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STATE OF MICHIGAN

MICHIGAN DEPARTMENT OF LABOR AND ECONOMIC GROWTH
EMPLOYMENT RELATIONS COMMISSION

In the Matter of Fact Finding:

Stephenson Area Public Schools,
Public Employer

MERC Case No.: C05 C-5028

Before Fact Finder
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FACT FINDER'S REPORT, FINDINGS OF FACT AND RECOMMENDATIONS

INTRODUCTION

The Employer, Stephenson Area Public Schools, hereinafter referred to as "District," is a Michigan general powers school district organized and operated pursuant to the applicable provisions of the Michigan Revised School Code, MCL 380.1 et seq. As a general powers school district, it is governed by a Board of Education comprised of 7 elected Board members. The Board of Education is a public school employer as defined in Section 1(1)(h) of the Michigan Public Employment Relations Act, MCL 423.201(1)(h).

"The District has four (4) school buildings where student instruction is provided. There is Middle and High School for grades 7 – 12. The elementary grades Kindergarten through grade 6 are provided instruction at the two (2) K-2 buildings, Mellen Elementary and Daggett Elementary, and a 3 – 6 building, Stephenson Elementary. The present student enrollment is 859 students. The District is a largely rural upper peninsula district covering over 400 square miles."

"There are 56 bargaining unit teachers represented by the labor organization, the Stephenson Education Association, MEA/NEA (hereinafter referred to as "Association"). The Association and the District are engaged in a collective bargaining relationship pursuant to Section 15 of the Michigan Public Employment Relations Act, MCL 423.215 and negotiated the collective bargaining agreement between them for the period July 1, 2004 through August 31, 2005."

The Association and the District have been unable to reach agreement upon all the terms of a successor collective bargaining agreement to the one that expired on June 30, 2005 **(Assn. Ex. 8)**. Bargaining having not produced a successor bargaining agreement, the District requested mediation services from the Michigan Employment Relations Commission. Mediation did not produce a successor agreement. Please note, the Association petitioned for Fact Finding.

The Dispute

There are unresolved issues in dispute between the District and Association. The issues presented to the Fact Finder at the December 20, 2005 Hearing encompass the following:

I. Health Insurance

II. Duration of Agreement and Salary

III. Sick Leave Buy Out

Issues

I. **Health Insurance.**

Health Insurance
(Assn. Ex. 2, p. 25)

Association	Current Super Care 1. 12.5% rolling cap applicable to each year.
District	Maximum Board Contribution for fringe benefits (health, dental, vision, life and long-term disability insurance) of $13,000 per year. Establish Section 125 Plan for pre-tax employee contribution. Ability to switch to "equivalent" health insurance plan with notice to and discussion with the union and arbitration of any equivalency dispute prior to the switch if no mutual agreement to switch.

The Association has proposed to maintain MESSA Super Care 1 (Traditional) and the 12.5% annual increase in the health insurance premium with a multi-year agreement changing it to the MESSA Choices 2 (PPO).

The District has proposed a $13,000 maximum annual contribution and reference to a particular insurance carrier would be deleted from the contract. The insurance carrier could be changed by the parties' mutual agreement.

According to Assn. Ex. 8, pp 43 – 46, the current health insurance plan in effect for the bargaining unit employees in the expired collective bargaining agreement is stated. According to the District Brief,

> "The Health Insurance component of the insurance package is MESSA Super Care 1 health insurance, which includes vision, dental, life and long-term disability. It has a $100/$200 individual/family annual deductible feature with a $5/$10 prescription copay. Further, the individual/family annual deductible is reimbursed by the District. The contract provided a 12.5% annual increase in the insurance premium; however, this cap was reset each year."

Please note the teachers' contribution only applied after the increase of 12.5% for that particular year and the following year was to be re-established at the subsequent higher rate.

