INTRODUCTION

Jim Cline
And today we have a presentation on recent developments in the economy and elsewhere that are affecting your labor contract. I'm going to be presenting this afternoon with a couple of our colleagues from Cline and Associates. Kate Kramer has prepared a number of the charts and graphs we're going to be using, and I'm also going to have a guest appearance with Steven Hatton who's done a research project for us that relates to some of the issues around inflationary trends and how they've affected arbitration awards in the past.

We also have a couple other attorneys from Cline and Associates here today, we have Cynthia McNabb and Troy Thornton, and I think maybe Tony Rice too, if he's available. So, we have a presentation, the original invitation that went out showed two to five. My goal is actually to make this two hours or less and I think that's what it'll be. I appreciate you showing up today.

You should find a chat feature at the top of the Teams bar, and if there are questions you have either as we go or during the presentation, feel free to post your questions or comments in there and we'll try to address those at some point in the in the presentation.

We're also going to be posting this on our premium website probably by tomorrow afternoon, along with a transcript. So, if you have other members of your Union board or your Union bargaining team that were not able to make it to the live presentation today, they'll be able to get it on videotape soon. While we're here and before we get into the substance of it. I should also offer a reminder as well, we're going to have a much more in-depth two-day training session, not only covering some of the negotiation items we're covering today, but a whole range of collective bargaining and contract issues as well as discipline and employee rights issues. That's scheduled in late September, near our new office in Issaquah, up in the Issaquah Highlands and you should be getting information on that or already have it. But we're looking forward to seeing some of you or your Members.

So let me move forward and get into the presentation.

You can see the items we're going to cover today in most part relate to a lot of contract issues or trends in contract negotiation. If you've been reading our newsletter, and even if you haven't been reading our newsletter, you're probably aware of some of the developments in CPI and inflation and have questions about how those either affect your contract negotiations or how they might affect the negotiations of the comparables that you use. So, we're going to spend a bit of time this afternoon talking about those.

Current as well as expected inflation trends are we're going to talk about some other current economic indicators in terms of the overall economy and tax revenues and then we're going to talk about contract settlement trends and also how we believe these current economic and inflation indicators might affect those trends. We're going to have, as I indicated, a little bit of a presentation involving Steve Hatton.

And I who I've had Stephen take a deep dive into the arbitration awards in the late 70s where inflation was running very high, in fact higher than it is now. We've done a study and have learned certain lessons that we're going to present today about what those late 70s awards tell us about how our arbitrators have ruled in a previous high inflation period.

We also have a few other incidental kind of contract bargaining issues involving things that we're seeing in public safety contracts, either recruitment and retention bonuses, the issue of body cameras, which are primarily in law enforcement and sometimes correction contract issues and a couple other issues. One issue involving the increased over time that we're seeing in a lot of our public safety bargaining units.

So, with that overview, why don't we get started talking about issues around inflation and the current inflation situation.

INFLATION TRENDS

We want to talk about what the most recent inflation numbers indicate and also some of the research we've done that we're going to present about what we expect in the 6, 12, 18, 24 months ahead.

So, Kate, I'm going to have you join me in this part of the discussion. Can you tell us what we do on a periodic basis to track the CPI?

Kate Kremer
And we get the information on the CPI, both the CPI U which is for all urban consumers and the CPI W which is for wage earners.

Umm. And we collect that for all the West Coast indicators. So, all across the US, the Pacific, the West and the Seattle numbers.

Jim Cline
What are the as you study, you've been involved in studying labor contracts across the state for our firm, is that correct?

Kate Kremer
Yes.

Jim Cline
And so when you're examining those contracts, what do you see as the primary indices that are normally used in in public safety labor contracts?

Kate Kremer
Generally it is the June number for either for most often it is the Seattle June number that, but it also there's a number of them that use the All-Cities June number, but June is the most common by far of the numbers that are used.

Jim Cline
As you as you've studied labor contract settlements over the you've been with Cline and Associates; I think now for.

I'm sorry for 27 years.

Kate Kremer
About that long, yeah.

Jim Cline
Yeah. So, during your time with our firm, how have you for those contracts that don't have an explicit incorporation of the CPI index? Can you tell us how?

Those June or other CPI reports tend to affect settlements.

Kate Kremer
Well, they are a driver of the settlements. I mean they even if for settlements that don't use the June numbers, they oftentimes are even reflective of the June numbers. But for those who are not looking specifically at the June numbers that they oftentimes they might lag a little bit, but eventually those June numbers are going to drive the average of the wage settlements across the state.

Jim Cline
So would it be fair to say that the June indicator is more important in terms of how we expect future settlements to play out, then the ones that arise in other months.

Kate Kremer
Yes, absolutely.

Jim Cline
OK, so I think it key point key take away here is our firm and if you've read our materials on this over time, we update you on inflation numbers. The Seattle number comes out on a bimonthly basis every other month. The all-city numbers come out on a monthly basis. There's some very other various other indices that Kates referred to. Some are bimonthly summer monthly.

But it's the June number in particular that that we really look to figure out what's going to happen in 23. So with that introduction, let's talk about can you explain what we're seeing in this chart here and what's transpired over the past 12 months?

Kate Kremer
It is not coming up on my screen.

Jim Cline
OK. Am I?

I think he might be a little for I want to make sure I've got.

Kate Kremer
OK.

Jim Cline
Is everyone else seeing this on their screen? You're seeing it since Kate. Is it not coming through on yours?

Kate Kremer
It's not coming through on my let me Umm on my machine.

OK.

Jim Cline
You were. You were frozen. You might need to. I might need to proceed. I might need you to log off and log back on cause your pictures been frozen here for the last four or five minutes. I think that might be related to it.

Kate Kremer
Alright, let me go ahead and do that.

OK.

OK. Alright. Thanks.

Jim Cline
I think I'm going to. I'm going to move ahead in the presentation while you try to log back on, and then I'll join you for I'll try to answer the questions that you would have addressed while I go through some of these. OK, so we're going to, I think Kate's having a little technical problem on her end that hopefully logging back on I'll we'll address.

So, this number at the high end of the chart here that I'm circling that that 9.8 number is the all cities W you can see the Seattle, WA is just a step behind. That's 9.5%. Those are the highest numbers that we've seen over the past year. And as we were heading in through the spring, we had predicted that there was going to be a spike in inflation and that was.

I mean, that prediction wasn't our prediction. It was based on what we were hearing from other economists, and we're gonna get into how they make their predictions in just a little bit, but we had been alerting our client to our clients to the likelihood that CPI was gonna see a spike and that that spike in turn was going to affect 2023 settlements. But there's no way that we had expected anywhere near as large of a jump as happened as a spring went on. We started getting indications that the number was likely to be north of 6%.

Perhaps even north of seven, but I think the number that was close to 10% that ended up getting released, surprised a lot of people and it's certainly something as we'll talk about in in a bit here that's going to affect upcoming contract negotiations.

So, there's been an update in July, but as we indicated, the Seattle number is a bimonthly number. So, the numbers that come out in July only are just for the All-Cities index.

And I thought we had a chart there. I'm sorry.

Thought we had it chart attached to that.

Sorry.

My programs moving around here let me let me go back.

I don't know why it jumped here.

OK, let me start over.

It does not look like we had a chart attached. I think we were attaching a chart, basically the number in in July that we were going to show you that it doesn't seem to be attached here did in fact reflect a drop which was an expected drop in the rate of inflation for July. It dropped down below 9%. Again, that's a that's the All-cities number we expect to release of what will be the August Seattle number in about the middle of September is when it gets released. We're expecting based on reports of costs of goods and services, especially the drop of energy prices. We're expecting that to show a continued drop in inflation.

And in just a few minutes, we're going to get to some data points we have of what we're expecting the inflation rate to be by the time we get to the end of 23 or end of 22 end to 23 and end to 24.

One of the things we look at, or perhaps one of the major things we look at in terms of getting those indicators is looking at the opinions of professional economists and the best resource we've found on that that we think provides as close to a solid consensus opinion as you can have about the direction of inflation and other economic measures is a quarterly survey that's performed by the Wall Street Journal.

And the Wall Street Journal has assembled a panel of economists that strike, a balance between liberal and conservative economists, Democrat and Republican economists, economists that work for banks, corporations, academic economists that work for universities, they more or less represent a cross section. And the reason we do this is to get away from just relying on one or two experts. Their panel consists of about 50 to 60 different economists.

We know that if you, if you're following the mass media or cable networks, you're gonna get some different reports on the direction of the economy or directions of inflation. And we give limited credence to those reports because those one-off reports by various cable channels sometimes reflect the political slant that that particular cable channel has. And we can't provide advice to our clients and don't recommend our clients make bargaining long term bargaining decisions based on economists opinions when they might be serving a political function or ideological function and the way to cut through that I think is to get through and use a panel like the Wall Street Journal that represents a broader consensus of economists. So looking at those numbers.

