MICHIGAN EMPLOYMENT RELATIONS COMMISSION

GALESBURG -AUGUSTA COMMUNITY SCHOOLS,
Employer,

-and-

GALESBURG -AUGUSTA EDUCATION ASSOCIATION, MEA/NEA

Union.
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MERC Case No. L12 C-0337

Kathleen R. Opperwall
MERC Fact Finder

FACT FINDING REPORT AND RECOMMENDATIONS

A fact finding hearing was held on June 12 and 13, 2013, in Kalamazoo, Michigan, under the provisions of Michigan's Labor Relations and Mediation Act (MCLA 423.25). The Galesburg-Augusta Community Schools (hereafter the District) was represented by attorney Lisa L. Swem of the Thrun Law Firm, P.C. The Galesburg-Augusta Education Association (hereafter the Association) was represented by attorney Timothy J. Dlugos of White Schneider Young & Chiodini, P.C. The purpose of the fact finding procedure is to provide factual findings and non-binding recommendations to assist the parties in reaching agreement on a new contract.

The bargaining unit includes approximately 72 employees in the following job positions: teachers, psychologists, speech pathologists, school counselors, and school social workers. This report will refer to the bargaining unit members as "teachers," even though some of the members are in the other job positions. The parties' previous collective bargaining agreement was a two-year contract which ended on June 30, 2012. The Union filed a petition for fact finding on December 18, 2012.

The District is a fairly small school district, with 1,133 students as of the just completed 2012-2013 school year. The District has been gradually losing students. Over the last three years, the District's enrollment has declined by 73 students, which translates into an average loss of about 2% per year over this time period. It is likely that this trend of declining enrollment will continue. For the 2013-2014 school year, the District's demographics expert projected a loss of 26 students, down to a total of 1,107. This would be a loss of about 2.3%. While this is just an estimate, I find it to be reasonable, and will be using it for purposes of the analysis in this report.

School districts in Michigan are now highly dependent on student enrollment counts, because approximately 75 to 80% of districts' revenues come from foundation allowances which are calculated on a per pupil basis. Many of the special "categorical" payments are also calculated on a per pupil basis.

Since the passage of Proposal A in 1994, the funding for schools in Michigan has come primarily from the state level, through the School Aid Fund (SAF). During the economic downturn of the last five years, the State significantly reduced the foundation allowances to K-12 school districts from the SAF. Some $398 million in SAF annual revenue which had previously gone to K-12 school districts was instead re-directed to colleges and universities.

The last five years have been difficult years for Michigan's school districts. The foundation allowances for most districts, including Galesburg-Augusta, were cut by $470 per pupil for the 2011-2012 school year. Some of that lost revenue was temporarily replaced by additional federal funds under the American Recovery and Reinvestment Act (ARRA). However, those additional federal revenues are now ending. The District is expecting a foundation allowance of $7,076 per pupil for the 2013-2014 school year (including a $50 per pupil "equity" payment, Dist. Ex. 26, Assn. Ex. J). That is up slightly from the previous two years, but less than what the District received five years ago.

The State is starting to recover economically, but has not recovered as much as the rest of the nation. The prospects for any significant increases in revenues from the State, at least in the next few years, are not good. The State has given districts some additional funds to help with MPSERS retirement costs. However, those funds have come from the SAF. In essence, this is not additional money for K-12 school districts, because these payments are on course to deplete the School Aid Fund (Dist. Ex. 22).

The District has taken many steps to try to stabilize its finances, including closing a school building, eliminating programs, privatizing transportation and custodial services, and reducing staffing. The District went through a retirement/buyout process with the teachers during the 2009-2010 school year, which reduced its teacher count by 13. The District was able to sell one of its school buildings, with revenue to the District from that sale of $309,000. These are some of the difficult but necessary measures which have been taken, and without which this District would be in deficit status.