The Fact Finder takes judicial note as also evidenced by the exhibits that there is a severe trend in escalating health insurance costs and which the District has communicated clearly during the Fact Finding Hearing that resolving the insurance issue is paramount and then the District would be willing to consider a multi-year contract.

The Association points out in its rebuttal Brief that the District's insurance exhibits show that MESSA Super Care 1 or Choices 2 is provided in the great majority of Upper Peninsula districts. The Fact Finder again takes judicial notice that a great majority of employees nationwide make a contribution toward health insurance. According to Board Exhibit 22, p.7, since the year 2000, nationwide insurance premiums have increased by 73% versus an inflationary rate of 14 – 15%. Since the year 2000, the District has seen MESSA rates rise 95.3%. For the District, the insurance costs have increased to an equivalent of $1,361 per pupil in 6 years **(Affidavit of Peterson, 24)**.

The Fact Finder believes it is in the best interests of the Association, the District, students and parents to gain control of the highly escalating cost of health care. The Fact Finder has appreciation for the District's proposal for a fixed cap; however, the Fact Finder understands that no other comparable district has this type of fixed cap on insurance at this time. (Please note that while the District had the option of filing a Reply Brief, the District chose not to file a Reply Brief per the letter of attorney for the District dated February 2, 2006.)

The Fact Finder is not persuaded to maintain MESSA Super Care 1. However, the idea of switching to MESSA Choices 2 plan seems attractive from a cost containment point of view. The Fact Finder takes judicial notice that members currently enrolled in MESSA Super Care 1 would need time to adjust moving from a traditional health insurance plan to a PPO program. Time may be needed by members to find eligible doctors and health care providers.

Additionally, as another option for those members of the Association who wish to keep MESSA Care Choices 1, it is recommended that they pay the difference in premiums between that plan and Care Choices 2. The Fact Finder believes further discussions of a cap are probably worthwhile as well as specific discussions on generic/brand drug copay and individual/family annual deductible.

In addition, it would be worthwhile having the ability to switch to another health insurance plan as long as it is mutually acceptable, or perhaps if there is no reduction or loss of any benefit or extent of coverage from those insurance plans in effect at the time of the switch. The idea that any switch would be mutually acceptable or subject to arbitration of any equivalence dispute prior to the switch if no mutual agreement would seem like a positive idea which would promote flexibility and cost savings.

II. Duration of Agreement and Salary

Salary
(Assn. Ex. 2, p.25)

	05-06	06-07	07-08
Association	2.75% (Retroactive)	3%	3% or 8.5% over 3 years
District	0%	Open	Open

The Fact Finder believes with joining MESSA Choices 2 as its insurance plan, that there is now incentive for a multi-year agreement between the parties. Please note, according to the Association's Brief, p. 7, "One factor that favors a multi-year agreement is the bargaining history which shows that this District has historically had agreements of two to three year durations with its unionized employees. **(Association Ex. §4, p.2)**.

The District has described prevailing fiscal conditions as follows:

"Michigan Public School Districts are funded primarily through the Michigan State School Aid Act, MCL 388.1601 et seq. The vast majority of operational revenue for a public school district is derived from the per pupil basic foundation allowance that is multiplied by the number of pupils enrolled and counted in pupil membership for state aid purposes. MCL 388.1620. The pupil membership count by which the per pupil basic foundation allowance amount is multiplied is determined by a blended count of the pupils enrolled and attending on the designated count day in September and in February of each school year. The membership count to be used for a school year is the sum of eighty percent (80%) of the pupils enrolled and attending on the pupil membership count day in September of the current school year plus twenty percent (20%) of the pupil membership count from the supplemental count day in February of the immediately preceding school year. MCL 388.1606(4). The amount of the per pupil foundation allowance is determined by the calculation under Section 20 of the State School Aid Act, MCL 388.1620. Section 102 of the State School Aid Act, MCL 388.1702 prohibits any Michigan public school district from adopting or operating under a deficit budget and prescribes measures and sanctions to be taken with respect to a school district that incurs an operating deficit. It is, therefore, a prime directive from the legislature, from whom the funding is received, to operate a public school district within the current funds available. **(Affidavit of Peterson; Bd. Ex.6)**.

