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July 16, 2004

Ruthanne Okun, Director
Michigan Employment Relations Commission
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PO Box 02988
Detroit, MI 48202

For the Employer:
Michael R. Kluck, Attorney
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For the Union:
A.E. "Butch" Carmien
Business Representative
Teamsters Local 214
697 Hannah Avenue, Ste E
Traverse City, MI 49686

**Re: Charlevoix County Road Commission and Teamsters Local 214
MERC Fact Finding Case No. L03 J-5022**

Clarification letter to July 7, 2004 Fact Finding Report

Dear Ms. Okun, Mr. Kluck and Mr. Carmien:

In a July 13, 2004 letter from Attorney Kluck to me with a copy to Mr. Carmien and Ms. Okun it was noted that page 1 of the above referenced Fact Finding Report contained a statement that was factually incorrect. The statement was made that neither party had provided written notice of its position that the contract terminate and therefore reference was made in the Fact Finding Report to the "current contract". Attorney Kluck attached a September 15, 2003 letter from Mr. Kluck to Mr. Carmien which contained the sentence: "This will confirm that the contract will expire at its term." I.e.: December 31, 2003. This letter was included in the exhibits at the hearing.

Mr. Kluck is correct. This letter is to clarify that paragraph one on page 1 of the Fact Finding Report is factually incorrect. Based on the September 15, 2003 letter referred to above I find the Employer did properly notify the Union of its position that the contract expire at its initial expiration date of December 31, 2003. Therefore the contract did in fact expire on that date.

Since the Report has already been issued and copies sent to designated places and this clarification will not effect the recommendations, the Report itself will not be modified. I do request each of you place a copy of this letter in your file and consider it a clarifying addendum to the Report. I apologize for any confusion this has caused. Please contact me if you have any questions.

Sincerely,

William E. Long, Attorney

Department of Labor and Economic Growth
Michigan Employment Relations Commission
Fact Finding

Charlevoix County Road Commission

—and— MERC Case No. L03 J-5022

Teamsters Local 214

Fact Finding Report

Appearances:

Fact Finder:	William E. Long, Attorney
For Charlevoix County Road Commission:	Michael Kluck, Attorney Patrick Harmon, Manger
For Teamsters Local 214:	A.E. Carmien, Business Representative John Fratrick, Bargaining Member Kelly Kleinschrodt, Bargaining Member
Date of Report:	July 7, 2004

Procedural Background

The current agreement between these parties became effective upon signing on July 9, 2001 through December 31, 2003. Article 59 of the contract provides that it shall continue in effect unless written notice to terminate is given by either party. If written notice is given, the contract will expire 60 days from the date of that notice. Neither party has provided written notice. Therefore, reference to the contract in this document will be to the "current contract."

Materials in the case file reveal the parties held a negotiation session January 19, 2004. The Union filed a petition for fact finding dated February 10, 2004. The Michigan Employment Relations Commission appointed this Fact Finder in a letter dated April 13, 2004. A pre-hearing phone conference was held April 20, 2004 and a fact finding hearing was held at the Charlevoix County Road Commission Offices in Boyne City on June 21, 2004.

At the hearing the parties exchanged and presented to the Fact Finder respective exhibits. The Union presented two notebooks of exhibits. One notebook contained the contracts of the Union's proposed comparable road commissions, the current and former contract for the Charlevoix County Road Commission and excerpts from the Annual Michigan Transportation Fund (MTF) Report for fiscal years ending September 30, 2001 and September 30, 2003. The second notebook contained exhibits relating to Employer and Union bargaining positions during negotiations, identification of resolved or withdrawn issues and the Union's positions and arguments on the remaining issues to be addressed in this proceeding.

The Employer presented one notebook containing collective bargaining agreements for Charlevoix County and the County Road Commissions it proposes as comparable to Charlevoix County, MTF Annual Reports for fiscal years 2002 and 2003, position statements of the parties during negotiations, the 2001 Fact Finding report and numerous exhibits describing and supporting the Employer's position on the issues to be addressed in this proceeding.

In the petition for fact finding the Union identified five (5) unresolved issues: 1) hourly rates, 2) health and dental insurance, 3) retiree health insurance, 4) call back pay language, 5) contract duration. The Employer in its answer to the petitions identified eleven (11) unresolved issues: 1) agreement, 2) emergency call outs, 3) tool allowance, 4) vacation, 5) life insurance, 6) health and dental insurance, 7) pension, 8) duration, 9) hourly rates, 10) DOT substance abuse policy, 11) health insurance for retirees.

At the hearing the Union indicated it had no substantive disagreement with the Employer's issue of making the effective date of the contract the date the board ratifies the contract, provided it is not used by the Employer to attack the Union's position on retroactive wage increases. The Union either agreed to the Employer's proposals or withdrew its own proposals offered during bargaining on the following issues: emergency call outs; tool allowance; vacation; life insurance; pension. Therefore, the remaining issues presented to the Fact Finder and addressed in this report are:

- Agreement language
- Article 55 – health and dental insurance
- Article 56 – pension, retiree health insurance
- Article 59 – duration and termination
- Appendix A – hourly rates
- Appendix C – substance abuse policy

It is expected that the parties will incorporate in the current contract language the revised language agreed to within all tentative agreements and if they choose to accept the Fact Finder's recommendations, make modifications to the current contract consistent with those recommendations.

