STATE OF MICHIGAN
DEPARTMENT OF CONSUMER & INDUSTRY SERVICES
EMPLOYMENT RELATIONS COMMISSION

In re Fact Finding:

KENTWOOD PUBLIC SCHOOLS
BOARD OF EDUCATION
-and-
KENTWOOD EDUCATION
ASSOCIATION
KCEA/MEA/NEA

MERC No. L03 F-4016

KENTWOOD PUBLIC SCHOOLS
BOARD OF EDUCATION
-and-
KENTWOOD EDUCATIONAL SUPPORT
PERSONNEL ASSOCIATION
KCEA/MEA/NEA

MERC No. L03 F-4015

Before: Maurice Kelman
Fact Finder

REPORT OF THE FACT FINDER

Appearances:

For the Employer Barbara A. Ruga, Esq.

For the Unions Gerald E. Haymond, MEA UniServ Director

Chronology

The Board petitioned for fact finding in late August 2003 in connection with the ongoing contract disputes with both the teachers (KEA) and the support staff (KESPA). Despite the union's initial objection that fact finding was premature, its formal answer to the petition, filed on September 25, did not traverse the employer's statement of unresolved issues, and by action of the Commission the undersigned was designated fact finder on October 7. At a prehearing conference the parties agreed to hearing dates of January 7, 8, 9, 15, and 16. On January 5, 2004, the date stipulated for exchange of exhibits, the parties initiated a conference call to the fact finder to consider the import of the hospitalization for major surgery of Sue Burt, the MEA UniServ Director in charge of the Kentwood negotiations. Inasmuch as the union's exhibits were already prepared and since the MEA had previously assigned Gerald Haymond rather than Ms. Burt to act as union advocate, the fact finder was unwilling to grant an open-ended or lengthy postponement of the hearings in the hope that Ms. Burt might eventually be able to participate in a witness role. On the understanding that Mr. Haymond was permitted to introduce and explain exhibits directly and without foundation testimony by the preparer of the document, the fact finder adjourned the January 7, 8, and 9 hearings but retained the dates of January 15 and 16 and scheduled additional hearings on January 19, 20, and 23.

The parties proceeded to exchange their exhibits but, still opposing January hearings, the union sought an order from the Kent County Circuit Court to suspend fact finding. The requested intervention was refused on January 12. The next day the parties adopted a suggestion made earlier by the fact finder that the case in its entirety be presented through written exhibits and witness affidavits without in-person testimony. Those submissions were made on January 19, followed by briefs and rebuttal exhibits on February 9. On February 13, by conference call with the parties, the fact finder obtained clarification and further information about a number of points. The matter was thereupon taken under advisement for a final report.

Background

The Kentwood district adjoins the City of Grand Rapids and, with 9400 students, is the second largest school system in Kent County. MEA local unions represent about 550 teachers (KEA) and 350 support workers in custodial, transportation, food service, and paraprofessional jobs (KESPA).

In both bargaining units the current unresolved issues relate to contract duration, wages, and capping the employer's insurance costs. In the KEA unit there was also a calendar/work year issue, now moot as to 2003-04 but potentially in play for 2004-05. Likewise in the KESPA unit, the union made an also-moot but renewable request for an additional paid holiday should the school calendar be reduced by one day as the KEA had proposed.

This report does not address another issue discussed in the negotiations. The union had urged the district to offer employees in both units an Early Retirement Incentive (ERI) on the theory that it would effect a savings that could help finance the union's economic demands. The Board demurred, believing that such schemes ultimately cost the district more than any short term savings they might produce and citing disappointing experience with ERI's in the past. Since the union never fleshed out its suggestion with any specifics and did not pursue the issue in its fact finding presentation, the subject requires no further exploration in this report.

Issues

I.