The District has a per pupil foundation allowance for the 2005–2006 school year of $6,875. The District, as other public school districts, experienced no increase in its foundation allowance in the two (2) prior years from the $6,700 amount of the foundation allowance for the 2002–2003 and 2003–2004 school years. **(Affidavit of Peterson; ¶9, 29; Bd. Ex. 6)**. Indeed, the foundation allowance amount of $6,700 was reduced during the 2002-2003 school year $96 to $6,604 and $84 in the 2003-2004 school year to $6,616. These mid-year projections caused budget short falls of $88,000 and $67,000, respectively. **(Affidavit of Peterson; ¶9; Bd. Ex. 28 and 29)**.

Concurrently, the District's pupil enrollment, which is the pupil membership multiplier for the purposes of state aid funding, has been declining. The District student count has declined from 925 students to 843 students since 2001-2002. In 2006-2007, the pupil membership count is projected to decline by another 19 students. **(Affidavit of Peterson; Bd. Ex.24)**. The District has nominal schools of choice students because of the physical distance between school districts. (Schools of choice students attending the District are those who are resident students of another school district and attend the schools of the District under Sections 105 and 105c of the School State Aid Act, MCL 388.1705 and MCL 388.1705c). Stephenson projects a continuing decline in student enrollment to approximately 812 in 2007-2008. By the third year of the Association's proposed contract, the projection is another 35 fewer students. **(Bd. EX. 24)**.

The financial health of the District has been steady, but increasing steep decline as revenues do not meet expenditures. The District has been in a struggle to maintain a positive fund balance since the 2000-2001 school year, when the fund balance was 28% or $1.847 million. The District has quickly decreased its fund balance position to a projected 8% of expenditures in the 2005-2006 school year. In 2004, 2005, the District had a deficit of $453,558, reducing its fund equity to approximately $1.3 million. The projected deficit of $715,561 in the 2005-2006 school year will cause the fund equity to be approximately $579,000, less than half of the 2004-2005 amount. **(Affidavit of Peterson; ¶16,17; Bd. Ex. 10)**. Restated, the fund equity (without any additional salary increases) reduced from $1,500 per pupil to $686 per pupil in just one year. **(Affidavit of Peterson; ¶16,17; Bd. Ex. 13)**. This occurred despite reductions from 68 teachers and administrators in 2001 and 59 teachers and administrators in 2006; $1 million cuts in 2003-2004; $1.5 million cuts in

2004-2005. As cost saving measures, the District has eliminated four (4) out of nine (9) administrative positions, reduced teaching staff and is considering closing two (2) buildings.

This fund balance as of June 30, 2005 is $580,000 less, with their attendant increases, including the payment of teacher salary increases from salary schedule step advancement; MPSERS retirement contribution increases and increased health insurance premium rates **(Affidavit of Peterson; ¶24)**. The projected fund equity for the 2005-2006 school year (8%) does not reflect any budgeted amount for additional teacher salary increases. The cost of any additional teacher salary increases would come from the fund balance and result in a further reduction.

Moreover, the District has a liability of $262,755, as of June 30, 2005, for compensated absences and post employment benefits payable upon employees' retirements. In essence, the unencumbered fund balance is really $316,291. The projected fund equity for the fiscal year ending June 30, 2006 is expected to be $579,000 or about 8% of the total expenditures or one month's operational costs. **(Affidavit of Peterson, ¶24, 25; Bd. Ex. 12)**.