Comparables

The Union proposed the County Road Commissions of Antrim, Cheboygan, Emmett and Otsego Counties as comparables in this case. The Union also presented an exhibit dated October 13, 2003 from the Charlevoix County Board of Commissioners to County Officers, Courts and Agencies under the supervision of the County Board advising that the non-collectively bargained for employees would receive a 2% increase in wages for 2004. It also noted that the cost of health insurance increased approximately 30%, but the County would continue to pay the entire premium for employees with no employee premium contribution required. The Union proposes this information be considered as an internal comparable. The Union's basis for proposing the external comparables is based on a combination of geographic proximity of the labor market, i.e., counties contiguous to Charlevoix County and revenue and budget comparability among the counties.

The Employer proposes the County Road Commissions of Kalkaska, Leelanau and Missaukee as comparable in this case. The Employer argues these counties are more appropriate based on their comparability to Charlevoix County's share of revenues received from the MTF, a major source of revenue for all road commissions. An exhibit presented by the Employer compares the MTF allocation for fiscal year 2003 for each of the proposed counties as reported in the annual MTF report. The Fact Finder added the calculation for Otsego County (110%). That data shows the MTF revenues received by the counties proposed by the Employer range from 9% below to 2% above Charlevoix County's MTF revenue for fiscal year 2003. The MTF revenue received by the counties proposed by the Union ranges from 10% to 21% above that of Charlevoix County for fiscal year 2003. The Union presented an exhibit containing minutes of a December 20, 2002 regular meeting of the Charlevoix Road Commission. Included in those minutes was the 2002 budget summary and the 2003 beginning recommended budget. That information reveals that the MTF, while a significant portion of revenue for road commissions, is not the only revenue. The December 20, 2002 minutes reflect the MTF revenues contribute about 63% to 64% of the road commission's revenues.

The Fact Finder concludes it is appropriate to consider all of the county road commissions offered by the parties as external comparables in this case. The range of MTF funds received by the proposed counties relative to those received by Charlevoix County results in a range of 91% for Leelanau to 121% for Cheboygan. Plus or minus 20% or 21% is not a significant difference, particularly when considering the MTF revenue is not a county's total annual revenue. For example, county raised and federal revenue may vary among counties. Additionally, the counties of Cheboygan and Emmett, while receiving 121% and 118% respectively of Charlevoix's MTF revenues for fiscal year 2003, are contiguous to Charlevoix County and have similar economic and labor market characteristics.

It is noted that several of the contracts submitted by the parties cover the period the new contract for Charlevoix will be in effect. Antrim, Missaukee and Otsego Counties extend into 2005 and Cheboygan into 2006. On the other hand, the Kalkaska County contract provided in this case expired January 6, 2003 and the Emmett County contract expires December 31, 2004. Nevertheless, all have been helpful in gaining a perspective in what parties would likely agree upon as a reasonable resolution of the issues presented at fact finding.

Therefore, the Fact Finder will consider the provisions in county road commission contracts of Antrim, Cheboygan, Emmett, Kalkaska, Leelanau, Missaukee and Otsego as comparable in this case and recognizes the action by the County Board of Commissioners for the wages for non-collectively bargained for employees for 2004 as an internal comparable.

Economics

The parties provided valuable exhibits addressing the economic situation confronted by the Employer and members of the bargaining unit. Exhibits reveal that the Charlevoix County Road Commission received a 2.2% increase, $66,000, in MTF funds from fiscal year 2002 to 2003. The Union points out that the total increase in annual MTF funds was over $130,000 for the period between fiscal years ending 2001 and 2003. The Employer notes, however, that total employer wage and benefit costs have been increasing at a higher percentage rate than the percentage increase in the MTF funds. In short, the Employer argues that while revenues may have increased slightly from the MTF the operating costs, particularly the cost of health care premiums, have been increasing at an amount greater than the revenue increase.

The parties also pointed out the impact recent legislative enactment in the change in the cost and frequency of collections of trailer license fees will have on county road commission budgets. That data indicates that prior to the legislative change, trailer registrations generated approximately $30 million dollars annually into the MTF. The change will provide a <u>one-time</u> annual increase in the MTF fund for fiscal year 2003-04, ending September 2004 of $108 million dollars. For fiscal year 2004-05 and subsequent fiscal years the revenue from trailer fees is estimated to be approximately $15 million dollars. In short, the state and county road commissions will benefit from an approximate $75 million dollar increase in revenue to the MTF from the trailer fees for fiscal year 2003-04, but then see an approximate 50% reduction in those revenue sources in subsequent years. The Fact Finder, using data presented by the parties, calculated that the trailer fee prior to enactment of the recent legislation comprised about 5.3% of the revenue of the MTF. The end result for county road commissions is that they should be recognizing some additional revenues from the MTF to their budgets for the end of calendar year 2003 and nine months of the calendar year 2004, but then will experience a decline, or less of an increase, in MTF funds for the 2005 and subsequent calendar year budgets.