We're gonna go through what we think some of the near-term projections are an inflation to support what I had just indicated that we're expecting a drop of inflation. And so this what we've done here is we've put on a bell curve the projections by the Wall Street Journal, the individual projections from each of the Wall Street Journal economists.

Their projection is that by December of this year, December of 22, the inflation rate will slow down to six point 8%. And what we have in this bell-shaped curve kind of reflects the scope of that consensus.

Where you see these red bars here? That means 2/3 of the economists that they surveyed said that the December uh, the CPI would be somewhere between 5.75 and 7.85.

And that 90% of the economists said that the inflation rate would be somewhere between 4.7 and 8.9. So, where there may be some economists out there who say that the inflation rate will drop to 3% or others who say it'll still be 1011 or 12%. Certainly, those opinions might exist, but they don't represent the mainstream cross section view. And we're providing you this mainstream cross section view because if you're doing a risk benefit assessment of how you make decisions about using CPI in your contract.

You wanna have something that is provide some kind of reliable basis of prediction?

What we see is we move into 23 is a dramatic slowdown of inflation. So really what this is indicating is that by June of next year, the June CPI and as you heard Kate say, the June number is the number most often used for negotiating the wage rate for the following year. So the June 23 number would be the number that would be most relevant to negotiating your 2024 wage.

At that point in time, and these are not the Seattle numbers, these are the all-city numbers, but the but the national inflation rate, by then, the median prediction from these economists, with that inflation would slow down to 3.9%. So just under 4%, is there prediction for inflation by next June, 67% of the economists, which is the 2/3 of the economists said inflation would be somewhere between 2.76 and 5.04.

And 90% of the economists said it would be between 1.62 and 6.18. So, the expectation economists have is that by next June, we're not going to have 7, 8, 9 percent or more inflation like we're seeing right now, that it's going to slow down, that it's not gonna return to what has been its traditional or more recent traditional kind of historic rate of around 2% or somewhere between 2 to 3%.

They're not predicting it to fall. Most of the economists are not predicting it to fall that far, but rather just under 4%. And then as we look forward to the following year, which is getting out of ways they are, they are do seem to be predicting a return to the historic norms of something between just above 2 under 3% with the average prediction of the Economist for June of 24 being 2.6% and.

As you can see here, very few economists predicting inflation higher than 4%. Now, why is that relevant? Well, if you're, if you're going into bargaining now, if you're starting this fall for a contract that's gonna cover 23, 24, possibly 25, and certainly if you're looking at 2025 as a third year of a contract that you may be heading into now you want to be thinking about what, what do those economic indicators look like?

The reason inflation is so important in assessing your negotiations posture is sort of twofold. One, as you all know, you don't need to be a trained economist to understand what the concept the economists have, they call it real wages. I think it's something you and your Members understand even without applying that technical economic term, it real wages are basically to the extent inflation erodes your wage rate of inflation, goes up 10%, but you don't get a raise. You've effectively had a reduction of what economists refer to as your real wage of 10%, because

inflation's gone up 10%. But your wages haven't gone up. So that's virtually the same as having a 10% pay cut. And I'm sure as you're dealing with your Members as you're bargaining this, they make you very aware of this, that if inflation's running 5% and you only get a 5% raise, it feels like you're not necessarily even getting a raise.

Let's see. Yes.

Carrie Barak
Jim, can you please refresh the presentation so that the extra charts that were put in get updated?

Jim Cline
Ah.

OK.

Thank you, Carrie. Let me explain where the August chart went.

There it is.

I think.

You had put in a, so Kate, is this the August CP or not? August, I'm sorry, July.

Kate Kremer
Yes.

Jim Cline
This July chart, released in August that you had added in here.

Kate Kremer
Yes, this shows in yellow. You can see the June numbers and in the blue you can see the July numbers. There's no blue for the Seattle number because there's no July number for Seattle. It's every other month.

But you can see that all of the CPI indexes that we look at have gone down from June to July just a bit. There's still high, but they have the trend is moving downward.

Yes.

Jim Cline
It looks like generally a half a percent or more in the one month drop.

Kate Kremer
Yes.

Jim Cline
OK. So let me we kind of went through these while you were logging back in, Kate. So let me get to the next section. We're going to talk about some other economic indicators.

Umm there you.

ECONOMIC INDICATORS

Depending on what news sources you have or how closely you follow the news, you likely have heard some concerns about the possibility of a recession. This is another risk factor that we're going to talk about that you need to or ought to sort of build in and into your evaluation of do you take the employer's best offer they make available to you? Go forward arbitration? What are the pros and cons of that? We think there is a risk of recession, but we're gonna try to put that in context because I mean, to be blunt about it, it seems like the possibility there's a could be a recession is something that the employer seem to wanna be weaponizing now in bargaining, they're using it as a justification for some lower contract offers. And I'm not saying that the possibility of a recession isn't a consideration.

As you evaluate all the pros and cons of looking at offers, it certainly is gonna be, I think a factor that would come into play and negotiations and it's also a factor that could influence arbitrators.

We're gonna talk about what a possible recession might look like, though, and it may be vastly different than what employers are trying to portray it as.

So, using the same panel, Wall Street economist they asked the economists, do you expect a recession to occur in the next 12 months and just under 50%? I think it was 47, 48, 49%, almost half said yeah they think there will be a recession. Well let's talk about what that is because for many for many of us our most vivid memory we have of a recession is what occurred in 2008.

And the month and the years and the many years have followed, it was, it was probably four or five, six years before the economy fully recovered from the 2008 recession.

The kind of recession they're talking about is nothing like that recession. And in fact, in a lot of ways, it's a recession that simply meets some of the technical definitions that economists apply. They have certain technical uh metrics that they've adopted to determine if the economy is in a growth pattern or if it's in a recessionary pattern. But in terms of how that might affect labor contracts and the general labor market, which is part of the foundation of settling labor contracts, I think it's a much different picture than what employers are potentially trying to present.

I wanna start first of all with GDP projections of the economists are making because those really are the foundation when they talk about a recession.

There are a number of indicators they're talking about, but primarily they're talking about a decline in the rate of the growth, domestic product or a slowdown in the rate of the gross domestic product and most recently, the GDP has been running at about 3 to 4%. These economists are predicting that at the end of the year, the average economist was predicting a .71 less than 1% growth, which does represent a fairly significant slowdown in in the economy. You could see that here about a little more than 1/3 of the economists were actually predicting a slight contraction of the economy.

That the economy would be a negative number less than zero percent growth would indicate a shrinking economy. Some economists still predicting growth up to in the 2% range.

But what's interesting is when you look at the projections for 23, the numbers are predicting into next year are actually slightly higher, so the recession, if they're talking about a recession occurring, it seems to me the numbers they're talking about are a slowdown in the economy that probably has already begun, something that started in the first half of 22 but is still being fully calculated continuing into the rest of the 22, maybe the early part of 23 with the recovery to follow some recovery to follow in 24 because as you see there.

Projections for the annual projections for 24 they're predicting the growth rate to go back up to 2% now.

In my way of viewing this, I think the question of whether we're gonna have a recession or whether there's gonna be a slowdown in the GDP is missing a really major point that if you're a Union advocate at the table, we need to be pressing this point in our discussions with the employer because the recession that the economists are talking about is simply not like our ordinary recessions. And why is that? What do I mean by that?

Well, the unemployment rate at the current time is simply by almost any historic standard, extremely low that there's been a lot of discussions among economists about why that is, whether that reflects a lot of people basically leaving the labor market and creating labor shortages. But those explanations aside, the reality is the labor market is extraordinarily tight. This 3.5% reflects essentially a 50 year low.

In the unemployment rate, we've had fairly healthy economies in the past where the employment rate has been 5 or even 6%, where there's been some measure of unemployment. Not everybody found a job, but yet the economy was still growing, and wages were still going up even with inflation and the five to 6% range. When the Economist, the same economists who are predicting this 50/50 chance of a recession and a slowdown in the GDP.

These are the numbers they're predicting for the unemployment rate. They're predicting that the unemployment rate will be 3.76 at the end of this year and at the employment rate, unemployment rate will drop down to four in the just above 4% next year, 4.28 and then to 4.35 unemployment rates in the range of four to four and a half percent. While there's been a recession occurring.

It is simply something we've never seen in the modern U.S. economy before. We've never had what economists have labeled as a recession, while the labor market was reflecting on employment at the range of four to four and a half percent. Now, why is this important? Well, if you're an employer, as your employers are, and you're having to buy labor in the labor market when the unemployment rate is 4 to 4 1/2 percent, the fact that your revenues may be slowing down or corporate earnings may be slowing down or the Dow Jones Industrial average may be dropping.

That still doesn't change the fact that yours truly facing a very tight labor market and in our estimation, this is bound to affect wage rates. The presentation I'm gonna have with Steven a bit later about what the history was in the 70s when we had inflation, we're going to talk about what

the unemployment rates were looking like at that time and you're going to see that those were vastly higher rates of unemployment than we're facing now.

And yet those bargaining units were still negotiating or arbitrating for wage increases that were closer to the rate of inflation.