The District ended the 2011-2012 school year, the last year for which audited figures are available, with a fund balance of $918,818. This was 8.7% of its expenditures for that year, which were just over $10.6 million. The District's final (but unaudited) budget for the just completed 2012-2013 school year shows expenses exceeding revenues by $155,340, with a resulting drop in fund balance to $763,478, which would be 7.1% of expenditures (District Ex. 26).

It is generally recommended that districts maintain a fund balance of at least 15% of expenditures. Prior to 2006, Galesburg-Augusta had a fund balance of 15% or higher (District Ex. 36). During the recent difficult times, many school districts in Michigan have fallen below the recommended 15 percent. Statewide, the average fund balance was 8.96% as of the end of the 2011-2012 school year (Dist. Ex. 24).

In this District, under the now expired contract, a new teacher starting at the first step receives a salary in the first year of $33,311. The contract calls for "step" increases for completed years of employment, through 26 years. There are also "lane" adjustments for completing an MA degree, and for completing 15 credits beyond an MA. At the present time the top of the BA schedule is a salary of $57,973; the top of the MA schedule is $64,058; and the top of the MA+15 scale is $64, 619. At both the top and the bottom of the wage schedule, the salaries here are toward the low end of the "comparable" districts for which the parties presented data (e.g. Dist. Ex. 41 & 42).

The parties' collective bargaining agreement expired just over a year ago, on June 30, 2012. The 2012-2013 school year was completed without any salary increases (or decreases) and without any "step" or "lane" increases. During the prior 2011-2012 school year, under the expired contract, the teachers received a 2% "off schedule" payment, which did not make an ongoing upward adjustment to the salary schedule. For the 2010-2011 school year, they received a 1% increase on the schedule, and a ½% payment off schedule. Step and lane increases did occur both those contract years.

For the just completed school year, the average salary in the bargaining unit was approximately $49,000 (calculated from Assn. Ex. K). The District currently has a significant number of newer teachers at the lower steps. When a teacher at or near the top of the steps retires, the District can experience a cost savings if a new teacher is hired who starts at or near the bottom of the steps.

For the 2012-2013 school year, the exhibits showed the following costs for salaries and benefits for the bargaining unit:

$3,454,758	salaries
264,289	FICA @ 7.6%
845,034	MPSERS retirement @ 24.46%
923,070	medical insurance cost to District
$ 5,487,151	salaries and benefits total for bargaining unit

These figures are based on Assn. Ex. H. While these figures are calculations, and may not be exact numbers, I am using them because they provide the most useable breakdown of costs for this bargaining unit, and the District did not challenge their general accuracy. These figures do not include certain additional expenses such as longevity payments and "Schedule B" payments for extra duties. Neither party presented specific figures which included these additional items. For purposes of this report, my references to "salaries and benefits" will mean salary, plus FICA, plus MPSERS retirement costs, plus the District's share of health insurance costs.

With total revenues for the 2012-2013 year of $10,528,258, this means that just over 52% of the District's revenues were spent on the salaries and benefits for the bargaining unit.

The District's expense for health insurance for the bargaining unit actually went down by $135,308 for the 2012-2013 school year as compared to the previous year, due to a shifting of costs to the teachers. This was required by a change in State law, and was not a voluntary concession by the teachers. Nonetheless, this in itself was the equivalent to a 2.3% reduction in the District's expenses for the bargaining unit. The testimony indicated that the District is now a "hard cap" district. This basically means that the District's cost for health insurance for the bargaining unit should not increase at a rate faster than the rate of inflation.

The District projected that its revenues would fall 4.4% in the next school year, 2013-2014 , and another 9.5% in the 2014-2015 school year. These figures are based in part on projected losses of 26 students in 2013-2014 and another 40 in 2014-2015. The District's projected revenue for 2014-2015 also assumed that the enhancement millage from KRESA would not be renewed, which would result in about $370,000 less revenue annually.

The Parties' Proposals

The District proposed a one-year contract, for the 2012-2013 school year only. The District's main proposal was a 6.2% reduction in salaries across the entire salary schedule, along with no step, lane, or longevity payments. The District also proposed eliminating the reimbursement for college credit hours, and reducing the "Schedule B" compensation for some of the extra duties, such as summer band director and yearbook advisor.

