

STATE OF MICHIGAN
MICHIGAN EMPLOYMENT RELATIONS COMMISSION

In Re the Matter of:
OVID-ELSIE AREA SCHOOLS
-and-
INGHAM COUNTY EDUCATION
ASSOCIATION/MEA/NEA

GEORGE T. ROUMELL
6-20-83

FACT FINDING REPORT AND RECOMMENDATIONS

APPEARANCES:

FOR OVID-ELSIE PUBLIC SCHOOLS:
David J. Perrell, Superintendent
Blaine C. Lentz, High School
Principal
Larry E. Martin, Board of
Education President

FOR INGHAM COUNTY EDUCATION
ASSOCIATION/MEA/NEA:
Gretchen Dziadosz, Uniserv Dir.
Tom Taylor, Uniserv Dir.
Dean McKay, Co. Head Negotiator
Karin Lusk, Co. Head Negotiator
Jack Nutter, Team Member
Mark O'Donnell, Team Member
Dale Myers, Team Member
Lois Boone, Association President

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Ovid-Elsie Area Schools

The Ovid-Elsie Area Schools is a school district located in parts of four Michigan counties, namely, Clinton, Shiawassee, Saginaw and Gratiot county Michigan in east central Michigan. The District operates a K through 12 program. During the 1982-83 school year, the District had 2,000 students. It has a full time equivalent of 94 teachers with a total head count of 97 teachers. The teachers have had a bargaining representative for some time. Currently they are represented by the Ingham County Education Association/MEA-NEA. The problem here is that after the expiration of the Collective

1984-85 longevity (used to be \$200 extra)
47, after 15 yrs. on base of column
69, " 20 " " " " "

Actual:
82-83 Total Salary
83-84 " " " " " " + 5%
84-85 " " " " " " + increment
+ 175 (\$15,000 per year)
+ revised longevity premium

Bargaining Agreement on August 31, 1982 the parties have not been able to reach a successor agreement. Fact finding was petitioned for but because of the position of the Michigan Employment Relations Commission that they are unable to fund fact finding, the process was delayed. The parties elected to engage in private fact finding under the rules of the Michigan Employment Relations Commission.

The parties have had a number of collective bargaining agreements. The issue here concerned the successor to the contract expiring August 31, 1982. There were three issues that separated the parties, namely, duration, wages and fringe benefits. As to duration, there was a proposal that the contract be for one year, the 1982-83 school year expiring August 31, 1983.

As to wages, the Board proposed a wage freeze with no increments for the 1982-83 school year. In other words, no teacher would receive any raises either because of increment or because of across-the-board wage increases. The Board's position was unclear as to whether those teachers who received advanced degrees would be entitled to advancement on the wage scale. The teachers proposed normal step and column advancement plus a 5% wage increase for all bargaining unit members.

As to fringes, the Board proposed to keep the present fringes with no change. The teachers proposed that the Board continue fully paid MESSA SM-II full family 12 month basis coverage with the following for those not taking health coverage:

The monthly single subscriber rate of SM-II, to be applied to any of the following at the employee's option: MEFSA annuities, MESSA options, or other MEFSA programs.

LTD - MESSA LTD:

66 2/3% benefits, \$2,500 monthly maximum;
90 calendar days modified with:
maternity coverage,
no pre-existing condition waiver,
no social security freeze,
no alcoholic, drug waivers, and
no mental/nervous waiver.

It is these two opposite positions, the Board's no change freeze position, and the Association's increased benefits and wage position that has caused the impasse here. Thus, fact finding is required.

FINANCIAL AND COLLECTIVE BARGAINING HISTORY

The parties in their respective exhibits have presented a list of the same 14 school districts in Clinton and Ingham county which surround Ovid-Elsie Area Schools. The teacher's list includes the Clinton Intermediate School District making their list number 15. The Board's list excluded the Clintondale Intermediate School District and included Ovid-Elsie.

The pattern of collective bargaining between the Association and the Ovid-Elsie Area Schools over the years beginning from 1976-1977 as matched against the compared school district would indicate in 1976-77 Ovid-Elsie at the BA maximum ranked fourth. In 1979-80 it ranked second and in 1980-81 and 1981-82 it ranked third, with the BA maximum in 1981-82 being \$22,759. At the MA maximum Ovid-Elsie's pattern would indicate a lower ranking as among the compared schools with a fairly consistent sixth or seventh place beginning in 1976-77 with the 1981-82 salary being \$24,844. At the BA minimum the District

tends to have a pattern of ranking around eight to nine with the compared districts, at the MA minimum around 5. There is no question that the bargaining pattern has emphasized the top end of the pay scale simply because 61.5 or 65% of the teachers are at the maximum.