Uh, another economic factor to discuss that is going to affect labor contract settlements are the tax revenues of local governments.

The cities and counties and districts that you and your Members are working for, so I wanted to develop a little bit of a framework around tax revenues, some data on tax revenues, so we can feed that into the overall equation of how all these things will affect your upcoming labor negotiations. So first I want to talk about property taxes and there's property taxes in area where there's a vast amount of misunderstanding about how property taxes are received. And I'm certain this is it's likely that this is feedback you get from your members. What they see is their property values go up, they see. Perhaps they're individual tax bills go up and they assume by that that the city or county that they're working for has just seen a huge spike in revenues. The picture under state law, the state law that regulates property tax revenues, is actually much more complicated than that. And it actually puts quite a few more limits on the ability of cities and counties to collect property tax.

Umm.

What the primary factor is that by law, cities and counties can only tax what they call 100 and 1%, which is basically a 1% increase in tax revenues from the prior year. So, whatever assessed valuation base they had, they can only raise taxes on that base by 1%.

However, there is a let me go back here. There is an exception to that, and it's an important exception and that is new or improved properties come in above that 1% level. So, if you are in a jurisdiction that's seeing a lot of housing developments or seeing a lot of remodeling or improvement or add-ons to existing housing stock, you're likely to see property taxes climbing much more than 1%. You may see them climbing 567 percent. But you. But I know in a lot of cases we've seen uh city and county property tax year to year budget measures where their revenues only going up two to 3%.

This is important because if you're jurisdiction relies primarily on property tax revenue, that's gonna be a constraint on their revenue intake, especially in times of inflation. If the CPI is only going up two to 3% and they're property tax revenues are going up two to 3%, their revenues at least on the property tax measure are basically keeping pace with inflation. But when inflation starts to increase to 6, 7,8, 9, 10 percent it's a lot less likely that the property taxes that that portion of their budget is going to keep days. Now the reality is a lot of jurisdictions, especially cities in particular, get the majority of the revenues not from property taxes, but from sales taxes. So, if you're in a jurisdiction that is more sales tax dependent, which would be true of most cities and not as true of counties. We're gonna talk about that distinction and a bit, but if you're if you're a city that has a lot of commercial activity going on, what we're finding is that those sales taxes not only are keeping pace with inflation in some cases, there are far exceeding it and what

we're seeing on average as we look at the revenue picture around the state and I have to underscore the average because it's more or less in a different jurisdiction.

The average revenue picture we're seeing is that the local government revenues are growing at a rate faster than inflation and that's an important point. If you talk about their ability to pay because we're getting many employers saying, well, we can't offer increases, it's not sustainable. Our revenues aren't keeping up and in many cases, we know that simply isn't the case. In fact, the revenues are keeping up or even growing above that, and that's before we consider the factor of American rescue funding, which is one-time, one-time money, but very significant money that that has had the effect of adding to a local government reserves. So, Kate, I'm gonna ask you if you can describe what we've been finding in sales tax revenue numbers lately.

Kate Kremer
And so we have been more closely tracking the sales tax revenue distributions to cities and counties since the pandemic started because we just, we wanted to track what was what was happening, and nobody knew. So, what you're seeing here, these are semiannual totals. So, we're looking at the semiannual the number if you add up all of the sales tax distributions for January through June in 2019.

The same period in 2020-2021 and 2022, you can see how in 2020 they went down.

And in 2021-2022, they have gone back up and the next chart I think that we're gonna show will highlight just how much they've gone up in 21 and 22.

Jim Cline
OK. So OK, just to clarify this chart we this is a statewide number where we took all the cities and counties across the state and aggregated them in a in a 1 chart, is that right and it.

Kate Kremer
Yes, exactly so. So, some individual cities or counties may actually have seen a decline or a greater increase, but this is taking, yes, all of the sales tax distributions from January to June across all the cities and counties, compiling them together and taking a look at them.

Jim Cline
So this is a generalized snapshot. We do this because we're here talking to the whole group. But if we're in bargaining on your contract, one Kate posts the individual city and county tax numbers on our premium website so that they're to view and it's something any of our attorneys when we're bargaining your contract, we can go locate those and generally do locate those as we're prepping for bargaining because we want to know, as Kate said, the sales tax numbers lately, as you can see here, have been pretty erratic up and down as influenced by the pandemic.

And it's something we want to know. What kind of condition is the city or county in now as we head into bargaining?

So, Kate, I think you took these numbers and I think maybe this particular chart might make the situation a little more understandable. Can you explain what this chart shows us?

Kate Kremer
Yes, so this is using the same numbers that you we just saw that those were the raw calculated numbers, and this is calculating the percentage increase or in one case decrease between those numbers. So, between 2019 and 2020, you can see that there's about a 3% decline in the sales tax distributions from 20 to 20. Go ahead.

Wraps.

Jim Cline
But relative let me let me just clarify something there. So, it doesn't. The legend isn't on the chart here, but these are the numbers from 2018 to the current time, is that correct? So, in that that first number that reflects a 6% increase over 2018.

Kate Kremer
Yes.

Jim Cline
And so the 2019, there was a decline in revenues in 2019, I'm sorry, a decline in revenues in 2020 relative to 2019, but even still, it looks like the 2019 revenues were above the 2018 revenues.

Kate Kremer
Yes, by 6%, yes.

Jim Cline
And that was an important point. I think, Kate, that we were stressing back in the fall of 2020 as we started seeing these sales tax numbers coming in and employers were claiming while with the pandemic we're just completely broke, our budgets have been decimated. And we said well, hold on a second, it certainly was true in the first the first half of 20 in the first half of 20, there was a dip in revenues. But as we got to the back half of 2020, the economy rebounded fairly strongly and that's where we started seeing these increases going in. Can you explain what's occurred in 21 and 22 then?

Kate Kremer
Right. So, as you just clarified, these are aggregate percentage increases. So, and we are starting from 2018 just to start just a little bit before the pandemic. So, in 2021, the aggregate from 2018, the increase from 2018 all the way through 2021 is 22% are you can see the increase from 2020 to 2021 is about 9, about 19%. So, there's a huge increase between 20 and 2021 and then there was another 10% increase in 2022. So, the sales tax distributions to cities are going up umm at a marked pace.

Jim Cline
And I and I note that marked pace, Kate appears to be substantially above the rate of inflation.

And so.

Kate Kremer
Yes. Well, for 21 to 22, I guess, yeah, I mean it's 10%. So it is, it's gone up about 10%, but that is a little above.

Jim Cline
In 22, it's a, yeah, another 10-percentage point. So, it if the employers are saying, well, our sales tax revenues aren't really keeping up, this seems to and again this is general it could be different cities or counties might have a different particular picture, but this is what we're finding to be the statewide average.

Kate Kremer
Yes.

Jim Cline
OK, now I want to talk a little bit. I've touched on this already, but I just want to close this out. It's important to understand that the taxing because of the way the economies are set-up between union court cities that are unincorporated or I'm sorry counties that have large sections of unincorporated population and cities, their tax revenue pictures often vary and the reason for this is that many of the counties are much heavier, and again this is a generalization, but it's the pattern we see across the state. Most counties are heavily reliant on sales or property taxes, where cities tend to be the inverse. They're much more heavily relied on sales taxes, because that's where the commercial activity takes place now, there have been a couple things that mitigate this a little bit for counties to make the county a little bit, the county's fiscally a little bit stronger, and that is of the sales tax revenue that occurs in in a in a city. So, for example, Mark Coleman, I'll take the example of Renton. You the city of Renton, say they generate $100 million in sales tax money under law, they get to keep 85 million of that, 15 million goes to King County and that's the law across the state.

So, the counties get 15% of all the sales tax revenue and that's designed primarily as a revenue sharing vehicle. It also helps fund some of the General Services counties have to provide for public safety like the jail and the courts, prosecutors and public defenders, et cetera. So, the fact that cities and also fire districts are heavily reliant on property taxes means that it's likely uh, it's all other things have to be weighed and considered in that, but it's likely that they're most they're much more possibly going to be fiscally constrained, especially in a period of high inflation, because as we showed before, the property taxes generally tend not quite to keep up with inflation, especially if you're in a high inflation period. If you're in a low inflation period, they may do better, but in a high inflation period, there are likely not to keep pace.

Now there's been that transition in this recent that sometimes been labeled the Amazon effect. So, I'm gonna kind of explain what that term is.

Sales taxes in Washington are imposed at the point of sale and in the traditional brick and mortar economy, that would mean people going to the malls or going to the other stores that were inside the city, what we saw, and this was really reflected in the sales tax distribution numbers we were observing in 21, there was, as you know, there was a pretty significant change in people's buying patterns.

Where a lot more people were buying products online, that's what is referred to as the Amazon effect.

What that means in terms of tax distribution is I'll take an example of this. I we looked at the Normandy Park numbers in 21 and saw a huge increase in their sales tax revenue and you'd say, well, what was happening in Normandy Park in 21? Well, if you know something about the Normandy Park economy and this is just an example of what you see in other kind of bedroom communities, it's a suburban area with a lot of residential housing and very, very little commercial tax base.