The Fact Finder also noted, based on information contained in the minutes of the December 20, 2002 regular meeting of the Charlevoix County Road Commission, that the road commission budget estimated an operating surplus for the budget year ending December 31, 2002 of $111,649 and an accumulated available unappropriated surplus from prior years of $1,483,608 for a projected surplus at the end of the 2002 budget year of $1,595,258. That document also projected no additional funds being added to the operating surplus for the budget year ending December 31, 2003 and projected a revenue decline of approximately $200,000 for the budget year ending 2003.

The Employer is not taking the position that there is an inability to pay some modest increase in wages. However, the Employer points out that the major revenue source for the road commission, the MTF, is not likely to increase to the extent necessary to support substantial increased costs in employee wages and benefits, particularly taking into account the extent of the increased costs of employer paid health benefits. The Union, on the other hand, believes its members' wages are and have been historically below that of comparable employees in comparable counties and that the Employer has not explored possible actions which might reduce the extent of the increases in health care costs without diminishing benefits. The Fact Finder is aware of the respective views and positions of the parties on these economic matters and has taken them into consideration when addressing the issues presented at fact finding.

Issues

Agreement

Finding of facts and conclusions

Both the existing contract and the contract between the parties which expired December 31, 1999 contain an open clause which states a beginning date upon which the agreement is entered into. That date is the date the Board of County Road Commissioners approves the contract agreement. The Union and the Employer agree that the contract date reflected in the "agreement" section of the new contract should be the date the Board approves the contract. The Union's position is that this date should not be used to attack the Union's position in support of applying any wage increase retroactively to the first full pay period after January 1, 2004.

Recommendation

The Fact Finder recommends the "agreement" section of the contract reflect the date the contract is approved by the Board of Charlevoix County Road Commission.

Rational

Reflecting the date of the beginning of the agreement in the opening paragraph has been customary practice for the parties. This date does not preclude the parties from agreeing to a specific date for wages to apply concurrent with or prior to the date reflected in this paragraph. This practice is reflected in Appendix A, page 41 of the current contact and Appendix A, page 45 of the contract ending December 31, 1999.

<u>Article 55 – health and dental insurance</u>

Finding of facts and conclusions

The current contract addresses health and dental insurance in Article 55. It requires the Employer to provide Blue Cross/Blue Shield coverage through PPO Plan 1 with a $10 prescription drug rider. The Employer will reimburse $5 to covered employees for any prescription co-payment upon presentment of a valid receipt. Section 3 of Article 55 requires the Employer to contribute up to $35 per month to the cost of coverage for dental insurance for an employee and/or eligible dependents. The provision relating to dental insurance was first adopted in the current contract. The contract prior to that contained no dental insurance.

The Employer proposes changes to Article 55. It proposes to replace the current Blue Cross/Blue Shield PPO Plan 1 with a Blue Cross/Blue Shield PPO Plan 3. This would have the effect of shifting some of the costs for health care from the Employer to the employee and reducing the premium paid by the Employer on behalf of the employee. PPO Plan 3 would require an individual employee to pay $250 and a family to pay a $500 in-network deductible, whereas the current plan requires no in-network deductible. The Employer proposal would also change the current $10 prescription drug rider with an Employer reimbursement of $5 per prescription to a $10 generic/$40 brand name prescription plan and eliminate the $5 prescription co-pay reimbursement. The Employer also proposes the Employees share any increase in the cost of insurance equally with the Employer during the life of the agreement. Other provisions in the contract plan would remain unchanged.

The Union proposes no change from the current plan. The Union does propose that Section 3 of Article 55 be amended to require the Employer to pay $50, instead of the current $35 per employee, per month, towards the cost of dental coverage. The Union initially proposed the Employer pay the entire cost of dental coverage, but this position was modified to the $50 during fact finding. The Union also points out that it would not object to inclusion of language in Section 1 of Article 55 stating the Employer provide a specific level of coverage "or equivalent coverage." The Union notes this language was in the contract that expired December 31, 1999 and its inclusion in the new contract may provide the Employer with flexibility to develop cost savings during the life of the contract without diminishing benefits.