It is generally accepted that to maintain financial health of the operation of a Michigan public school district, a fund balance of 15%-17% of expenditures should be maintained. **(Affidavit of Peterson, ¶27-29; Bd. Ex. 18)**. Even at its current fund balance, the District is well below the recommended fund balance for financial health. Superintendent Michael Gaunt explained the fund balance of the District as verified in the audited financial reports and as reflected in the most recently adopted operating budget for the 2005-2006 school year. They are reflective of actual expenditures incurred on a current basis, including the increases in teacher salaries form step advancements on the existing teacher salary schedule, increased teacher retirement contributions and increased health insurance premiums. Any additional increases in teacher's salaries would come from the unreserved fund balance and reduce the District's fund balance.

Eric Peterson, a CPA and school finance expert, explained the basis for maintaining a fund balance of 17% of expenditures. **(Affidavit of Peterson, ¶24; Bd. Ex. 18)**. In essence, it is the basic level of capitalization and provides a reserve for unanticipated contingencies and maintaining a sufficient cash flow position to avoid borrowing. Even with a fund equity of 15%, this only approximately covers two months of operating expenses. The fund equity also is necessary as the District does not receive its first state aid payment until October 20th, nearly four months into the fiscal year and more than six weeks after the school year has begun. The final payments for state aid are made in July and August, creating a substantial cash flow shortage, which is addressed through short-term borrowing. **(Affidavit of Peterson, ¶29).**

The vast majority of the annual revenue is from the State School Aid Act as a function of the amount of the per pupil basic foundation allowance that is set by the legislature and the number of students enrolled and attending the schools of the District on the pupil membership count days. With the amount of the foundation allowance and the total pupil membership enrollment declining, there is little room for expenditures to expand and maintain a positive fund equity or to ensure the future of the District. "

The District relied heavily on Mr. Peterson to paint a very bleak financial picture for the District. The Association, on the other hand, in Brief and Exhibits had geographical comparables. **(Association Ex. §5, p.3 and their Brief, p.8).** The Association Exhibits show their salary proposal offered by the Association does not substantially change the relative position of the Association in either the geographic area or on an ISO Basis.

Please note, according to the District's Brief, p. 10, the support staff, which did agree to cost containment, by virtue of a fixed dollar amount, received salary increases of 1% in 2005-2006, 1% in 2006-2007 and 2% in 2007-2008. This serves as a fiscally sound prototype for teacher settlement.

The Fact Finder is not convinced, however, that the 8.5% increase over three (3) years is appropriate. The Fact Finder believes a more appropriate increase would be 1% 2005-2006, 1% 2006-2007 and perhaps 2.0% for 2007-2008. This comes to a total of 4%, especially if you consider the material and the presentation of Mr. Eric Peterson, as well as all the comparables.

Please note, the Fact Finder is very concerned about the status of labor and management relations in the District and believes strongly that efforts on both sides need to be taken to improve relations and credibility for the good of the District, Association, students and the parents.

III. Sick Leave Buy Out

The Fact Finder has the understanding that this issue was an Association goal and now is no longer in dispute.

Summary of Resolutions

The Fact Finder summarizes his resolutions to the issues as follows:

I. **Health Insurance:**

Move all staff to MESSA Choices 2 with the District to pay full cost without limitation. There should be a reasonable period of time given to Association members to adjust to moving from a traditional health plan to a PPO program. Additionally, it is recommended that there be a provision for switching to another insurance plan or carrier if there will be no reduction or loss of any benefit or extent of coverage from those insurance plans in effect at the time of the switch.

Finally, give the Association members the option to retain MESSA Super Care I by allowing the members to pay the difference in the premium between the MESSA Care Choices II Plan and the MESSA Super Care I Plan.

II. Duration of Agreement and Salary

The Fact Finder recommends a multi-year agreement with salary increases as shown in the table below:

	2005-06	2006-07	2007-08
Resolution	1%	1%	2%

In closing, the Fact Finder encourages the parties to work together to build a stronger working relationship in these challenging times.

Roger Winkelman, Fact Finder

3/11/06
Date