Well, why did they have a huge increase in sales tax revenue in 21? It's because people were sitting in front of their computers from home ordering goods online, having them delivered to their house. And it's the city of Normandy Park that got the benefit of that, that tax revenue. Now, there's no free lunch in this. And so what's happened is some of the cities that were that had large commercial areas, particularly cities with large malls like a Tukwila or an Auburn or other cities that that were the kind of the center commercial zone for a region they might have suffered even a small decline in their tax revenues because people were buying less from the brick and mortar stores and more from the online. So, there's a little bit of a shift and how tax revenues are distributed?

So, I think we've kind of talked about some of the current economic indicators that are gonna have a can't have an effect on your bargaining.

SETTLEMENT TRENDS

We're gonna move in the next section a little more concretely into what contracts are. Settlements are actually look like and in the interests of time and efficiency, in terms of presenting this coherently, Kate and I have developed a series of numbers that are gonna focus primarily on, or almost exclusively on, municipal police officers, and we do pretty in-depth surveys and all the various public safety classifications across the state, not only the city police officers, but also the county deputy sheriffs, dispatchers, corrections and firefighters.

And it's not, it isn't necessarily easier or possible for us to kind of explain all those in this brief presentation we're doing, we are gonna focus on city police and it's with the caveat that the settlement trends we're gonna see for city police officer, we're going to acknowledge that those are somewhat higher than what we're seeing in, in some of the other job classifications. It looks like by and large; the firefighters have been somewhat able to keep pace.

With city police settlements, we're finding, though, that the other classifications like county Corrections and County deputy sheriffs are not. I think it's one of the significant factors for why they're lagging a bit behind is what I just talked about that the city's financial positions are probably stronger by and large than the county financial positions. So, with that, let's Kate, let's get into what you're seeing in some of the settlement trends. And I think we have a few different charts and graphs to go through here that I'm gonna have you explain. So, first of all, what is this chart here now? I think I explained it that we're only talking about police officers here. This is

not all the public safety classifications, but can you explain what this chart is beyond that and what these numbers mean?

Kate Kremer
We collect contracts from 131 cities across Washington state, and so this is what you're seeing here is the average settlement for each of the years from 2020 to 2024. For the contracts that we have information on that have settled. So, for example, 2020 quite a number, you almost all of them have settled.

Jim Cline
So these.

Kate Kremer
So 3.81, that's the average settlement for a 25-year BA officer. So, this amount we could also include an increase that might have been from an increase in longevity or education premium. So, so it might be a little bit higher than a five year being.

Yes.

Jim Cline
These would be higher than like the five-year base wage, right?

Because it picks up education and longevity and the measurement. So, one of the things that we do see here is what you what you might expect as an increase in 22, which a jump in 22, which likely corresponds somewhat to the increase in inflation. Why then are we seeing a drop in 23 and 24 from what you have so far?

And what we probably will have some other data here that might make this a little clearer.

Kate Kremer
Right. I think a couple of things are impacting the 23 and 24 numbers. One of them is simply that we just don't have that many settlements, particularly for 2024. There's been a lag in contract settling over the last couple of years and we just don't have that many. So that number it's gonna change because we're gonna get a lot more settlements, particularly for 24, but also for 2023. The second issue which I think we will bring up later is that a lot of these are established through a CPI formula and a majority of those have a cap on the increase so those will hold it down a little bit in the future.

Jim Cline
So I think what I wanna stress Kate, and we have some backup. We're gonna get into some of the points you just went notwithstanding the fact that as of the current time, we're seeing a lower number in 23 to date, it is not the prediction of our firm that the settlements in 23 are going to be lower than 22. Is that fair to say?

Kate Kremer
Yes, that is true.

Jim Cline
We're predicting that the settlements will actually be higher when the contracts are all settled, barring some catastrophic economic event in the next few months.

Kate Kremer
Right.

Jim Cline
And let's get a little bit into why we're predicting that. But I guess before we get into those factors, explain 23 and 24, I want to talk a little bit about the impact of location on settlement. One of the things some of the members of our firm heard as we were out bargaining was we'd be in Eastern Washington and employers in Eastern Washington. We're claiming like, wow, you know, the contracts aren't settling as high as Eastern Washington is what you have on the West side.

And so, Kate, did you actually take a closer look at that by region to try to get at to what extent contracts are being influenced by location?

Kate Kremer
Yes, we took a look at the wage settlements, and we broke them out by region and.

Jim Cline
Here we go.

Kate Kremer
It's probably easiest to just take a look at one of the charts so this is taking a look at Western Washington but separated out from that are the central Washington settlements, Snohomish King Pierce and Kitsap County, and you can see that Eastern Washington, 4.65 and the majority of the Western Washington outside of the central region. 4.91, there's a little bit of a difference. Not that great, but the central Washington the settlement trend for 2022 is a little bit higher.

Jim Cline
OK. And then I think we took a different snapshot and that was to figure out the influence of King County.

Kate Kremer
Yes. So when you take King County and look at that separately.

And this also this is called the uh Seattle PMSA it's a little larger group in central Washington.

Jim Cline
To pick locks, it picks up Island County and Thurston County. It looks like, yeah and Kitsap, you.

Kate Kremer
Thurston and yeah, Island and Thurston as well and then it separates out King. So, you. So, you can really give you a flavor of some of the regional differences in particularly in that central Western Washington area. And then when you do that, really the difference between Western

Washington and Eastern Washington on wage settlements for 2022 is only a few tenths of a percent difference. Now, if we did this for the actual wages, you would see a greater difference. But for the wage settlements this in 2022 Central Wash, Central, Western Washington drives those. The difference in those wage settlements?

Jim Cline
So is as we've looked at the settlements that have come in for various contracts and not just city contracts, but also county contracts. I've surmised in looking at the data that there's probably a couple factors at work.

It certainly seems that in the quote UN quote Seattle area, which isn't just the city of Seattle, it's you've broken out King County. But I think even in the adjoining counties, there has been quite a bit more labor market pressures for police services. In general, it seemed like following the political events that we're transpiring in 21 or I'm sorry in 20 leading to legislation in 21 it looked like there was a lot more pressure on some of those some of those departments, frankly, to have members leave law enforcement and say we're not gonna do this or people not wanting to work for some of those urban forces where they maybe didn't feel like they had the support of politically that they've had in the past also the economy and the King County area is very strong. And I think it's attracted IT police personnel and particularly those with college degrees of had a lot of other job options in other fields where they could, they could make more money and law enforcement and it's caused people to leave mid-career. Sometimes. The other theory I've had is and I and I'm surmising this just by sort of looking at the pattern of settlements.

We saw in the settlements coming in that a lot of the I-5 corridor cities where there is a much higher incidence of representation by police guilds and police associations, a tendency to be much more sophisticated and knowledgeable about how they approach bargaining, and in some more of the in some of the eastern and outlet outlying areas still a greater tendency to be represented by some of the National Labor organizations like the Teamsters, where frankly, we were seeing settlements that were entered early that didn't seem to contemplate that inflation was going up and that that inflation going up was gonna affect the settlement trends put it in another way. I mean, we, Kate, I think you and I just looked at the contract that out on the peninsula that was renewed last summer for three years at 2 1/2 percent a year.

And we looked at that and that was by one of the National Labor organizations. We looked at that and said what were they thinking when they settled a three-year contract for 2 1/2 percent a year when the CPI was just getting reported last June as being between 5 and 6% so, I think that's a secondary factor. When you look at this is the higher number of more sophisticated guilds and associations that populate the Interstate 5 corridor.

So, moving on from that.

Uh.

Let's look. Let's take a look at some of the more closely at some of these settlement numbers. So, there's a lot of data points here. Can you explain what this is telling us?

Kate Kremer
Well, we they're just a lot of issues that are coming into play right now, particularly one of the things that this chart looks at is when contracts were signed and what we were noticing is that the longer that groups were holding out to before they were signing contracts and what the timing was according to when the CPI numbers came out, we were seeing the later people were signing the greater the increase in in settlements.

So, for example in the orange number and right on 2022, it's the bottom number, it's pre-August 2021. So those are numbers that really were not taking much into account of the June as the June CPI started to go up the gray line here is representing settlements by cities, again, we're looking at the police officer 25-year BA wage increase. We're looking from August to December of 2021. So, these are contracts where, yes, we are starting to see the June, the August, even the October numbers are going up substantially. And so, you're starting to see these settlement trends going up.

And then the yellow line is representing the settlements that actually took place in 2022. For 2022 wages, and you can see that the average there is up to 7%. So the number that we saw in the earlier chart where there was a 5% average wage settlement across all these 131 agencies, this helps you to see that as we are moving through these increased CPI numbers, the wage settlements are going up.