Contract Duration

In the bargaining leading up to fact finding, the union was pressing for a two year agreement while the employer favored a one year settlement. On December 10, however, the Board submitted a new offer which, in addition to modifying some of its original proposals for 2003-04, addressed compensation and insurance for 2004-05. Although it might seem the parties had now decided on a two year term for their next labor contract, the Association's submission to the fact finder declined to spell out any second year demands. It appears that the union, at least for now, wishes to come to terms only for 2003-04.

At this juncture the school year is two thirds over and agreement remains elusive. For a district like Kentwood, which (as detailed below in this report) has low cash reserves, it is important that next year's personnel costs not remain in doubt. Also, it would benefit the parties and the citizens of Kentwood if labor-management peace could be restored to the school system — an objective that is hardly advanced by beginning a fresh course of collective bargaining right on the heels of protracted and sometimes inflamed negotiations for a soon-to-expire one year pact. Accordingly, as the fact finder informed the parties at our final conference, this report addresses and makes recommendations for a July 1, 2003 through June 30, 2005 settlement of the economic issues.

II.

Calendar

Since 1982 the Kentwood School calendar has provided for 181 student days and 185 teacher work days (counting partial days as calendar days). Though state law continues to mandate 1,098 hours of instruction, it no longer prescribes a minimum number of student days. Prior to fact finding the KEA had been pressing to eliminate the Friday before spring break as a half day for students and teachers. The school calendar consequently would cut back to 180 days for students and 184 for teachers (without any loss of pay). The KESPA asked in turn that if the teachers' proposal were to be adopted, its own members, who are paid hourly wages, be held harmless by receiving an additional paid holiday. The KEA claims support for its position in the "common calendar" developed in September 2003 by administrators for all the districts in the county. One feature of the proposed common calendar was the stated "goal" of eliminating the Friday before spring break as a student day.

The employer's response was that even though the common calendar is not binding on individual school boards, it could go along with the Friday school cancellation, but only if the union agreed to insert a new instructional half day into the calendar so as to preserve the traditional 181 day school year for students.

As noted above, the union chose to confine its fact finding presentation to the 2003-04 year and has pronounced the calendar issue moot. The Board expects the same calendar proposal to resurface in connection with 2004-05, along with a companion request by the union to reduce classroom teaching by 12 hours and convert those hours to professional development.[1]

Since the union has not offered a full rationale for calendar and teaching changes, I am not prepared to say they lack merit. I think the matter is best left to the parties without a specific recommendation from the fact finder — beyond the observation that any change should be pedagogically sound and not simply a bootlegged economic concession.

III.

Insurance

A. Current benefits

Under the expired 2000-03 agreements, full-time teachers and full-time support staff (the latter defined as those who work at least 30 hours a week, plus all bus drivers who drive morning and afternoon runs regardless of their total hours of work) may select either of two MESSA packages of insurance benefits paid for by the district without employee contribution. "Pak A" benefits include MESSA Super Care I, which is a traditional fee-for-services health plan. It has an annual deductible of $100 per person/$200 per family, and a modest prescription co-pay ($5 for generic and $10 for brand name). In addition Pak A includes a Delta Dental plan, a vision plan, term life

[1] The State will count as many as 51 hours of professional development as part of the legally required instructional hours. Kentwood and most other districts in Kent County, however, traditionally dedicate all 1,098 hours to classroom instruction.

insurance, and long-term disability insurance. Employees who choose to forgo Pak A receive Pak B benefits, which do not include a health plan but provide the same LTD coverage, a better dental and vision plan, and more life insurance than Pak A. Additionally, Pak B employees are paid a cash stipend ($120 per month for teachers, $60 for support employees), which can be directed if desired into a tax-sheltered annuity. Typically employees who opt for Pak B are persons who receive their health coverage through a spouse's employer.

For part-time teachers the district pays insurance premiums prorated to their FTE fraction. The teachers either can apply that reduced employer contribution to health coverage without the other insurance benefits or can elect the Pak B set of benefits, sans cash/annuity payment unless there is an overplus in the employer contribution. KESPA employees who work fewer than fifteen hours a week receive no insurance benefits; those who put in between 15 and 29 hours "shall receive 50% of the benefits" — a phrase which the parties understand to mean a fifty-fifty cost sharing of premiums.