This bargaining pattern emerged against certain demographic and financial developments. In 1971 the District had 2,421 students. By 1982 it was down to 2,000 students for a 21% drop in student enrollment during this period. In 1977-78, the District received total revenue of \$3,275,402, forty-four percent of which came from local tax revenue, and 49% of which came from state aid. This proportion began to drop beginning with the 1979-80 school year so that the larger share that year, 48%, was from local revenue. In 1980-81, 53% came from local revenue. By 1981-82 with a total revenue of \$4,246,223, 59% came from local revenue, 34% from state aid. Finally, in the budget for 1982-83 the total of local revenue is proposed at 68% whereas state aid is 27%. Part of this drop in state aid has been because of the drop in student enrollment as state aid is predicated on such enrollment. Further comments will be made later concerning other reasons for this drop.

In 1976 the District had a total operational millage of 26.75. In 1981 this operational millage including the county allocation of 7.9216 and extra vote of 23 mills was 30.9216. In the 1982 tax year the total operational millage with 23 extra, 8 allocated was 31 mills.

By the 1981-82 school year the state equalized value of property behind each pupil in Ovid-Elsie was \$41,146. This ranked Ovid-Elsie eight out of the fourteen districts compared in the exhibits. In terms of total operating millage, the District in 1981-82 at 30.9216 was again ranked eight out of the fourteen districts compared. It is this financial background that must be examined to analyze the impact of a financial crisis that the District was faced with beginning in the 1980-81 school year.

FINANCIAL CRISIS

Ovid-Elsie Area Schools has for some time followed a policy of renewing its extra voted operational millage each year. Therefore, the total amount of millage is before the voters annually. The District in June 1980 voted for a renewal of 20 extra operating millage. In 1979 the extra had been 19.75 and in 1978 19. The current Superintendent, David J. Porrell, became Superintendent July 1, 1980. In August 1980 he and the Board were advised that because of excess expenditures of \$271,674 during the 1979-80 fiscal year the District had a deficit of \$203,370 as of June 30, 1980. The report from the auditors indicated that there was also a deficit as to the debt retirement fund and that a state aid note was in jeopardy of being defaulted upon. As a result, the Board engaged in an extensive cost cutting program during the 1980-81 school year involving the layoff of teachers and cutting of programs. Despite the cost cutting effort the general fund deficit increased to \$319,703 by June 30, 1981. It was then that a special 3 mills was proposed. In June 1981, the Board's request for three more operational mills in addition to the current extra 20 was passed by the electorate.

As a result of prudent management on the part of the Board and its Superintendent, David Porrell, the District by June 30, 1982 had eliminated its deficit and had a positive fund balance of \$28,231 when it was considering the millage to be placed on the ballot June 1982.

There were however two events beyond the control of the Board that began to take place. The State of Michigan was experiencing high unemployment and a general serious economic downturn. This affected state revenue. As a result state aid for Ovid-Elsie Area Schools was cut dramatically. During the school fiscal year beginning 1980-81 through the 1982-83 school year these cuts amounted to \$165,464.70. Of this amount the major portion was in the fiscal year 1982-83 with \$96,756 being ordered on August 1982. There was another \$24,880 ordered October 1981. These reductions were as a result of executive order reductions. 1/

This cut in state aid prompted the school Board in June 1982 though eliminating its previous deficit, to continue the 23 voted operating mills which the citizens passed. Otherwise the District would again be in deficit because of this cutting of the state aid.

1/ See R 1503 and R 2749 Michigan Department of Education-Department Services July 3, 1981, July 13, 1982 and August, 1982. In addition the February 1, 1983 state aid payment of \$219,225 was deferred by executive order resulting in additional cost to the District in borrowing.

It is this history along with the drop in student enrollment, that explains why in the 1982-83 budget only 27% of the revenues are coming from the State. In fact there are less revenues dollar wise, i.e. \$1,169,000 coming from the state in 1982-83 than in 1978 where the amount was \$1,730,660.