Jim Cline
And I think it there's a fairly simple explanation for that, because if you're bargaining, you're 22 wage in February or March of 21, there were some indications CPI might be rising, but the but the June 21 number that came in at 6% or between 5 1/2 to 6% depending on your measure, caught a lot of people by surprise and so those early settlements wouldn't have considered that inflation was going to be nearing 5 or 6% and then following that in the second-half of the year. I think there were still a pretty widespread belief that, well, that might be a one-year spike in inflation, but inflation is gonna start slowing down. And so that we were seeing settlements that were occurring in the second-half of 21 where groups were sometimes accepting four and a half, 5% and maybe that number in the following year without the recognition that actually the CPI is it's not subsiding and it's even going higher, which is exactly by the time you get into contracts in the in that are being settled in 22, all of a sudden though, that that new realities being factored in to the position the unions are taking or holding out for and it also underscores Kate, I think the point you made of you said something about waiting until later, it's a point we're going to talk about later that sometimes not always, but sometimes patience and holding out can lead to a better result.

Kate Kremer
Well.

Jim Cline
Let's talk about the timing issue a little bit more. I think this graph probably has the same data points you have, but Kate it looks like it makes this a little plainer in terms of the trend we're seeing for this year.

Kate Kremer
Right, because this is focusing in on the just the 2022 numbers. So, it's showing you the settlements.

Jim Cline
So let's talk about what we might be seeing as we move towards 23 and 24.

Umm. And this is the chart you just went over, and it and we've been talking about this the numbers so far. The actual settlements were 23 and 24 are lower. But do you have an explanation as to notwithstanding the CPI going up, what's the explanation for why that is?

Kate Kremer
Well, again, there are several, but one of them is that so if you're settling in contract in 22, oftentimes it's not based on a CPI, they may just get a flat percentage increase, but those later increases are oftentimes based on a CPI number and sometimes those are fixed. But if they're based on a CPI, first of all, we don't have them. So, we you know, because we can't. Well, actually the 2023 numbers we do have for those who are based on the June. So that so that number that we saw before does include some of those two numbers, but they are almost all of them are capped and it could be a

Jim Cline
Let's show that chart here because I think you prepared a chart that will make that hopefully a little more clear if it's populating here. So, explain this looks like a multi-page document.

Might need to move this out a little bit for everybody to see it.

There was.

Kate Kremer
So this is this is showing for all of the contracts. Again, looking at those 130 cities for all of the contracts that have formulas or settlement you know have formulas for 23 and 24 or have flat dollar wage increases. This gives you a sense as to what those formulas those CPI formulas are and you can see, yeah, go ahead.

Jim Cline
Well, let's just take a couple right at the top. OK, 'cause, I think this will probably let's just go to the top and it explain you know the Blaine settlement and then how that would affect the overall average to the extent you have other jurisdictions doing things like this.

Kate Kremer
Right. So, for the 2023 CPI formula for the city of Blaine, police is 100% of the Seattle CPI U Now this is October number which we don't have out yet, but that number it will be capped and 2.5 to 3.5%. My guess is that it will end up being 3.5%, but the CPI will likely be much higher than that. So this yeah, go ahead.

Jim Cline
And then if I yeah. So if we skip down just a moment, we'll go back to Bothell. But Camus looks like another example of that. They have a CPI, they have 100% of CPI plus 1%.

Kate Kremer
Right.

Jim Cline
But it still looks like it's capped at a rate that's gonna be lower than the ultimate inflation rate.

Kate Kremer
Yes.

Jim Cline
At least for 23, we don't know what it will be for 24, but then let's contracts that with the case like Bothell.

Kate Kremer
Right. And so, Bothell does they are one of the few of the cities that do not have a cap. And so, it is very likely that when the CPI comes in you know, over potentially over well that that one is in ohh we already have that one right so that so they would have gotten the full.

Right.

Right.

Jim Cline
We already. Yeah, they already have that, right? So they got the full 9 point, whatever it was. OK, so it looks like what you did here is you highlighted the ones without a cap and it actually looks like it's relatively few.

Kate Kremer
Correct.

Jim Cline
And so the fact that though there were settlements that were entered before, I mean presumably right now nobody would go in and negotiate a 20, three, 2023 wage increase that would be 100% of CPI with a 4.5% cap. I'm assuming that's like not a bargaining position. A union would take. And so, it looks like when you look at the settlement averages you went over with the 23 number dipping, it a lot of that seems to have been influenced by the fact that earlier settlements were reached but many of them have these caps on inflation that didn't approach the full inflationary.

Kate Kremer
Well, I will say I have seen some recent ones coming in and you know in some cases that there are places that are settling for they're still using caps below what we would hope for.

Jim Cline
For that are still settling now for 23.

Kate Kremer
Yeah.

Yeah, that are still having caps in there.

Jim Cline
OK.

So let's talk about maybe what we're going to expect on the remaining settlements, the ones that aren't settled.

I think.

It looks like you have a situation where you simply have a lot of contracts still not settled. Is that right?

Kate Kremer
Yes. So, for 2023, we still have over half of the contracts that have not been settled. In some cases, cities are doing a one-year contract, or they did a twenty 2122 contract. But we don't have as many 2023 settlements as we would generally have by this time in 2020. Two 2024 we have very few so that that number is gonna change.

Jim Cline
So I think the lesson out of this is we really if we look at 23 and 24 in terms of where the settlements where the settlements are now is not really where we're predicting that the settlements will be. On the other hand, to the extent that a lot of groups are expecting as they're going into bargaining while you know inflation is running 9 or 10%, we ought to be able to negotiate for 9 or 10%. The major constraint that we're gonna be facing in that is the reality that a lot of other groups, not the majority, but as we saw for 20 for 23, almost half have already settled and that the contracts to date are not averaging 789 percent, that's just not part of what they're getting. And it may be that the later contract settlements do come in seven to 9%, but that's not going to bring the average up and. And so, we're gonna have to do a deep dive looking at your particular comparables and those trends, but certainly as we look statewide kind of the bad news is that even though we've seen in the past some pretty robust settlements, it does not appear that the settlements on average are keeping up with inflation in the short term.

Now there's some. There's some other considerations that go into that. If you're looking at a two or three-year contract. And I think when Steven and I talk about the historic lessons from the late 70s, we're gonna have a little bit of A twist on that. That is interesting in terms of how this might play out on a multi-year contract basis but we'll get. We'll get to that. Actually, I think we're gonna get to that sooner later.

LESSONS FROM HISTORY

That's our that's our next discussion. So, I'm gonna put Steven up front and center for a little bit and Steven back a few months ago so, I asked you to kind of start a project of doing a deeper dive into data that we thought would be relevant and interesting, and it posed the question of the last time where we had a sustained period of long inflation. We have to go back to the late 70s, early 80s and so even though I was familiar with some of the various arbitration awards I had asked you to do a more systematic, detailed look at each of those awards to kind of answer the question, how did arbitrators factor in inflation and how did they deal with the inflationary trends

when they were issuing their awards? So, can you tell us first of all, what was the research that you did and how did you summarize that research?

Stephen Hatton
Right. So, kind of like you said, we look back at the decisions, the arbitration decisions that happened during that time period and it's as easy as it sounds. We just looked at the time period where inflation was relatively high and then we took the interest arbitration decisions that PERC reported on their website, which basically just includes all the interest arbitrations for the state of Washington during that time period. And we looked inside of each of those decisions and pulled out the numbers, the critical numbers I the settlement or the wage awards that the arbitrators gave to each of the groups and then also like the CPI, different indexes that the arbitrators were discussing and then to kind of like get an idea of what the arbitrators would kind of do with the CPI numbers. We looked at the language that the arbitrators were using in their decisions to talk about CPI and then also comparability, because we wanted to be able to kind of just isolate CPI and inflation and then also have a note about comparable settlement trends and how that also affected those decisions. So, what you're seeing here is just this chart that maps those two numbers very simply, the average awards by year. And then also that CPI number, the green and then the blue, so.

Give it back to you, Jim. Does that sound about good summary?

Umm.

Jim Cline
Yeah. Let me ask a couple questions about that. So, it looks like the green line is that we see here, that's the measure of we took we averaged inflation over. I think we took different indices, and we had Kate take EU and the W and the Seattle and the all cities cuz we wanted it for simplification, we wanted to take a single sort of combined measure of inflation and then that got plotted here butb y and large, if the question that was posed is did you know we we've had, we've had employers have taken the position of bargaining like, well, inflation doesn't matter and you can't expect an arbitrator to give an increase that's gonna remotely track what is happening on inflation. Did your did your study confirm that employer claim that inflation doesn't really matter that much?

Stephen Hatton
No, inflation does matter, but it is not the sole, it is not the sole variable, so it comes into play and kind of a complicated way to affect that final line that you see there in those arbitration decisions. And that's really kind of the basis of the project and kind of figuring out what motivated that line to try and get into the arbitrators mind a little bit more.

Jim Cline
Well, particularly, you know, a more radical year in 1980, inflation truly spiked, it hit 15%.

Stephen Hatton
Mm-hmm.

Umm.