Except for part-time employees, the district has historically shouldered the full cost of the insurance coverages. The last contracts with KEA and KESPA even committed the district to reimburse employees for their individual and family health care deductibles completely in the first year (2000-01) and by fifty percent in the second (2001-02).

B. The dispute

The Board now seeks relief from the surging cost of providing MESSA Super Care. In 2002-03 the premium for teachers rose 17.7% and in the 2003-04 year by another 14.9%. The outlook is for continued increases on the order of fifteen percent for the foreseeable future. At present the monthly health insurance premium for a teacher is $877.66 ($10,532 for the year). For KESPA employees it is even higher: an average monthly rate of $919.25 ($11,031 per year).[2] What the Board proposes is that the employer's contribution be capped at $780 per month for teachers who elect Pak A, with the employee paying the $97 balance of the premium through payroll deduction. Teachers could, if they wished, gain a tax advantage by routing their share through a Section 125 medical savings plan.

For teachers who select Pak B, the Board proposes to pay $141 of the monthly premium cost and asks the employee to contribute the balance of $2.83.

In the KESPA unit the Board proposes a Pak A cap of $889.45 per month, with the employees paying the remainder of $29.80. The proportionately larger employer contribution in this unit is explained as "a recognition of the differing wage levels between the Board's professional and support staff." For KESPA workers receiving Pak B, the board offers to pay $114.85 per month and asks for an employee contribution of $5.31. In both units the Board wants the employee's contribution for insurance to be retroactive to September 1, 2003, and collected by payroll deduction in what remains of the school year.

The district also seeks to discontinue full-time insurance benefits for bus drivers whose work week is under 30 hours. In the Board's view, their insurance fringes should be no different than those of the other part-time support employees.

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[2] The employer has tried unsuccessfully to obtain an explanation of the higher insurance rate for non-academic employees.

For 2004-05 the Board proposes to raise the employer's contribution by the percentage increase (if any) in next year's per pupil Foundation Grant from the state school aid fund, taking into account any mid-year "prorations" such as have been experienced in the past two years.

Finally, the Board offers both bargaining units the alternative of abandoning MESSA Super Care I and replacing it with a Community Blues 3 PPO plan (with $250/500 deductibles and $10/20 prescription co-pay), a plan that would be paid for solely by the employer. In point of fact, the proposed $877 cap on the Board's monthly contribution to Super Care for teachers equates to the full price of the PPO alternative and the proposed $97 teacher contribution represents the 11% cost differential between the two health plans.

The union opposes any employee contribution for insurance, and it rejects out of hand any switch to a non-MESSA plan. It points out that employees agreed to scale back their health benefits five times in the past, including raising drug co-pays from $2 to $5/10 in 1998 and deductibles in the year 2000 from $50/100 to the present $100/200 even though the lower deductibles still obtain in sixteen other districts in Kent County. Two-thirds of the other county districts also provide better vision plans and nearly half offer better dental coverage than Kentwood. To date no other district in Kent County has compelled employees to share in the cost of health insurance.

From the union's perspective there is simply no need to deviate from this county-wide pattern. Indeed, the union put forward a request of its own: to add a preventive rider to the present Super Care I coverage at a further monthly cost of something over

$7 per employee. This proposal has been withdrawn from fact finding, but without prejudice to further bargaining.

C. Discussion

In the American work force as a whole more than ninety percent of employees covered by a health plan are paying a portion of the insurance premium for family coverage, as are two-thirds of workers with single-person coverage. Nationally in 2003 the average employee co-payment for family health insurance was 26% and in west Michigan 20%. In the face of double-digit premium hikes, more and more employers have simply dropped indemnity plans, the costliest kind of health insurance. Emblematic of this trend is the UAW's recent agreement with the Big Three auto makers to convert from its cherished traditional Blue Cross/Blue Shield to a PPO.