Faced with these financial facts, the Board adopted in 1982-83 a \$4,337,500 budget based on revenues of the same amount which would leave a fund balance of \$28,231. The budget as adopted by the Board assumed a continued fund balance of \$28,231. The Board in the past, at least in 1980-81 and in 1981-82, because of close monitoring of both expenditures and revenues has had variances of less than 2% in its budget. The budget as noted includes no increase in costs for employees. It is based initially on state aid revenue of \$1,175,000 although the current estimate is \$1,169,000. It does not include any costs for further borrowing because of delayed state aid.

One other point must be made. During its financial crisis as described above the teachers gave up an average in the 1981-82 school year a one and one-half percent of their salary or approximately \$250 as their contribution to help the District overcome the deficit described above. Thus, the teachers of this district have in fact made concessions which along with the elimination of teacher staff must be recognized by all concerned. Concessions of this type have not been prevalent in other districts and thus it deserves special commendation.

COST OF ASSOCIATION PROPOSAL

If the increments alone were granted in the 1982-83 school year, the cost would be approximately \$34,000 over and above the amount now budgeted for teacher salaries. If the Association's 5% proposal along with the increments was adopted, this would increase the salary cost approximately \$147,000. In addition, as retirement is based on 5% of salary, there would be an additional retirement cost of approximately \$7,000. The proposed fringe benefits would add approximately \$21,000 in costs. Below is a chart setting forth the two proposals, the Board proposal and the Association proposal, showing the difference in costs:

1982-83 (5%)

	<u>Board Proposal</u>	<u>Association Proposal</u>
Basic Salaries	\$2,100,797	\$2,247,370
Longevity	<u>4,600</u>	<u>5,800</u>
Total	\$2,105,397	\$2,253,170
Retirement 5%	<u>105,270</u>	<u>112,659</u>
Total Salary	\$2,210,667	\$2,365,829

Fringe Benefit Costs

Hospital/Options	<u>\$ 115,700</u>	<u>\$ 176,470</u>
Total Costs	<u>\$2,366,367</u>	<u>\$2,542,299</u>

Based upon the above analysis the total increased cost of the Association proposal would be \$176,000, which has not been placed in the current 1982-83 budget.

In addition, the Board has negotiated a wage freeze with the International Union of Operating Engineers representing most of the Board's non-instructional personnel. The stipulation of the wage

increase is, however, that if the Board negotiates a wage increase for 1982-83 with any other employee group including teachers, then the operating engineers' contract would be reopened. It is a fair assumption that if the 5% increase was awarded the teachers, the operating engineers would insist on the same increase. This would add \$46,500 to the budget. The Board also points out that its health insurance cost even with the same benefits have increased over the 1981-82 school year by \$23,000. The Fact Finder assumes that this cost increase has already been planned into the budget. The fact is, however, granting the teachers their request would add, if one includes the 5% to the non-teaching employees, about an additional \$222,000. The 1982-83 budget assumes a \$28,000 balance. The proposal would eliminate this fund balance and put the District into deficit of about \$196,000: the type of deficit that caused the alarm previously; caused extra millage to be voted; and brought drastic reductions in services.

RESPONSE OF THE ASSOCIATION

The Association responds to the Board's budget claims by suggesting that the Board's projection as to state aid is incorrect. The revenue analysis suggested by the Association as to state aid is as follows:

The State Department of Education State Aid report of February 1983 indicates:

- State aid membership 2,033
- Total District State Aid \$1,293,191.86

The 1982-1983 Budget (DS411) indicates a projected State aid of \$1,175,000

Additional Unbudgeted State Revenues: \$118,191.86

The Association further in its analysis of the 1982-83 budget notes:

B. Analysis of 1982-1983 Budget

I. By February 1, 1983, the School's fiscal year was 7/12 over, with 5/12 remaining. Thus, as a general rule, if the budget is "on track" the expenditure items should indicate approximately 42% remaining to expend.

II. Page 3 of the January 31 budget report indicates an overall rate of 57% remaining unexpended.

III. Thus, as of January 31, the District had spent approximately 15% less than anticipated. If the trend were to continue, and the District finished the year at the expected budgeted rate, the remaining 15% would constitute a savings of \$650,625 over the budgeted expenditures!

$(.15 \times \$4,337,500 = \$650,625)$

This prediction is not radical given the financial history of the past 2 years (the elimination of a \$319,703.00 deficit in one year rather than the predicted two years.)