Jim Cline
And it does look like arbitration awards went up a bit in that year, but they didn't reach the point of 15%. They just couldn't keep up with that higher level. But there's one other when I when I looked at the data that you had organized and then we plotted on this chart, there was one other important factor that I saw which kind of bore on the question that I was just talking to Kate about is if inflation is truly slowing down, how might that affect settlement, say, in your 24 or 25?

Did are there any lessons you've learned from plotting this data about what happens to settlements once inflation gets markedly slower?

Stephen Hatton
Right. So I'll go into kind of like the detailed findings that I kind of reported out here on another slide. But just on that particular note, after inflation starts to come down again, it does take a little while to affect that number and that blue line as you see and one of the reasons that we kind of discussed is possibly in an issue there is that there's a catch up that takes place. And when that CPI is super high, maybe some groups aren't getting the kind of settlements that the arbitrators would have awarded or that there were their groups are looking for and you see that number again that Europe, that 15 right there, that dips pretty low and maybe some of those groups wound up catching up in that year afterwards when they're come when they're comparable, jurisdictions get high numbers, when the inflation is also high. So they have a strong argument going into bargaining that their wage will work should also be high.

Jim Cline
That they're getting, they're going to pursue their catch up finally.

Stephen Hatton
Exactly.

Jim Cline
So I think as you've indicated, Steven, from studying the inside of the awards and the reference to the other comparable contracts that were cited in the awards, there are many dynamics that go into determining and as you said, inflation is a factor. It's not the only factor, but I thought the way the data was arrayed here has some pretty important lessons for us as Kate and I have talked about this many times, what are we expecting?

You know, as we go into to uh, bargaining in 2023. We think there's a pretty good chance you're not gonna see because we already have the settlement. Some of the settlements are coming in well below inflation. We're probably not gonna be seeing the average settlements approaching 8 to 10% closer to the rate of inflation.

Stephen Hatton
Umm.

Jim Cline
But if inflation starts to slow down going into 24, it's very possible that we could see an inflation number there of, say, three, 4%, but maybe settlements in those years averaged 5 to 6% or even

more. And that's kind of the tail you get here in 81 and 82 which uh seems to be an important indicator of the there is a correlation between inflation and settlements, but it's not a one-to-one correspondence.

Stephen Hatton
Yes. And another note too is that these are arbitration awards. So we're missing a subset of the settlements that happened in these years, but we would expect that it would kind of roughly track this because what those arbitration awards, that's kind of what you got in your back pocket when you have that inflation.

Jim Cline
Yeah, it's the underlying data the arbitrator has in front of them that they're making the rulings on.

Stephen Hatton
That's what's motivating the decisions. That's exactly right.

Jim Cline
OK, so let's talk about and I and I explained later, I was gonna talk about the effect when players are saying, well, there's gonna be a recession. And for many of us who were a covered by labor contracts and especially those of us who are negotiating contracts and the years following 2008, it was pretty rough. I mean, we were seeing contracts with two, three years in a row of zeros.

And groups were accepting zeros just I guess because they were supposed to be happy just to take a zero. And maybe they tried to get a little bit of other enhancements to their contract and other categories. But the wage settlements were really weak and when I hear employers talking now about, well, there could be a really bad recession sometime in the next year. I feel like they're weaponizing that to strengthen their bargaining position, kind of invoking the mindset.

In that period following 2008, where settlements were pretty radically diminished, but when I had Steven go through this data and then we plotted against another factor which let's look at the unemployment rates that occurred because one of the things that was going on during that period is something that was called stagflation, a term stagflation was coined, which was kind of a combination of a stagnant economy, low growth economy or no growth economy combined with high inflation. And in fact, during that period there was essentially what was been considered a double dip, a double dip recession. It's the recession doesn't want to one track the unemployment data, but there's a correlation here. So essentially there was a recession that started in the late 79 that continued into 1980 and that employment rate went up to 8.2% that continued into 81. The economy started to recover in the second-half of 81, but then it plummeted again. And in 1982, the unemployment rate went all the way up to 10.8%.

But yet what's interesting is if you look at the awards, the awards here were still in 1982, the year the unemployment rate hit ten point 8%.

The average arbitrators award was eight point 2%. Now you can't. You can't look at that without, you know, looking at the inflation numbers at the same time and the chart gets a little bit busy,

but no doubt this this green line, which is the inflation now it the inflation rate starts to fall as the economy weakens.

But basically, you still have moderating but pretty strong arbitration awards.

And the other point of this is these unemployment numbers from the early period here 77-78, where it's 6.46%, those are those are generally in line with kind of traditional, relatively moderately healthy economies, where the unemployment rate is typically between 5 and 6%, or in that neighborhood. Now remember the numbers I put up on the beginning of the chart when we talked about unemployment rate, current unemployment rate is 3.5%.

A number of economists are predicting a recession, but they're predicting a recession, with an unemployment rate in the neighborhood of four to four and a half percent which is as I said, is gonna be truly a tidy economy. A tight labor market rather. And so it's hard for me to wrap my mind around these awards from the late 70s and early 80s where the employment rate was substantially higher and arbitrators were giving awards that if they didn't track inflation, at least they approximated it. And the later years actually exceeded it actually in the ironically, in the years where the unemployment was higher.

Umm so.

That's a lot of what we. Ohh OK, we have a recession here. Steven, I think I also asked you as part of your overall research, you not only did a deep dive to figure out what arbitrators had made in terms of specific wage rulings, you also did a deeper analysis of the awards and the logic of the arbitrators for the point of answering a question, what can we learn from this time? Because this is important history. It's a time that has some parallels to what we're dealing with now and it sounds like you reached some conclusion of certain lessons. Bargaining teams could take away from those awards. So can we kind of walk through what some of your primary lessons are?

Stephen Hatton
Yeah, definitely. And I can just go ahead and present as they pop up on the screen if that works.

Jim Cline
Sure. So the first one is the importance of comparability.

Stephen Hatton
Yes. So the first thing that I noticed was that comparable settlements and a defined market gap were more important factors than inflation. These like tracked the arbitrator awards more clearly than inflation did. So as the comparable settlements fluctuated, so did the awards and then really the arbitrators didn't explain exactly how much weight they gave everything, like explicitly so you kind of have to guess and it's it varies depending on the decision. But for the most part, having a really comprehensive understanding of the comparable settlements and kind of like where everyone else is at and making that strong argument and a complicated argument is gonna be able to kind of like propel your group into, I guess, like the closer kind of numbers to the arbitrators award and what they're going to, what they would award it arbitration. So I guess our advice to you would be come get some advice.

Uh.

Jim Cline
OK. And then we've kind of touched on this already, but maybe you can expand on it. What was the impact of the CPI?

Stephen Hatton
Yeah. So I guess we talked about this earlier or Kate did. So arbitrators like to limit an uncertain CPI, so uncertain inflation, they like to put caps on their awards when inflation got hot so you would see kind of peak inflation rising the tide of arbitration awards, but not tracking it, one for one and like at this time period, again, arbitrators were rarely awarded, CPI tied increases without a ceiling for the out years.

So we saw these things just becoming more common during the present inflationary conditions as well. And one of the other graphs that Kate brought up.

Umm.

Jim Cline
So Steven, in that year were CPI particularly spiked. And if you remember back to that graph, it was 1980 like CPI just went crazy 15% and yet you saw the settlements a lot lower and without it was probably different under each contract or each award was. But was that a a factor to driving that inflation well below the inflation rate?

Stephen Hatton
Definitely. Yeah, that was something that was coming up in the language of the decisions, and it almost seemed like the arbitrators understood that it was maybe an aberration. They didn't want to create that sort of an uncertainty for the employers who are bargaining their contracts with kind of these budgets that were, like, overly exposed at that time.

Jim Cline
What? What were the lessons that you learned that related to the duration of the contracts that issue?

Stephen Hatton
Yes. So I guess generally they were shorter.

So I have numbers on that. Most arbitrators awarded a one-year agreement in that time period and then out of the out of the 32 decisions we surveyed, 16 of them or like exactly 50% of them awarded a one-year agreement. And then I guess like in 78-79 and 80, which we've identified as peak inflation, nine out of 16 of those decisions. So just over 50% they were one-year agreements and then like I said earlier in the decisions where arbitrator awarded a second year like the out year was computed with a CPI formula. So cap usually with a cap.

Jim Cline
There are certain lessons it sounded like you identified around the timing of how contracts were negotiated or arbitrated. Can you share those with us?

Stephen Hatton
Yes. So one of the things that I have listed here strike while the iron is hot. So I had CPI has a greatest impact on decisions while the inflation rate was rising. And during peak inflation umm, that's kind of when you would wanna go negotiations and be posturing to make your final proposals at the table. And arbitrators rarely awarded less than double digit wage increases at that kind of peak inflation time.

But you did, I mean to blunt that a little. This was driven by comparable settlement trends. So just that note on the 1st bullet that I've got there, you have to take some wind out of those sails just because those high awards were necessary to keep pace with those other negotiated agreements, which we're also quite high at the time.

Jim Cline
OK.