Nor is the situation different in the public sector. Federal Government employees pay 25% of their health premiums. For workers in Michigan state government the indemnity insurance option, many of the PPO plans, and several of the HMO choices require employee contribution. In Kent County government, all the collective bargaining agreements with employee groups have insurance co-pays. In the education sector all retired public school employees in Michigan contribute to health care by deduction from their pensions — 10% of premium for family coverage without Medicare, 6 to 7% with Medicare. Unionized faculty at universities and colleges across the state share in the cost of their health plans, as do teachers in more than forty percent of school districts.

A work place in which the employer still provides as the one and only health plan the costliest version of health insurance — indemnity rather than PPO, HMO, or POS — and moreover asks the employee to assume no part of the ever-rising cost is a glaring anachronism.

MESSA Super Care I in essence is a Blue Cross plan sweetened with some extra benefits not marketed to other Blue Cross subscribers. MESSA, the acronym for Michigan Education Special Services Association, is affiliated and financially intertwined with the MEA. See St. Clair Intermediate Dist. v. MEA, 458 Mich. 540 (1998). With other health insurance programs, the school district employer is the policy holder, but in the case of MESSA plans the policy holder, as well as the plan administrator, is MESSA itself. This means, among other things, that MESSA treats claims and utilization data as proprietary information not to be shared with outsiders. Indeed, it professes to collect such data only by multi-county rating regions rather than on a school district by school district basis. Lacking a documented claims history of its own, Kentwood finds itself at a disadvantage when price shopping for group health insurance from providers, and the quotes it has received are probably higher than they should be.

Since Super Care I is the top-of-the-line product, it is only natural that it is prized by teachers and the other school employees, all the more so because they do not have to foot any of the bill. Concurrently, as the Michigan court observed in St. Clair Intermediate Dist., id at 544, there are pressures on the MEA UniServ directors to bargain for and preserve MESSA benefits since they "are evaluated in part by how well they achieve negotiations of the MESSA products into collective bargaining agreements."

In much of the state MESSA offers two alternatives to employers: MESSA Choices (a PPO) and Tri Med (a POS). But in "Area D" comprising Kent, Ottawa, and Kalamazoo counties, Super Care I is the one and only MESSA plan available. Moreover Super Care does not allow for deductibles or drug co-pays higher than those already contained in the Kentwood health plan. And in 2003 MESSA actually enhanced and added some new benefits to Super Care, which doubtless contributed to the magnitude of the latest rate increase.

Since the school board cannot negotiate a lowered level of benefits into its MESSA Super Care plan, its only other method of restraining premium costs without switching to a cheaper non-MESSA provider (something the union adamantly rejects) is to pass part of the rate increases on to the beneficiaries of the plan — the employees.

MESSA rates have shot up by almost 13% a year for the past five years, at a time when the general inflation rate has been held to an average 2.4%. Health costs accounted for 7.6% of Kentwood's total general fund expenditures in 1998-99 and today the proportion is 12.9%. Stated differently, one of every eight dollars the district spends to operate the schools and educate students goes for employee insurance benefits. Those costs also represent nearly twenty percent of an average teacher's salary and from 36% to a mind-boggling 71% of average wages in the various subgroups of workers in the support unit.[3]

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[3] What is more, Steelcase Company, a major local employer, recently revised its health plan so as to withhold family coverage if it is obtainable through a working spouse. Since some of the Kentwood district employees are married to Steelcase workers, they are expected to switch from Pak B to Pak A benefits, at an estimated additional cost of $30,000 in the KESPA unit alone.

Fully-paid fee-for-services health insurance cannot be allowed to become a budgetary carnivore like the insistent "feed me" plant in Little shop of Horrors. Before it devours an even more disproportionate share of the employer's finite resources, an alternative needs to be found — whether by way of reduced coverage, fewer physician and hospital choices, premium sharing, or some combination of these features. The need to grant the district relief from its soaring health costs is so clear to an outside observer as to be undebatable.