Both parties provided valuable exhibits upon which to assess this issue. From those exhibits the Fact Finder concludes that there is no question that employers and employees have to confront significant growth in costs of health care. Data indicates the percentage increase in health care premiums for this Employer rose approximately 30% between 2001 and 2002 and from approximately 15% to 26% depending on whether it was an individual, two-person or family coverage, between 2002 and 2003. The greater increase in 2001-02 is likely attributable to that being the first year dental coverage was included. It is reasonable to conclude that if no change was made in health insurance coverage the percentage increase for the years covered by this contract would continue to be in the 15-25% range. However, there is some potential for a reduction in the extent of the premium increase for the early years of this contract based on recent profit reports from Blue Cross/Blue Shield companies. See the attached June 21, 2004 *Wall Street Journal* article "Health premiums grow more slowly than expected." The Employer argues that with limited growth in revenues and increasing costs of supplies and materials it has less revenue to provide wages and benefits. It says these proposed changes in health care are necessary if it is to provide the modest wage increase it proposes.

The Union recognizes that health care costs are increasing at a rate greater than revenue, but argues that the Employer is not exploring potential alternatives for cost savings as aggressively as it should and to do so might avoid reducing benefits or shifting costs to employees. It suggests exploring self-funding opportunities, for example.

Exhibits presented at the Fact Finding hearing provided various plans offered by Blue Cross/Blue Shield. An exhibit provided by the Union was a working document used during the January 19, 2004 negotiation session that describes the various plans and potential rate reductions if change is made from the current plan. The major difference between the plans is the extent of member deductible, if any, and the extent of member contribution to prescription drugs. A review of the external comparables reveal that four of the comparable employers provide Blue Cross/Blue Shield Plan 1 or fully-funded coverage, however it is not certain what changes may have occurred for Kalkaska County since the contract provided in this proceeding expired January 5, 2003. Two of the counties provide Employer coverage under Plan 3 and one county provides coverage under Plan 2. There was no evidence or discussion pertaining to internal comparables on this issue other than the previously referred to December 20, 2002 minutes of the Charlevoix Road Commission.

Recommendation

The Fact Finder recommends Article 55 be amended as follows:

> Section 1. Effective as soon as possible after the ratification of the new agreement, the Employer shall adopt the Blue Cross/Blue Shield Plan 2 with a $10 generic/$40 brand name prescription drug rider. The reimbursement by the Employer of the prescription co-payments will be eliminated. The plan will include a mail-order prescription option of three (3) months of two (2) co-pays. The Employer shall have the right to change insurance carriers for any of the coverage's contained in this agreement, provided such change provides the equivalent or greater coverage when compared to the coverage described herein. The Employer will provide the Union with forty-five (45) days prior written notice of such intended change.
>
> Section 3. No change.

Rational

The Fact Finder recognizes both employers and employees must find reasonable ways to address the rising costs of health care. The recommendation on this issue is an attempt to have the parties, through this contract, take steps in addressing this issue together.

The Employer's proposal to shift costs to employees from $0 deductible to $250 and $500 deductible through adoption of Plan 3 is a significant shift. Plan 2 results in a shift of employee costs of $100 per member and $200 per family. This is a more reasonable step in sharing the burden and mutual desire to address health costs. At the same time, it also may encourage both employer and employees to seek sources for the less expensive generic drugs for prescriptions by adopting the $10 generic/$40 name brand drug plan.

In essence, the recommendation adopts "proposal 7" contained on the Union exhibit describing the document used during the January 19, 2004 mediation. Based on figures in that document, comparing renewal rates on October 1, 2003 for the current contract with proposal 7 October 1, 2003 rates reveals a potential premium rate savings to the Employer in the range of 16-18%. There will also be an additional savings to the Employer resulting from discontinuance of the Employer $5 reimbursement of prescription co-payments.

The Fact Finder does not recommend adoption of the Employer proposed language to require employees to share equally with the Employer any increase in the cost of insurance during the life of the agreement. The shift from Plan 1 to Plan 2, proposal 7 for prescription drugs and elimination of the Employer $5 reimbursement of prescription co-payments is significant and should result in employees increasing interest in ways to reduce health care costs. At the same time, keeping any premium cost increases the sole responsibility of the Employer may provide the Employer continued incentive to explore alternatives and seek competitive rates. The proposed language providing the opportunity for the Employer to change insurance carriers is also an attempt to provide flexibility to the parties in addressing health cost containment during the life of the contract. The specific proposed language is taken from the Antrim County contract and is felt to be clearer in addressing the intent of the parties than just reinsertion of "or equivalent coverage."

The Fact Finder does not recommend adoption of the proposed Union change to increase the Employer contribution for dental premium costs from $35 to $50 per month. The dental coverage was included for the first time in the current contract with the $35 Employer contribution clearly a part of that agreement. Given the change proposed in coverage and, therefore, reduction in premium rates an increase in the amount paid by the Employer for dental premium costs would be inconsistent with the other changes and counter to the general intent of providing incentives for the parties to explore together constructive ways to contain health care costs.

Article 56 – pension/retiree health insurance

Finding of facts and conclusions

The current contract does not require the Employer to pay any health care costs for eligible retirees. The Union proposes a revision to Article 56 to require the Employer to contribute $100 per month toward payment of the retirees' health insurance premium with continuation for the surviving spouse. The Employer proposes no change from the current contract.

