Fitch Rtgs: Virginia Collective Bargaining Law May Impact Local Government Credit Quality

Fitch Ratings-New York-02 March 2020: Fitch Ratings expects Virginia House Bill (HB) 582 and Senate Bill (SB) 939, if signed into law, may somewhat weaken expenditure flexibility for the commonwealth and its local governments. HB 582 would establish collective bargaining rights for public-sector workers at both the state and local levels whereas SB 939 would allow local governments to pass ordinances that permit public employees to engage in collective bargaining. Collective bargaining is explicitly prohibited under existing state law.

However, Fitch does not anticipate any immediate rating actions. If collective bargaining is instituted, Fitch will evaluate the impact of the negotiated agreements for each rated entity in the context of other credit factors. Fitch believes a productive and flexible working relationship can be achieved regardless of the legal structure pertaining to public sector employment.

Virginia, like most state governments, spends less of its budget on employee costs than local governments, and is therefore less exposed to credit risk from changes in the collective bargaining laws. Fitch has historically assessed Virginia local governments' expenditure flexibility to be solid, in part due to the lack of collective bargaining requirements. Fitch undertakes a consistent workforce environment evaluation for each rated local government since labor costs account for the majority of governmental spending. The evaluation focuses on any legal constraints to adjusting workforce spending. Collective bargaining may weaken flexibility to adjust spending during a downturn given contractual obligations for negotiated wages, benefits, staff requirements, and other work rules.

Both bills continue to prohibit public sector employees from striking; however, HB 582 provides for final and binding arbitration on contract matters that become subject to impasse, thereby limiting management's control over workforce terms that could impact the fiscal condition of the local government.

Expenditure flexibility is a component of one of four key rating drivers in Fitch's U.S. Public Finance Tax-Supported Rating Criteria and informs our view of overall financial resilience. In addition to the workforce evaluation, Fitch's assessment of expenditure flexibility also considers the impact of debt service and retiree benefit costs (the actuarial pension contribution and actual payment for other-post employment benefits) on the budget, in addition to the level of pay-as-you-go capital investment and other non-core spending the government may be able to defer during a period of fiscal stress.

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