This district's annual fund balance tells the tale. Reserves have dwindled from 7.42% in 1995, the initial year of operation under the Proposal A overhaul of the school financing system, to 2003's nail-biting 3.86%. A reserve at this level can pay the bills for only fourteen days of operation. It is a far cry from the two months (15%) cushion the auditors and other bean counters advocate and that even the MEA does not consider excessive. In Kent county's twenty school districts the average fund balance is 12%. Only Comstock Park and Rockford have smaller reserves than Kentwood.

It is not that the administrators have been wasteful spenders. The central problem is that under the Proposal A financing regime, revenues are not only enrollment-driven but dependent on the state's generosity, which in turn is affected by the Michigan economy. School funding has become less recession-proof and less self-determined than it used to be.

The Kentwood student population has nearly doubled over the past twenty years. While enrollment rose by 122 in 2002-03 and another 203 in 2003-04, the State slashed the per pupil Foundation Grant by $58 in 02-03 and by $74 in 03-04. Kentwood began last year with 554.9 FTE teachers and through a combination of layoffs and attrition is finishing the current year with 528.2 FTE's. This year's 9,397 students, in other words, are being educated with twenty-six fewer teachers, and there also have been layoffs of custodians, secretaries, and administrative employees. A moratorium continues for a second year on the purchase of new textbooks. "Pay to play" is being imposed on after-school activities. And more drastic austerities are on the way as another forty academic staff are due to be cut next year. A direct consequence, aside from larger class sizes, will be the curtailment of the high school schedule from seven classes a day to six, with the elimination of sixty course offerings.

The union defends the contractual status quo by pointing to the other school districts in Kent county, all of which provide MESSA Super Care I without requiring premium co-pays — not even the two districts with fund balances smaller than Kentwood's. This county "tradition," however, is not reflective of either the wider geographical region of eight counties that abut Kent or of the two counties which, together with Kent, make up MESSA's rating Area D. In 35 of 64 districts in the adjacent counties, school employees bear part of their health care costs. In "Area D" six of nine districts in Kalamazoo County require employee contribution to MESSA Super Care, as does Saugutuck in neighboring Ottawa County. Not only is Kent County out of sync based on these comparisons, but it is problematic whether the history of non-contributory health insurance will endure for much longer. In seven of the county's districts the school employer is shackled to a multi-year labor contact already in place. Seven other districts, it is true, have concluded new contracts for 2003-04 that preserve 100 percent employer-paid insurance, but another seven are still bargaining and Kentwood is not the only unsettled district in which the employer is pressing for premium co-pays.

Had the budget outlook remained as unpromising as it was when the case was submitted to me, nothing more would need to be said to demonstrate why the Board has made its case for insurance cost sharing. But a significant and welcome development has just occurred. On February 24 the voters of Kent County approved a one mill enhancement for special education services. Kentwood spends roughly $10 million on special ed but has been receiving only $6 million in reimbursements. Thanks to the additional millage the district will get another $1 million from the Intermediate School District starting next year. Apart from improving special education by hiring several teachers and paraprofessionals to work with autistic and impaired children, making needed renovations to their classrooms, and possibly restoring a full-time program administrator, the Board will be able to free up an undetermined but considerable amount of general fund money for other uses. The question becomes, how shall this money be redirected? The Board hopes to restore at least some academic programs that were slated for elimination next year. The conversion of the high school program to a six-block schedule apparently still stands, but it has become possible to reverse a few of the teacher layoffs and afford students a limited choice of seventh-hour electives, as well as to end the textbook freeze.

Importantly too, in the Board's eyes, the millage revenue means that the dangerously anemic fund balance can be brought up to as much as 6.4% next year provided the union accedes to the Board's insurance cap and wage proposals. But that seems an unrealistic aspiration. The union tells the fact finder that there is now revenue "that could be used to liberalize the Board's proposal." In truth, as the union observes, "it all boils down to <u>where</u> the Board wishes to spend." But except for the intensely self-interested, no one should fault the board for preferring to spend its money on things other than spiraling insurance premiums and for not seeing the new millage as a deus ex machina coming down from the clouds to rescue noncontributory MESSA Super Care I. As the Board has amply demonstrated, there is a persistent structural difficulty with the health care benefit in its present form and a structural remedy needs to be applied. What has changed is that there is somewhat more fiscal wiggle room today than three weeks ago to make the transition to insurance co-pays less painful for employees.