The external comparables reveal that five of the seven comparable road commissions provide some measure of retiree health insurance premium payment. Two of the seven offer no retiree health insurance payment benefit. Four of the five that do offer this benefit do so with qualifications for coverage, such as a minimum number of years of service and age restriction coverage. Only Kalkaska County appears to pay retiree health premiums with no restrictions. The Missaukee County Road Commission pays a flat amount of $175 per month, but restricts payment to retirees between the age of 62 and 65. No evidence or discussion of internal comparables was presented on this issue during fact finding.

The Union presented a proposal on retiree health insurance during negotiations and fact finding leading to the current contract. It is not clear if this proposal is exactly the same as that presented by the Union in that proceeding. The Fact Finder addressed the issue, but did not recommend adoption of the Union's proposal in his report and the parties did not adopt it in the current contract.

Recommendation

The Fact Finder recommends no change in the current contract.

Rational

The Fact Finder recognizes the fact that more of the comparable community road commissions offer some method of Employer contribution toward retiree health insurance, than those who do not. It is also recognized, based on the current employee seniority and retirement eligibility requirement of age 59 and a half and 25 years of service, that this benefit would not be that costly to the Employer in the near future. The problem the Fact Finder has with recommending its adoption is its lack of clarity and specificity. Unlike the provisions on this issue in comparable contracts, it is not clear from this proposal what, if any, service requirements, age parameters or other conditions might apply to eligibility for this benefit. The Fact Finder is reluctant to fashion a recommendation from the variety of those presented in the comparables. The Fact Finder would prefer to leave to the parties the task of developing a more specific proposal on this issue, or if the Employer continues to oppose any proposal, that the Union at a future opportunity clarify its proposal as to applicability.

Article 59 – duration and termination

Finding of facts and conclusions

The Employer and the Union agree that there should be a multi-year contract. The Employer urges the Fact Finder to recommend a three-year agreement to begin when this agreement is approved by the County Road Commission and expire 36 months from that date. The Union supports a three-year contract, but urges that it cover a period from January 1, 2004 through December 31, 2006 to be consistent with its proposal to apply any wage increase retroactively to the first pay period after January 1, 2004.

A review of the comparable road commission contracts reveal that they typically range from two and a half to three and one-quarter years. The Fact Finder addressed the issue of duration and recommended a fourth year to the current contract, primarily because one year and four months had already elapsed since the December 31, 1999 expiration of the previous contract. He did, however, recommend and the parties adopted, wage increases retroactive to January 1, 2000.

Recommendation

The Fact Finder recommends Article 59 reflect the agreement be effective upon approval and signing by the Charlevoix County Road Commission Board and Union Leadership and remain in effect for an initial period to and including December 31, 2006.

Rational

The Fact Finder recognizes that this recommendation, if adopted, will result in a contract that will expire in approximately two and one-fourth years from implementation. However, there is a degree of uncertainty by providing for the contract to end upon a date dependent upon approval action by the parties. It is also noteworthy that the Fact Finder proceeding and resultant report in this case occurred approximately seven months after the expiration of the current contract contrasted with approximately 17 months following the expiration of the previous contract.

The practical impact of implementation of recommendations contained in this report will be unaffected by this recommendation on duration. The Employer will need time to implement the recommendation on health benefits prospectively and the recommendation pertaining to wages, while partially applicable to the current contract, is consistent with this recommended duration. Additionally, even with the current contract effective date upon signing it continued to reflect an effective date to December 31 or thereafter unless notice to terminate was given by either party. The parties have established a pattern of December 31 in this Article and the applicability of changed provisions recommended in this proceeding over approximately two and one-fourth years will give the parties sufficient time and experience to prepare for future negotiations.

Appendix A – hourly rates

Finding of facts and conclusions

The current contract provides the following hourly rates for an employee after 18 months of employment:

Mechanic—$14.60

Heavy equipment operator—$14.10

Truck driver—$13.92

The current contract wage rate was established following a fact finding recommendation of:

.50 cents across the board increase effective January 1, 2000

2% across the board increase effective January 1, 2001

3% across the board increase effective January 1, 2002

No wage increase for the period January 1, 2003 through December 31, 2003

The contract provided for retroactive wage increases beginning the first full pay period after the expiration of the previous contract on straight time worked or compensated only. The Fact Finder recommended no wage increase during the last year of the current contract in recognition that an increase in the pension benefit would take effect and add costs that year.

The Employer proposes a 1.5% across the board increase each year of the three-year agreement, with no retroactivity. The Union proposes a wage increase be retroactive and be as follows:

2.5% effective January 1, 2004

2.5% effective July 1, 2004

2% effective January 1, 2005

2% effective July 1, 2005

3% effective January 1, 2006

The Employer says its proposal will provide adequate compensation when viewed in the context of other benefits; the economic projections for inflation; and the projected revenues available to the Employer especially considering increasing costs of health care benefits. The Employer says the fact that Charlevoix County Road Commission receives less MTF funds than most comparable counties should be considered when viewing wages for comparable counties.