Stephen Hatton
Umm. And then the spec. I got another note about timing too.

Jim Cline
OK, sorry. Let me back up a little bit before we get to the final point. Go ahead and Steven.

Stephen Hatton
Yeah. And I guess kind of on the other side of that, like gaming the system, so to speak, so waiting until like the CPI numbers increase, if you saw them kind of coming out and you were like ohh our, our group is going to wait and push this arbitration out a little bit more like that did backfire in some arbitration decisions because some arbitrators saw that coming. And in those cases, the arbitrator for instance decided to use a different inflation index to kind of blunt the effect of the high CPI. So instead of using the most current index, the arbitrator chose to use one that was just the previous index, which was a decent amount lower, so it affected the settlement, and it backfired on the Union for trying to make that ask of such a high number at the time. So I guess it's sort of mixed in a sense, but generally during that time if you struck while the iron was hot, you were rewarded with a higher number.

Jim Cline
So timing is important, but you never know if you have the right timing until afterwards.

Stephen Hatton
Yeah.

Jim Cline
Let's talk about. It sounds like you learn certain lessons or takeaways about the importance of being reasonable and how you approach arbitration.

Stephen Hatton
Yes. And in a couple of cases they were notable and they stuck out like an overzealous or extreme proposal.

Like for wages that were well in excess of the consumer price index, like 20s or 25% wage increases, a lot of times a proposal like that would cause an arbitrator to discount the evidence that the Union presented at arbitration. So that's important for credibility purposes to make sure that the numbers you present are gonna tell the proper story and reflect the current state of the inflation as best as you can so you can put your best I guess to trial forward at arbitration and then the next note I have here was if the city or county made a wage proposal that was close enough to CPI somewhat close to CPI and the Union turned it down or didn't accept it, the arbitrator would usually award that proposal. So that was something that happened at this point, I would say, oh, if you get a proposal that matched or exceeds the CPI. That was a reasonable proposal. The arbitrator will view it that way and then award it.

Jim Cline
So one of the lessons we often try to impart, not just in reference to the to the wage, but all the contract proposals that might go before the arbitrator is be prepared to justify it by reference to either comparability data or that you're documenting a definite problem uh, supported and backed by an extensive amount of evidence so that even if the arbitrator doesn't grant you everything that you ask for, at least you have some semblance of appearing reasonable. And if the other employer, if the employer wants to be come across as more extreme or unreasonable, or I mean, we have an arbitration next January in Yakima where, you know the employers proposing something that's gonna be about half of what the rate of inflation is. And I don't know how they're gonna explain that to the arbiter, but I think that's an example where being an employer coming in, maybe with their original lowball protected position, that might have seemed halfway reasonable at the time, isn't going to necessarily look reasonable when inflation spikes.

But on the Union side of it all we can control is what the proposals are that we present and argue for. And as you move towards arbitration, it's important for the bargaining teams as they step from negotiations towards that arbitration process to reassess our original protected position and verify that it's still coming across as I said, even if it's not some of the arbitrator's gonna grant, it's something that has the semblance of reasonableness. So you get at least a portion of what you're pursuing.

Stephen Hatton
Umm.

IMPLICATIONS FOR BARGAINING

Jim Cline
Now there's gonna be a and the final section here before we get into some other non-bargaining issues is what does all this mean for bargaining? And I see we had a couple of questions that were asked earlier about.

So the so the minimum wage is tied to CPI and is that correct? And it is, does that help the Union position? And the answer is yes, but probably marginally. There are other things that are indexed to inflation too. Social Security payments are directly indexed to inflation.

There are other government payments that are indexed to inflation, but still, as we just looked at the chart and the data that that Steven had put together and explained to us, there's not a one-to-one correspondence between inflation rates and wage outcome. Sometimes the wages are lower than inflation, sometimes they're higher. So the argument that would be made in arbitration is, hey, we have to keep pace with what we referred to earlier as at least the quote unquote real wage, which is your wage as modified by inflation impacts.

And then there was another question. Ohh I think this is a question about the Wall Street Journal.

Uh. Predictions that we went before about the GDP, that none of them were expecting, that there weren't a lot of predictions below 0. There actually were a handful that we're just below 0 for the end of June of 23 that they were predicting the GDP for. I misspoke not, not the end of 23, but the end of 22 this year there were a handful of economists about 20%. I think we're showing something less than 0%, but it was like point a negative .2, negative .3 and the question poses, does that mean these economists aren't expecting any kind of a huge collapse? And that's correct. I think of if you look at the data point for all the 50 or 60 economists at the Wall Street Journal.

A question none of them were predicting like a collapse of hey, the GDP's gonna shrink 3 to 5% and unemployment's gonna go into double digits. None of them were predicting those. Some of them were predicting. Many of them were predicting a recession, but in almost all cases, the consensus, they had half of the economists predicting every session, half of them not, but of the ones who were predicting a recession, almost all of them were predicting a recession that, by historic terms, was mild and that corresponds to their predictions on unemployment only going up in into the mid 4% and not some of these historic numbers that we saw back in the 70s and 80s of unemployment climbing almost towards double digit numbers.

Umm.

So what does all this mean from for bargaining? I guess sort of the lessons or takeaways of all the data and the points we've just covered. First, your knowledge of current developments and kind of going through the training like we're president presenting now in the information associated with it, that in our estimation is really critical to effective bargaining. I made the point earlier when Kate presented the chart showing the breakout of settlements by region.

And I had made the point. It seemed to me that a lot of the I-5 corridor police unions that were represented in the in these police officer settlements in, in my opinion, were more sophisticated and more knowledgeable than some of the other groups that were represented by other organizations and that it can't gave the example of the group that settled on 2 1/2 percent a year when last June's inflation rate was heading up, starting to approach 5 to 6%, and so we asked, well, what were those people looking at? Were they watching the trends in inflation? Because sometimes you have to get ahead of this. These numbers come out every month or two.

The information that we're going over today is precisely for the reason that you could have a more sophisticated, complex analysis of what might lie ahead. We don't know for sure. We have found in some of these projections we were talking about projections a year ago on inflation that ended up being far short of what inflation is. So those predictions certainly are not infallible, but

there are certainly better than not having that information and not calibrating that into how you're approach bargaining.

Another important implication, we think is to really take a close, close look and evaluate the budget condition of your employer. What's their revenue stream looking like? Is it flat? Is it going up? What are the reserves look like? What kind of ability to pay are they facing as you make your requests in bargaining?

The last point, the next point is partly what I other already touched on. It's not just important to know what the current data is but try to get ahead of that as much as you can with a little bit of a crystal ball that maybe clouded at times and trying to anticipate what direction labor contracts are likely to take with that as you go into bargaining, you're constantly going to be weighing risks. One of the risk factors we know of is inflation could be higher next year, it could be lower. We don't really know. There, there's certainly the risk associated with a possible recession is a consideration. I would definitely tell all of our clients and have when that comes up is we look as we're looking at proposals now in the summer of 22 and we start looking at hey, do we take the employers offer? Because when you arbitrate it often is 9 to 12 or more months between the time you're in mediation until you're in front of an arbitrator.

When that happens, the economy could turn South, or maybe the economy turned sideways. How is that gonna affect your bargaining? It is a risk factor. It is gonna weigh on how an arbitrator approaches it. In our estimation, we think we have that, even if the economy's technically in a recession, we still think we have a good argument to an arbitrator of look, the unemployment rate is still really low. So the general economy, the economy for investors and corporations, corporate earnings may drop, but that doesn't mean that the labor market isn't gonna stay tight, because if you have an employment that's in the low 4% there, that's still gonna be placing pressure on wages in the general labor market.

The other consideration I think it's also borne out some of the points that Kate made in terms of the timing of bargaining.

On the one hand, you want to weigh your risks and figure out if you have a good settlement, but there are plenty of times where not panicking, not jumping on the 1st offer and holding out for more pays off, and so there's a there's a this is an approach where you just need to be really thoughtful as you prepare and work your way through the bargaining process so that's most of what we had to cover in bargaining.

OTHER ISSUES

There were a few other issues that I'm going to touch on in the in the limited time we have arranged for here. One of the subjects that's become a major, at least on some contracts, becomes a major point of discussion and somewhat controversial is the subject of recruitment and retention bonuses and those of you have been following are our newsletters and our discussions we've had on this before. Probably know my views on recruitment bonuses and particular, and I'll go ahead and restate those here because I, I still stand by the positions I've taken. I am deeply

skeptical of the value of recruitment bonuses and have discouraged my clients absent some other consideration.

You never say never to a proposal, because if there's some offsetting benefit to the group, that's fine. But how do I view recruitment bonuses? Recruitment bonuses are monies your employer is offering to people you don't represent, you have a labor contract. Your Labor contract says you get X wage rate based on years of service and what the employers are finding is that the wage rate they negotiated with you is proving inadequate to staff their spots. To me, the solution to that is to offer the Members you represent more money. The recruitment bonus is an end run on that process that what they're doing with recruitment bonuses instead of putting the money in your contract and making your wages better, higher and sustaining those moving forward, they're offering one time money to people who aren't currently working for the city.