D. Recommendations

Implicit in the foregoing discussion is my endorsement of the concept of capping insurance costs. It is worth noting that even under the Board's proposal, the Kentwood teacher's proportionate contribution for insurance still amounts to half that of the typical premium co-payer in the general work force, and KESPA support staff would only bear a very modest 3% share of their insurance premium.

Still, with the end of the 2003-04 school year fast approaching, a fully retroactive insurance co-pay would have to be extracted from the few remaining paychecks for the year. It is true that the same principle that supports making negotiated pay raises effective as of the beginning of the contract term logically applies to economic concessions in the other direction; and it goes without saying that neither party in collective bargaining should reap a windfall simply because timely agreement was not achieved — otherwise there would be an incentive for obstinacy and foot-dragging. Nonetheless there is room for some pragmatic compromise. Giving up one's accustomed no-charge health coverage is a bitter pill to swallow. In the interest of facilitating a settlement, I suggest that the employee contribution toward the MESSA health plan start as of January 2004.

This recommendation comports with the treatment of Kentwood's non-MEA employees. The district's central administrators — the superintendent and three assistant superintendents — voluntarily began contributing to their own health insurance, but not before December 1, 2003. The building administrators (principals) agreed to start an insurance co-pay next year, having already relinquished step increments and salary increases for 2003-04. Similarly, the KESA, the independent union representing the district's 52 clerical workers, accepted a salary and step freeze in exchange for keeping their non-contributory health benefits this year. In contrast, KEA teachers and KESPA staff have been paid normal step increases in 2003-04. That should cushion the partial year insurance co-pay that I am suggesting.

The category of part-time bus drivers requires separate discussion. Only six of the district's forty-one drivers actually work thirty or more hours a week. Thirty-four of the other thirty-five drivers would come under the half benefits provision if the contract treated them as it does their part-time co-workers in other KESPA job classifications. There is one driver who does not even reach the part-time threshold of fifteen hours of work yet is receiving full Pak A benefits. For five of the drivers the $11,031 cost of MESSA insurance actually exceeds their wages for the year.

This anomaly in the collective bargaining agreement is indefensible in dollars and cents and as a matter of equity. No other school system in Kent county extends full-time health benefits to under-30-hour bus drivers. A considerable and justified savings will result from adoption of the Board's proposal to delete the bus driver exception. On the other hand, it would be too great a pocketbook shock to employees whose earnings are below $20,000 and in some cases barely $10,000 to expect them to repay the district for half their current year health premiums. The part-time drivers should be allowed to finish the year with insurance benefits intact.[4] Equalizing their fringes with the other part-timers in the support staff unit can wait until 2004-05.

I offer one further recommendation on the subject of health insurance. If it can feasibly be done, I think the next collective bargaining agreement should offer employees in 2004-05 an individual choice between MESSA Super Care I with premium contribution and cost-free enrollment in a PPO or HMO plan from another provider. There are bound to be some employees (how many we do not know) who prefer more money in their paychecks to an unrestricted choice of doctors and hospitals. Such an option is made available, for example, in the Greenville district in Montcalm County. Prima facie it is more appealing than a one-size-fits all insurance plan.

[4] That is to say, unchanged except for the half year co-pay this report recommends for all those support employees who are receiving full-time Pak A benefits in the current year.

IV.

Wages

A. Proposals

The salary schedule for teachers has four tracks: BA, BA+, MA, and MA+. The BA track has twelve steps, the others twenty-six. As of 2002-03 the salary range was:

BA	$34,201 - 54,721
BA+	$34,885 - 60,193
MA	$37,621 - 66,691
MA+	$39,673 - 72,506

For 2003-04 the KEA seeks a 1.5% salary raise at each step, retroactive to the start of the year. The Board offers the scheduled step increments but no salary increase, though teachers already at the top step are offered a "one time" payment of $342 as a partial offset to the insurance co-pay the employer expects from them.