In addition, the Association then concludes by virtue of the above analysis that the Board could have by June 30, 1983 an equity in excess of \$600,000. Finally, the Association noted that the Board had received as unanticipated revenues \$6,096.73. In summary, the Association suggests that the Board budget could be increased with the following funds:

A. Unbudgeted State Revenues	\$118,191.86
B. Potential Unexpended Budgeted Expenditures	650,625.00
C. Miscellaneous Unanticipated Revenues	<u>6,096.73</u>
	\$774,913.59

The difficulty with the Association's analysis is that when it suggests that only 5 twelfths of the budget remains and therefore since 7 twelfths of the budget has not been spent as of the time of the fact finding hearing, or that there is 57% remaining unexpended, this much should be saved in the budget. Budgets do not operate in this fashion. As a school year comes to an end the expenses accelerate, throwing into disarray the type of analysis that the Association is attempting to claim. As to the additional unbudgeted state revenue of \$118,000, it would not even if correct come any where near paying the projected deficit, if the Association's position is sustained. There would still be at least a \$100,000 deficit. In addition, the fact finder notes that the current administration of the district has been able to estimate revenues from the state aid and elsewhere to within 2% variance. In fact, the estimate of the revenue in 1981-82 was only off by 8 tenths of one percent which is extraordinary in this type of budget. The Fact Finder, despite the analysis of the Association, suggests that a 3% variance is contrary to the predictions of the District in the last three years. Therefore, the Fact Finder suggests that the Association's analysis fails.

As to the unanticipated revenue of some \$6,000 this hardly can handle the increased costs proposed by the Association.

ANALYSIS

The Fact Finder credits the Board's version of its budget for several reasons. Under its current administration, the Board's budget has been most reliable as to anticipated revenues and expenditures. The current state of the budget has been made healthy with a mere \$28,000 fund balance by increased millage and prudent Board management which resulted in trimming its 1980-81 budget by some \$494,000 during the school year and its 1981-82 budget by some \$100,000. Such prudence adds credence to the Board's position. This along with the fact that state aid has in fact been cut and that revenue from the state is not readily forthcoming also contributes to this finding.

The Board has adopted the wage freeze with at least one other collective bargaining representative of its employees, namely, the operating engineers. It is not necessarily unusual in these economically troubled times for school districts to ask for wage freezes, at least when faced with a financial history such as that faced by Ovid-Elsie. Alma, Bendle, Byron area, Hemlock, Maple Valley, Pewamo-Westphalia and St. Charles have obtained schedule freezes apparently with the scheduled increments. Several districts based on negative fund balances have obtained total wage freezes, namely Beecher, Belding, Buena Vista, Durand, Farwell and Shiawassee. True, not all of these districts are really comparable with Ovid-Elsie as some are in different geographical areas. But they do illustrate that wage freezes are not necessarily unique in these troubled times. In addition, the Fact Finder does note that at least one school district

in the original fourteen districts compared by both the Association and the Board, Bath, does not have a settled contract.

The problem is, however, that the cost of living has continued to increase and that a number of districts including the districts compared have given some wage increases for 1982-83, even though less than in the past. One exhibit introduced a statement by Harry W. Bishop, Associate Executive Director of the Michigan Association of School Boards, which notes that "contracts negotiated two or three years ago average 8.2% in sharp contrast to newly bargaining settlements averaging 4.6%." Not all of the fourteen districts have negotiated the type of increases that have been prevalent in the past. Also, because Ovid-Elsie teachers have had an excellent ranking in comparison with other districts, it is unlikely that any increase in the other districts would put Ovid-Elsie teachers at a substantial disadvantage, vis-a-vis the relevant bargaining position. Ovid-Elsie teachers were third at the BA maximum and seventh in the MA maximum in 1981-82.

When coupled with financial problems that the District has had, it is reasonable to recommend a formal wage freeze for one year only, to allow the District to continue to bring its financial affairs in order. But in doing so, the Fact Finder must suggest to the citizens of the Ovid-Elsie Area Schools as well as to the Board itself that at least the 23 extra voted millage should continue, and it would not be unrealistic in the near future to consider a slightly higher millage because as pointed out above, 31 mills total operation mills puts the District in eighth out of fourteenth place among compared

districts. Some districts, namely Haslett, are paying as high as 38.4 millage whereas other districts such as Stockbridge, Bewick and Bath range from 31 to 31.8713. The District must understand that there will presumably be pay raises in the future to keep up with inflation and in bargaining, and that it can only ask for concessions as it did for one year and a wage freeze for another without considering future effects on bargaining. Thus, the District has no alternative but to continue the extra voted mills and even consider more as circumstances arise, because the day of 20 mills in Ovid-Elsie are gone or should be gone. A minimum amount of money is needed to operate these schools. Furthermore, consideration should be given to obtaining millage for a longer period of time so that the district can better plan.

