding to the New Fiscal Realities* (Washington: U.S. Housing and Urban Development Department, 1980), pp. 45-48. On the other hand, the 5 percent figure is supported by Mulcahy and Smith, in *Problems and Solutions Resulting from Inability to Pay,* p. 38, who discuss a town of 25,000 population and $5 million budget, and recommend a "5 percent . . . contingency fund . . . for a city this size"; and by the National Conference of State Legislators, *Preparing for the Next Recession: Rainy Day Funds and Other Tools for States* (Denver: NCSL, 1983), p. 6, who say that states need about a 5 percent "rainy day" contingency fund.
9. In showing public sector managers how to calculate the dollar and percentage costs of a new contract, Mulcahy and Smith, *Problems and Solutions Resulting from Inability to Pay,* p. 46, recommend: "Do not concern yourself with possible retirements or resignations that may be replaced with beginning teachers. ASSUME ALL CURRENT EMPLOYEES WILL RETURN TO WORK UNDER THE NEW CONTRACT AND RECEIVE INCREMENTS, ETC." (Emphasis in the original.)
10. The use of econometric data in the "standard" budget analysis described earlier is limited to simply getting econometric projections about inflation and economic growth for the local jurisdiction's state or region and comparing these figures to the economic assumptions listed by management in the budget message.
11. Susan A. MacManus, in "Coping with Retrenchment," *Public Budgeting and Finance,* vol. 4 (Autumn 1984), pp. 58-66, found that all 50 states except Vermont have laws requiring local governments to balance their budgets; Thomas J. Kane, Jr., in

"A National Survey: Municipal Budget Directors View Budget Control," *Public Budgeting and Finance*, vol. 2 (Summer 1982), pp. 44-50, found that 77 percent of 127 budget directors surveyed stated that their top priority was "making sure the budget stays in balance."

12. For example, Mulcahy and Smith, *Problems and Solutions Resulting from Inability to Pay*, p. 9, urge public sector managers to estimate revenues realistically in the budget document.

13. Charles J. Morris found that while many jurisdictions plead inability to pay, arbitrators are unlikely to be sympathetic unless a fiscal deficit situation can be demonstrated. See "The Role of Interest Arbitration in a Collective Bargaining System," *Industrial Labor Relations Law Digest*, vol. 19 (Spring 1977), pp. 1-37.

It was not possible in this research to distinguish the effectiveness of unions using budget analysis techniques from those that do not. But it is possible to note anecdotally some instances where a budget analysis was the key factor in altering the course of negotiations. For example, in Toledo an effective budget analysis convinced a wavering local AFSCME leader that money was available, and an ongoing strike was extended as a result, despite intense mediation. In Oklahoma City, a projected decline in auto license revenues looked suspicious. Questioned by an AFT analyst, a reestimate lead to a better revenue forecast and a more favorable settlement for the local. In Baltimore, AFT fiscal analysis clearly identified transfers from the schools to the economic development fund. Successful lobbying against these transfers generated more money for the schools and higher wages for school employees.

On the other hand, in Calcasieu Parish, Louisiana, an in-depth presentation by an AFSCME national budget analyst only managed to change 2 of 15 votes on the Police Jury (county commission), with the result that the union lost by one vote a motion for a substantial pay raise.

Finally, in Indianapolis a brief budget analysis by a local AFSCME leader was used to persuade militant city workers that interfund transfers were not legal and hence were unavailable for a proposed pay raise. As a result, an impending strike was averted.

14. Robert B. Albritton and Ellen M. Dran, "Balanced Budgets and State Surpluses: The Politics of Budgeting in Illinois," *Public Administration Review*, vol. 47 (March/April 1987), pp. 143-152.

15. Probably the best known system for analyzing fiscal and economic health was developed by the International City Management Association; it is described in Sandford Groves, *Financial Trend Monitoring System* (Washington: ICMA, 1980) and Sandford Groves, W. Maureen Godsey, and Martha Shulman, "Financial Indicators for Local Government," *Public Budgeting and Finance*, vol. 1 (Summer 1981), pp. 5-19.

16. Mulcahy and Smith, *Problems and Solutions Resulting from Inability to Pay*, p. 9.