In the KESPA unit of 352 employees, each job classification within the four subgroups (custodial, food service, transportation, paraprofessional) has its own hourly rate and step advancements. The 2002-03 rates range from $10 for some of the parapros to over $18 for mechanic. The union asks for a 1.85% general wage increase in all classifications, retroactive to the start of the school year.

As in the case of teachers, the Board is prepared to grant, and in fact is currently paying, scheduled step increases but offers no wage improvements. To mitigate the cost of the insurance contributions it wants from the KESPA unit, the employer would make an "off schedule" payment of $300 to each support employee at the top of his or her wage scale who has opted for Pak A insurance and a payment of $100 to top step employees who have chosen Pak B.

Although neither KEA nor KESPA has put forward a wage proposal for 2004-05, the Board makes the following second year offer to both groups: It will raise salaries and wages by 2% provided that the state's Foundation Grant comes in at $6,977 (the same as the current year's before the $74 proration) and the MPSERS pension contribution rate stays at the present 12.99%. The employer will absorb as much as $50 in subsequent proration of the new foundation grant, but if the cut is any larger, then the 2% salary increase will be reduced by 0.5% for each additional $50 or less of state proration. Similarly, the 2% pay raise is subject to dollar-for-dollar reduction by any hike in the MPSERS pension contribution.

As an alternative, the Board suggests the parties adopt the Total Compensation Formula in effect in the Portage public schools in Kalamazoo County. The formula works like this: The percentage increase in the district's total foundation grant revenue is applied to the previous year's total employee compensation expenditures (consisting of salaries, extra paid work, and the employer's health insurance costs). The resultant sum becomes the "compensation pool" for the current year. The first claim against the pool is any increase in health premiums and pension costs. If those increases exceed the pool, then employees must make up the difference either through Pak A and Pak B co-pays or by switching to a less expensive health plan. On the other hand, if added insurance and retirement costs do not drain the entire compensation pool, the balance, however large or however small, goes into the employees' pockets as pay raises.

B. 2003-04 Wages

In 2002-03 the Kentwood MA+ maximum salary of $72,506 was the third highest in the county, and the top MA salary of $66,691 was ninth best. Two-thirds of the teachers are on the MA tracks. And there is considerable lateral movement across the salary tracks because the district reimburses teachers for post-graduate tuition (at a current cost of about $100,000) and because the State requires all but grandfathered certificate holders to earn six hours of additional college credits every five years just to maintain their teaching certificates.

Even the BA+ maximum of $60,193, which ranked fifteenth in the county, was not far below the average of $60,562. It is true that step 1 salaries on all four tracks are lower than in most of the other Kent county districts, but the gap closes over time because from steps 4 through 11 the annual increments are quite substantial on all four tracks ($2,052 to $2,394, as compared to $342 to $684 for steps 12 to 26). As it happens, more than half Kentwood's teachers are at or beyond step 12 and fifteen percent are at maximum salary.

The union cites 2003-04 salary increases elsewhere in the county, but on close examination it appears that many were built into previously-negotiated multi-year contracts (Caledonia 3%, Kelloggsville 2.5%, Thornapple Kellogg 2.57%, Wyoming 2.5%). The freshly bargained raises tend to be lower.[5]

The issue, though, is not whether KEA's requested 1.5% salary increase would be out of line with other settlements. The question is whether it is affordable. Eighty-

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[5] Teachers in Cedar Springs and Northview got no raises at all but did obtain some calendar reductions.

five percent of the teachers are drawing step increments, and for those at mid-scale the increments are more than 4% of their prior year's salary. The step increases being paid in 2003-04 add up to $761,000 (with FICA and retirement) and constitute 2.5% of the employer's total payroll costs. Given the tightness of its budget, the district might have pushed for a step freeze — or perhaps suggested banking this year's increments for cashout at retirement or resignation. Instead, to soften the insurance cost-sharing burden that employees are being asked to assume, the Board left step increases untouched. To go beyond that and to grant a 1.5% general salary increase would cost the district another $648,000.