The Union points to the internal and external comparables and argues that wages for its members are significantly below those of the comparable employers. The Union says its proposal is intended to bring wages more in-line with those of comparable employers over the period of this contract and recognizes the current upswing in the economic climate. The Employer provided an exhibit showing the percentage cost of living change of 1.8% for the period January 2003 to January 2004 and 1.1% increase from the period January to March 2004.

Recommendation

The Fact Finder recommends Appendix A be modified to reflect the following wage benefits:

- Effective the first full payroll period after July 1, 2004 a 2.5% across the board increase.
- Effective the first full payroll period after January 1, 2005 a 2.0% across the board increase.
- Effective the first full payroll period after July 1, 2005 a 2.0% across the board increase.
- Effective the first full payroll period after January 1, 2006 a 1.5% across the board increase.

Wages as a result of retroactivity to be applied to straight time hours worked or compensated only.

Rational

The Fact Finder reviewed the wage rates for mechanic, heavy equipment operator and truck driver in all seven of the comparable Employer contracts. The average wages were as follows:

	Date	Mechanic	Heavy Equipment Operator	Truck Driver
(7 contracts)	1/1/04	$15.41	$14.92	$14.65
(3 contracts)	1/1/05	$15.47	$15.22	$15.01

Charlevoix County Road Commission employees on January 1, 2004 were $14.60; $14.10 and $13.92 respectively for these positions, ranging from 5.2 to 5.8% below the average of the comparables. The recommended wage adjustments take into consideration cost of living data and projections. See the attached 6/24/04 *Wall Street Journal* article "Sorry, you're only getting a 3.5% wage again." The recommended adjustments are also viewed as consistent with comparable communities. The July 1, 2005 increase will result in wages slightly below the average of the three counties with known contract amounts at that time and, therefore, that average doesn't consider what wage increases may be granted in future contracts in the four remaining counties. The changes made in the health benefits will also result in a cost to employees and lessening of cost to the Employer so the Employer should be able to better accommodate this wage rate recommendation.

Appendix C – substance abuse policy

Finding of facts and conclusions

The current contract contains Appendix C, which describes the Department of Transportation Substance Abuse Policy requirements for use of federal transportation funds. The Employer has proposed several revisions to the policy to update it consistent with federal policy changes. The Union's only objection to the proposed changes is to one proposed change under Section III, mandatory testing and policy enforcement. The Employer proposes to add an introductory paragraph as follows:

> Employees are informed, advised and reminded that commission employees perform safety-sensitive work, and that the policy is for the protection of the entire workforce. Therefore employees should have no expectation of privacy while on the employer's time, when operating

the employer's vehicles or equipment, while representing or conducting business on behalf of the employer, and/or on the employer's premises.

The Union objects to this language saying it infringes on the privacy and due process rights of its members. The Union points out that language in Section III pertaining to searches requires employees to submit to searches of their personal affects while on the employer's premise "when management has reasonable cause to believe" that the employee posses or ingested a prohibited substance. The Union says this provides the Employer with reasonable methods to ensure safety and the Employer proposed introductory paragraph is unnecessary and may be construed to override the "reasonable cause" language in Section III. The Employer acknowledged that the proposed introductory paragraph was not mandated by DOT regulations.

Recommendation

The Fact Finder recommends the language revisions proposed by the Employer be incorporated into Appendix C, except that the proposed introductory paragraph under Section III be excluded from the revised language.

Rational

The language in this proposed introductory paragraph does not appear to be necessary and could add confusion and conflict to the administration of this policy. The existing language addressing searches sufficiently addresses this issue.

This concludes the Fact Finder's report and recommendations.

Date: July 7, 2004

William E. Long

William E. Long, Fact Finder

WSJ.com

Health Premiums Grow More Slowly Than Expected

Blue Cross and Blue Shield, Under Pressure, Limit Hikes, Boosting Price Competition

By VANESSA FUHRMANS

Facing political pressure over their surging profits, the nonprofit Blue Cross and Blue Shield companies have been limiting the rise in their health-care premiums this year, contributing to a wider slowdown in the rise of premiums for some consumers and employers.

The Blues have been under pressure to limit growth in premiums after a banner 2003 for the nation's health insurers, in which profits soared as the escalating price of premiums far outpaced more slowly growing medical costs. At the not-for-profit Blues, which dominate the market in 35 states and cover one in three people with health insurance in the U.S., earnings in 2003 more than doubled, thanks to a rise in premiums of anywhere from 10% to 16%, as well as stock-market gains on invested capital.

Those gains have increased political pressure on the nonprofits at a time when health-care costs are approaching crisis levels for many employers and squeezing the wallets of consumers. Legislators and regulators in Rhode Island, Pennsylvania, North Carolina and other states have demanded that the Blues in their states roll back premium increases or give rebates to consumers to pare their surplus reserves. Those pots of money, which insurers sock away to pay claims in a catastrophic event or to finance new products or investments, have surged in size with the profit jump. Total reserves for the nonprofit Blues increased by about a third last year, to $31.9 billion.