Now, I've been saying this for some time and I saw a lot of other I did see a lot of police unions in particular that were allowing the employer to offer recruitment bonuses, they're particularly common in the King County area, where I think the labor market spent a fair amount tighter, but finally it seemed like the message started getting through in some of these contracts where groups were kind of suddenly recognizing like, yeah, why do they keep offering money to people who are not representing maybe what we need to do is offer money to keep the people we have and that's in in the form of retention bonuses, so I've seen retention bonuses becoming a little more common in this in this past year. The problem with recruitment bonus is I think I just talked about retention bonuses, I think are a little bit of a mixed bag. One, it's money for your members. That always seems good. The problem I see the downside on retention bonuses is exactly because it is one time money. I mean a preferred, better contract by and large is money that goes into the contract that is permanent.

The rolls forward retention bonuses don't do that. They usually expire with the contract, but I get that when you're in negotiations, you're looking at the total package. You're gonna get the best deal you can, and often a good deal is if you get a good cola and retention money is on top of that. That can be a good settlement. I just, you know, raise the issue and the caution that when you have a tradeoff between sustainable continued money versus one time money, usually the continued money is better. So that's why I'm a little bit skeptical retention bonuses, but I know they've become more popular lately. The other reason I think they're finding them particularly more common for employers to offer right now is the American rescue funding requires them to spend that special funding by the end of next June, and one of the legitimate ways they can spend that American rescue funding is on first responders and public safety employees who are working on the front lines.

So it's legitimate for them to give retention bonuses to those workers and then they can they can account for that for the federal government as money spent on one of the allowed for categories.

Let's talk about BWC stands for body worn cameras we're this is still this is this. Sorry. Looks like we have a little typo there but decision versus impact. So the question with body worn cameras, some employers will take the position of well we don't have to negotiate it. We just have to negotiate the impacts. There is not published per case on this yet. Our view looking at the

whole wide range of PERC cases on a variety of subjects leads us to believe that if pressed and if asked, PERC would rule the decisional bargaining is required.

Why? Because one there's a number of decisions where PERC has ruled on cameras and other contacts and surveillance in other contexts where they have tended to say that the deployment of cameras in the workforce is something that has to be negotiated, and at the very least, the impact of it on whether or how it is used for discipline has to be negotiated.

Whether there's decisional right to do decisional bargaining could be important. If push came to shove, because what we're seeing with a lot of groups is that they're tying they're trying to tie their labor contract negotiations to the body camera and saying, look, we're not opposed necessarily to having body cameras in the workplace. We're willing to do those. But it is a lot of work for the officers and deputies to be uh to have those to have to manage those cameras in their day-to-day jobs, and they ought to get more money for it. And we've seen a lot of contracts where if there wasn't an explicit body camera premium, there was more money put into the final settlement by the Union insisting that, hey, you've got to make the final wage increase reflect the additional work tied to the cameras. Another point about body cameras is it's really important that you negotiate particular well-developed policies on that. Maybe even put some of the policy protections in the language. Lexipol has issued a generic body worn camera a policy.

Generally, I'm not that adverse to most lexipol policies. They're written from the perspective of management. They're not there to protect the employee rights, but by and large, a lot of the lexipol policies are fairly reasonable and not too extreme and just need to be bargained around the edges. What I found in reference to the body worn camera policy is their body worn camera policy has a lot of limitations, so if you move towards body worn cameras, I think it's really important we have a model policy that we've identified a number of areas that ought to be addressed in a negotiated policy and we can make that available to you upon request.

And it's something we strongly recommend that you try to negotiate those policies. Finally, final subject, we're gonna talk a little bit about is overtime because we've been uh seeing in administering and negotiating our labor contracts in increasing amount of disputes about staffing and how those staffing issues are gonna get addressed through overtime. What we're seeing is a large spike in the amount of overtime worked in particularly the amount of mandatory overtime. It has been common, very common in the dispatch, the 911 center and the correction contracts that we've negotiated, that we've had to develop rules around the allocation of mandatory overtime. I've never seen that on a very widespread basis, if at all in police and fire contracts. And the reason for that seems to be the one, the staffing even if there were staffing shortages, they weren't severe. And two, there always seemed to be somebody on the force who was ready to volunteer to get the extra money associated with working overtime, people were willing to do it, so I think there's a couple factors that work. One, the staffing shortages are getting more severe in a lot of cases and a lot of departments or simply there's more over time available than even the people in the ordinary past who would have volunteered for him, want to take. There's simply more over time than they can handle. I think a second factor driving this and again this is this is a bit of a generalization, but it's the reality is that there seems to be a generational shift in the number of our of employees who want to volunteer and maximize their overtime earnings

versus a lot of the younger members of the forces that are coming up now are striving for what they view as better life balance. They don't necessarily they want more time with their families, they want more time for other activities. They don't wanna make a ton of overtime. Those things have become maybe relatively less important to them.

And I'm not making a judgment of whether that's good or bad. Those are simply sort of different values and different orientations. And it's a generalization because you might have people who are some of your older officers who didn't want to really work overtime either. And you probably have younger officers who would want to work overtime. But by and large, the reports I'm getting from our clients are there's just a lot less people wanting to volunteer for overtime. So in an increasingly basis, we're having to negotiate into law enforcement contracts some of the provisions are similar provisions of those that have long been part of dispatch and correction contracts where there are certain incentives that are put into the contract and rules about how the overtime, how mandatory overtime is gonna be allocated there's certain creative solutions that we've seen to kind of address this growing problem.

One is the traditional overtime rules that we've seen again in correction and 911 contracts have created rules around overtime where volunteering is incentivized and rewarded well. How does that work? Well, you set-up a roster, you go through an order, you have a normal system for who's going to do the next mandatory overtime. But what you do is you create an option where people can volunteer for overtime when it's presented and then by volunteering, they get a credit so that they're not forced to work overtime on the next occasion.

We've also seen some different elements in some MOU and some other terms of contracts on a on a sporadic not widespread basis where they're offering more than the traditional time and a half rate. Steven, could you, I know you've been involved in in reviewing a couple of these. I think we had a creative MOU recently at a Kitsap County, but I know you were involved in one in Bellingham, Bellingham police that I think would kind of reflected something the Bellingham firefighters had developed. Can you explain what some of these more creative elements are that we've been recently saying?

Stephen Hatton
Definitely. I guess going back to creating the Bellingham MOU, we had to take a look at all of the contracts, kind of what was out there. And there are just so many different ways to structure these things with the voluntary incentive programs like Jim mentioned with the passes, that's something that came up in the Bellingham MOU, Brock, I see you on the call. He helped develop it. So yeah, volunteering for overtime moves you down on the mandatory list, so you're not going to get called in if. If you put your hand up and then another thing that the Bellingham Group had on their side was that the firefighters in the city had negotiated for, I think a double time overtime incentive. So if they were called in mandatory to they would get two times they are ready to pay and so this let them kind of use that internal equity argument to kind of pressure the city to get 1.7 time, which is what they got, and then also I think a minimum 4-hour guarantee, which is something that they got in different area of the MOU which is yeah, someone gets mandatory to come in. UM, there's a four-hour guarantee that that person was going to get 4

hours of pay, so that's on their day off. But really, you can structure these things in any way. And we have a ton of different ideas. If you reach out to us, if you have questions about this, so.

Jim Cline
So the I mean overtime, typically when you think of overtime, it's like time and a half, but there's nothing necessarily magical or legally required about that time and a half is the minimum that has to be paid, and that goes back to the fair Labor Standards Act. We've had groups in the past that have made proposals for double time or other enhanced rates above time and a half under some circumstances, such as if an employee has to work more than 14 or 16 or some kind of threshold hours of the day, we've seen those sporadically very isolated and contracts in the past. But I think what Steve's pointing to is maybe there's a maybe in the future, there's gonna be more bargaining over. Should we have a different formula when the person's mandated to work overtime? I've also seen sort of mixed the systems on that where.

Stephen Hatton
Right.

Jim Cline
If you had to work mandatory overtime for one shift, it was a straight time rate. But if you got hit for a second or third shift, that could be at an enhanced rate. So that's a different variation that we're seeing occasionally, so that's our goal here was to try to get through these issues in the sort of two hours we had allocated.

We did invite people to put questions in the chat. We have a little bit of time left. I think we're ready to wrap up, but if people have any last minute questions they wanna add to the chat and have is take a stab at. We can do that, but barring that, I think I wanna thank you for attending this training today, I wanna put in another reminder plug that we're gonna have a full extensive training in, I'm trying to confirm the dates here. I've got in late September. It's gonna be September 22nd and 23rd of September. So we're going to cover this issues like these and many, many more in a in a compact sort of intensive in person training that we're going to be holding and Issaquah so if we don't have any further questions, I'm not seeing any further questions in the chat. It looks like that's our session for the day.

So thank you. And we look forward to seeing you at our next training.

Local 3186
Thank you, Jim.