In the KESPA unit the 2002-03 maximum wage rates are not much below the countywide average. For example, Kentwood food service workers are paid $1.13 less than the top-paying district but $1.36 more than the lowest district. Custodians are $1.58 behind the top district but $1.36 from the bottom. Kentwood's ranking among sister districts in the county is considerably higher as to wages and salaries than as to the size of its rainy-day fund. The KESPA proposal for a 1.85% wage increase would run up the district's labor costs by $123,000.

The non-MEA employees and administrators already have waived pay raises for this year. Given the cost of the one semester deferral I have recommended for starting the MESSA co-pay and recognizing the economic value of continuing step increments for teachers and KESPA staff, I find no basis for a compensation increase for 2003-04.

C. Wages for 2004-05

The fact finder was presented with no information about other school district wage settlements for next year. It may be that because of the depressed Michigan economy and the uncertainties of educational funding for fiscal 2005 there is a general reluctance to commit to new multi-year bargaining agreements. The Kentwood Board nevertheless would like to have a contract covering 2004-05 and for reasons stated earlier I agree that a two-year resolution would be salutary for these parties. But the Board at the same time wants to build in protection from further cuts in state aid, hence the conditions and reduction factors in which the 2% offer is wrapped and hence the employer's alternative proposal for a Portage-type formula rather than a predetermined pay raise.

On closer inspection the 2% offer appears disingenuous. When it was made last December the Board's own budget estimate for 2004-05 projected a 2% jump in the MPSERS pension contribution rate, which of course would completely negate the raise. While the Governor's February 12 budget submission to the legislature promises a restored Kentwood foundation grant of $6,977, thereby satisfying one condition for the pay raise,[6] it was announced at the same time that the retirement contribution will be going up to 14.87% from the present 12.99%, effectively wiping out the promised pay raise.

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[6] Not welcome, however, is the Governor's plan to alter the blended pupil counting formula by giving equal weight to the previous February head count and the fresh September census. The switch from 20/80 to 50/50 disadvantages growing-enrollment districts like Kentwood.

A now-you-see-it, no-you-don't salary offer gives the union no inducement to enter into a two-year settlement. If the price of an accord covering 2004-05 is a pay increase that is genuine, not illusory, and certain rather than contingent, the figure I recommend is 1% (plus step increments) in both bargaining units. I recognize that any pay raise, even one as modest as this, adds pressure to a strained school budget, but it also helps to allay some of the sticker shock awaiting the new health insurance co-payers when the MESSA rate for next year is made public in May.

V.

Summary of Recommendations

1. Contract term: 2 years

2. Insurance:

   In both KEA and KESPA units, cap the district's insurance contribution as proposed by the employer, effective January 2004.

   Discontinue the full-time benefits status of part-time bus drivers beginning in 2004-05.

   If possible, add a PPO or HMO health plan option without premium co-pay as an individual alternative to enrollment in MESSA Super Care I.

3. Wages:

2003-04: Step increases but no salary or wage increases in either unit. Grant one-time bonus payments to top-step teachers and support employees as offered by the Board.

2004-05: A 1% across-the-board increase in both bargaining units.

A closing comment: I encourage the parties to work with the State mediator to achieve an agreement. Since everyone involved in the process knows that collective bargaining is more art than science, they will understand that the recommendations set forth above are not etched in stone and do not rule out different approaches. If the parties can come to terms, for example, on a total compensation formula or other such methodology, the fact finder happily defers to their chosen solution. If an agreement of that kind cannot be reached, this report outlines a settlement that I believe is realistic and responsible.

Maurice Kelman

MAURICE KELMAN, Fact Finder

Dated: March 12, 2004