Eager to deflect public criticism, many of the Blues have offered lower premium increases and, in some cases, even cut them. (Companies affiliated under the Blues name share some products and branding efforts, but act independently in setting their own premiums and product prices.) In the process, they have injected an extra dose of price competition into the health-care market. Though no single nonprofit Blue comes close to being as big as publicly traded companies like UnitedHealth Group Inc. or Aetna Inc., the Blues together are giants with their wide reach and powerful brand presence in the states in which they operate.

Blue Cross and Blue Shield of North Carolina said it has cut average premium increases for individual polices to 5%, the lowest increase in the eight-year history of the product, and sharply reduced from its roughly 14% premium increase last year. The goal is to trim the 6% profit margin it had in 2003 to 4% this year.

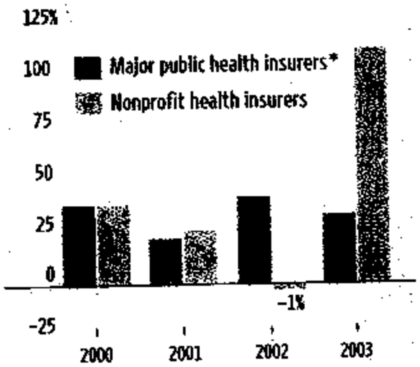
Plans in New Jersey and Tennessee, meanwhile, have refunded more than $50 million each to employers and individuals, and slowed price increases for this year. Blues in Minnesota, Michigan, Kansas and other states also have moderated rate increases.

The costs of health-care coverage remain far from cheap and are still on the ise. Even with the rate of increases slow-

Please Turn to Page A6, Column 4

Nonprofit?

Earnings at nonprofit Blue Cross and Blue Shield companies surged last year and may drive down premiums. Earnings growth at nonprofit Blues vs. for-profit companies



*Includes: UnitedHealth Group, Health Net, Humana, Oxford Health Plans, PacifiCare Health Systems, Coventry Health Care, WellPoint Health Networks

Source: Company data, Goldman Sachs Research estimates

Premiums Grow More Slowly Than Expected

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ing, most premiums are climbing at several times the rate of inflation, and each year are getting tougher for employers and consumers to absorb.

Moreover, the efforts of the Blues to cut premiums aren't the only reason for growing price competition in managed care. Commercial insurers have been eager to find growth in a fairly stagnant market for new members, and have been pitching premium increases that more closely match the estimated rise in medical claims costs—and in some cases, undercut it.

But because of the Blues' influence on the industry, the question of how low the nonprofits will go in setting premiums is a huge wild card in calculating premiums and profits for the industry in the coming year.

In some especially competitive markets, employers are seeing a real break in pace after several years of double-digit increases. In Maryland, premiums for small employers climbed an average of 5.5% in 2003, the smallest increase since 1997, thanks to moderating medical costs and a decision by CareFirst BlueCross BlueShield, the state's largest insurer, to forgo premium increases on some products this year, according to the Maryland Health Care Commission.

More slowdowns could be in store. Though premium increases are less, the amounts insurers pay out in medical costs to hospitals, doctors and other providers also are slowing as more plans require consumers to pay higher deductibles and co-payments. That could leave the nonprofits at the end of 2004 with reserves that are still too high in the eyes of regulators. And if pressure on prices intensifies in the next several months, it will be even harder for for-profit companies to preserve their profit margins.

"The impact on premiums and the industry could be more than many people have anticipated," says Matthew Borsch, an analyst at Goldman Sachs.

Increased competition already is giving employers more clout in negotiating prices. In Buffalo, N.Y., where three nonprofit Blues compete, premiums on average are climbing between 6% and 8%, compared with increases of between 12% and 22% a year ago, according to the Niagara Insurance Group, an employee-benefits consultant in that area.

Hebeler Corp., a Buffalo-based maker of custom-fabricated piping systems, says that when it initially was negotiating rates for this year, its Blue health plan, Univera, asked for a 15% boost. After quick negotiations, the plan agreed to 10%, says Jim Breyer, Hebeler's vice president of finance. "They knew we were shopping around," he says.

So far, most insurers still are pricing premiums to maintain healthy profit margins to guard against underwriting losses. But as competition heats up, "we've seen a few cases of pricing that's not only aggressive, but quite possibly irresponsible," says Steve Lewis, vice president of sales and marketing at Fitz-Maurice Cos., a New York-based employee-benefits consultancy.

A recent one, he says, involved a midsize Texas-based employer, which over the past two years has experienced higher medical claims and layoffs while losing some of its healthier employees. While those factors pointed toward much higher premiums for the company this year, a nonprofit Blue plan offered a premium cut that was "so far below the rest of the market, we advised them they should take it," Mr. Lewis says.