There is no question that in the 1983-84 school year, so that the teachers do not lose their relative position from bargaining over a long period of time, there will have to be a pay raise. The suggestions made herein as to financing are only to serve as a guide to both the Board and the public to understand that the District has gone far in getting its financial house in order. Now it must continue to have reasonable support from the public because the teachers cannot be expected to carry more than their fair share of the burden in helping the District in getting its financial house in order. They are entitled to receive pay increases consistent with what is prevalent in the area in which they have been compared, particularly when this report will recommend a wage freeze for one year, and when they have turned back approximately 1½% of a previous pay raise.

Because of the financial problems of the District and escalating costs for health insurance, \$23,000 this year alone, the Fact Finder will not recommend any increase in fringe benefits. Teachers who do not take the insurance because of insurance of their spouses working elsewhere do offer savings to the District, but it may be just these savings that were calculated to enable the District to give the fringe benefits that it does to other teachers. The District should have the benefit of such savings in order to handle the overall increase in health costs. That is a matter beyond the control of the District.

RECOMMENDATION

The 1982-83 school year is about over. It is in the parties' best interests to have a two year recommendation or an alternative one year recommendation and a two year recommendation. The teachers, with a recommendation of a wage freeze this year, will in effect have made sacrifices for two years. A 4.9 average increase as suggested by Mr. Bishop would be a reasonable prediction for the coming year. This follows because other school districts in the area are giving pay increases, some as high as 9%. See, for example, Haslett and Williamston. In those cases this was a function of a long term contract that was not subject to negotiation during the financial crisis period of 1981-83. Nevertheless, when one looks at the comparable rates after two years of concession and freezes, the teachers in Ovid-Elsie will require some form of a pay raise in order to keep their relative comparable position absent a complete collapse

of the District's financial situation or other dire financial straits. If there were dire financial straits as in the past, then this rationale would not follow.

But the District has had three years to put its financial house in order and as suggested by this Fact Finder, the millage level should be kept at the 30 and perhaps even 31 level in order to provide adequate financing.

It is these considerations that cause this Fact Finder to pose his recommendation in two parts. The Fact Finder will recommend a one year contract or in the alternative a two year contract. The parties can pick the 2-year recommendation, and presumably this recommendation would allow the parties to have labor peace for the coming year while the Board continues to adjust its budget.

If the recommendations that follow should result in higher fund balances than the Board has predicted, then this will be a matter for the bargaining table and the successor contract to the contract that would expire August 31, 1984. If the Board's predictions are accurate, then the recommendations here are equitable.

As indicated, the recommendation is two-fold. If the parties refuse to go for the two year contract, then the recommendation will revert to a one year contract. Hopefully, these recommendations will permit the parties to arrive at a collective bargaining agreement that is reasonable.

RECOMMENDATIONS

If the parties agree to a two year contract expiring August 31, 1983, it is recommended:

- A. No additional fringe benefits than that otherwise now provided.
- B. No wage increase or increment increase in 1982-83.
- C. Any teacher receiving an advanced degree in 1982-83 shall be credited with same.
- D. A 5% increase in wages for the 1983-84 school year beginning September 1, 1983.
- E. There shall be increments in 1983-84. There will be a double increment. In other words, teachers who did not receive an increment in 1982-83 shall be placed in the position in 1983-84 that they would have reached if they had received an increment in 1982-83. But they of course shall have lost the increment increase in the 1982-83 school year because there was a wage freeze that year.

If the parties refuse to enter into a two year contract, then the recommendation is for a one year contract as follows: No general wage increase. No change in fringe benefits. Teachers entitled to an increment for 1982-83 school year shall receive said increment retroactive to September 1, 1982, and obviously any teacher receiving an advanced degree in 1982-83 shall be credited with same.

Dated: June 20, 1983


GEORGE T. ROUMELL, JR.
Arbitrator