A number of for-profit insurers, including UnitedHealth, Cigna Corp. and Humana Inc., have loudly declared in recent months that they won't sacrifice profitability for the sake of buying business by cutting premiums. But many are finding it tough to increase health-plan membership amid lackluster job growth and cutbacks in employee health benefits.

Not including Cigna, which has been losing members as it restructures operations, the 10 major public managed-care companies have set the ambitious goal of collectively adding 3.2 million members this year, adding to the roughly 67 million members they claim now. That will be difficult to achieve without lower prices, says Goldman's Mr. Borsch.

It's especially tough for for-profit insurers exposed to heavy nonprofit Blues competition, such as Humana, based in Louisville, Ky. Last month, the company lowered its projections for second-quarter earnings, citing more-heated competition and, in some areas, irrational pricing, both by publicly traded rivals and nonprofits.

"It's clear there are some companies who are now clearly pricing for market share," said Mike McCallister, Humana's chief executive, in a recent conference call with analysts.

With health-care costs soaring, along with the number of uninsured, some lawmakers and regulators are arguing for caps on the Blues' reserves and seeking greater control over rate increases. A wave of such legislation could have a longer-lasting impact on premium prices.

In Pennsylvania, for instance, a series of class-action lawsuits alleges that the four large Blue Cross and Blue Shield insurers there have violated their nonprofit charters by stockpiling combined cash reserves of more than $3.5 billion while boosting premiums an average of 10% to 15% a year.

In North Carolina, regulators have floated a bill to limit how much Blue Cross and Blue Shield can build up reserves and when it would have to issue rebates. After a series of public flaps over corporate excesses at Blue Cross and Blue Shield of Rhode Island, state legislators have introduced a package of bills that would give regulators more control over its profits and pricing.

Blue plans argue that they've reaped robust profits from offering competitive insurance products and that unlike publicly traded commercial insurers, their reserves in good years are all they have to protect their viability in the lean ones, or in a catastrophic event.

"These things tend to even out," says Bob Greczyn, chief executive of Blue Cross and Blue Shield of North Carolina. Though the North Carolina Blue's reserves rose 52% to $743 million in 2003, he says they were just enough to cover 3.7 months of estimated claims and operating expenses. By state law, he adds, the carrier is required to hold reserves of between three and six months. In 2002, after a string of weaker profits, its reserves had actually fallen below the three-month level. "We've just gotten past that," he says.

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Sorry, You're Only Getting a 3.5% Raise Again

By MICHAEL S. DERBY
Dow Jones Newswires

NEW YORK—If you thought an improving economy was going to get you a bigger raise this year, guess again.

U.S. businesses are, on average, increasing their salary budgets 3.5% for 2004, the same level as last year's forecast, according to a new survey from the Conference Board, a private research group.

If the 2004 gain comes to pass, it would mark the second time in 11 years that salaries advanced at less than the 4% mark. Worse, the expected salary gains for 2005 are also expected to come in below 4%, the report said.

The good news, the group said, is that salaried employees will nonetheless make some headway, as inflation is likely to come in under the rate of salary gains.

The need to keep costs in check is the driving force behind the meager salary gains. "Although U.S. business continues to rebound from the economic downturn, companies are still paying close attention to cost control," said Charles Peck, who headed the salary survey for the Conference Board.

The 3.5% average salary-budget increase for the current year extends across the employment spectrum, from executives on down. The predicted gains were fairly consistent in various lines of business, too, with insurance-industry workers doing a little bit better than the overall average, and utility-sector workers doing the worst on a relative basis.

That the salary gains will help workers get ahead is based on the forecast that inflation for 2004 will remain relatively tame. The Conference Board said it's projecting a 2.2% increase in inflation for 2004, though it expects to see a 2.7% increase next year, suggesting a smaller real advance in salary for 2005. In May, overall inflation, versus a year ago, stood at 3.1%.

The meager salary gains expected for the current and coming year come at a time when the economy is charging ahead. While output growth has for some time been quite solid, recent months have also witnessed a marked improvement in hiring. Yet as those jobs have piled up, there has been some controversy over both their quality and whether they have the pay scale of those lost during the recession.

Companies have been able to afford extra hiring, along with the salary gains, by way of much improved profit levels. The profits have been driven in part by strong gains in productivity, which have aided companies during a period where the ability to raise prices has been considerably constrained. But as the Conference Board data show, the lack of pricing power cuts both ways, and is a clear impediment to better pay.

Many economists expect consumer spending will slow down a bit in the coming months, with the Federal Reserve set to embark on a rate-increase cycle and no fresh fiscal stimulus on the horizon, leading to a moderate slowing in overall growth. But at the same time, recent data on personal income for the entire nation show improvement. In April, personal income rose 0.6%, the best gain in two years.

Ken Mayland, chief economist with ClearView Economics in Pepper Pike, Ohio, said at the time of that report's release that the income improvement was a clear result of better hiring. "Thank goodness for the resumption of job growth," he told clients. "People want to know where the next leg of consumer-spending increases will come from. It will come from the income generated from new jobs. And this could go on for years."