The Association proposed a multi-year contract, through June 30, 2017. It proposed a ½% increase on the salary schedule for the 2012-2013 year, and a ½% increase for 2013-2014, along with full step increases for both years. For the years after that, the Association proposed that the parties begin bargaining on May 1 of each year concerning all economic provisions (salary schedule, steps and lanes, and insurance). The Association proposed retaining the reimbursement for college credits and retaining the current "Schedule B" compensation.

Fact Finder Recommendations

I am recommending a two-year contract, continuing through June 30, 2014.

The 2012-2013 school year was completed without any step or lane changes or salary increases or decreases. The parties recognize that under current State law the 2012-2013 school year cannot be changed retroactively. It would be possible to make salary changes or award steps for 2012-2013; however, any such changes would only take effect prospectively, after the ratification of a new contract. I am not recommending that the parties make any adjustments for the completed 2012-2013 school year.

For the 2013-2014 school year, I am recommending that eligible bargaining unit members advance one-half step on the salary schedule; that no lane changes be recognized; that there be no general percentage increase or decrease on the salary schedule; and that the reimbursement for college credits be reduced by one-half. This recommendation includes a recommendation that the size of the bargaining unit be decreased in connection with the retirement of bargaining unit members and declining enrollment.

Reasoning

The District is experiencing financial stress, although the evidence did not indicate that this was disproportionately greater than what other school districts throughout the State are experiencing. The District's fund balance has fallen below recommended levels. As of its last audited year, its fund balance was 8.7%. This is close to the statewide average of 8.96% for K-12 districts for that year.

It is not advisable to have the fund balance go lower. The District needs some cushion. While it may not be realistic to build the fund balance back up to 15% in the near future, the parties should aim to gradually build it back to at least 10%.

Nonetheless, I do not think the District's proposal to decrease salaries by 6.2% is a good solution. While neither party proposed reducing the number of teachers, it appears from District Exhibit R-7 that over the last few years while the student count dropped by 60 students the full time equivalent (FTE) employee count for the bargaining unit rose by 2. Realistically, the staffing needs to be downsized as the student count decreases. I think that staffing decreases can accomplish a good portion of the cost reductions which are needed.

The District's proposal to reduce salaries by 6.2% was made last fall, when the District's earlier budget was projecting $132,905 less income, and $202,707 more expenditures than what were shown on its June 30, 2013 final budget. This means the District was projecting losing $490,952 of its fund balance then, versus the $155,340 loss shown on its final budget.

I am also considering that none of the other bargaining units were asked or required to take salary cuts such as have been asked of this bargaining unit (District Ex. 48).

Salaries at the beginning BA step here are already slightly lower than those in the other local districts which were chosen as comparables by the District. By my calculation, the average beginning salary in the District's comparables is $33,899, versus a $33,311 beginning salary here (Dist. Ex. 41). The bargaining unit here has not received step increases in three out of the last six years (2007-2008; 2008-2009; 2012-2013). While skipping steps for a few years can be a short-term strategy, as a matter of fairness I do not think this should be continued indefinitely. The retirements of teachers this year should support at least a one-half step advancement this year, as discussed below.

It is challenging to analyze the financial information over a period of years when many factors are changing. This is especially true because the parties marshaled the data differently based on their different perspectives.

Part of my analysis is looking at what portion of total revenue was spent on the bargaining unit's salaries and benefits over the last several years. I focused on the last two years, 2011-2012 and 2012-2013, because the most extensive data was presented for those years. Also, the two years prior to that were both more unusual years from a financial data perspective: in 2009-2010 there were significant retirements/buyouts which increased expenses, and in 2010-2011 the District received significant revenue from sale of a building.

For 2011-2012, total revenues were $10,627,775, and bargaining unit salaries and benefits were $5,695,470 , which was about 53.6% of the total (Assn Ex. H page 11). For 2012-2013, total revenues per the final budget were $10,528,258, and bargaining unit salaries and benefits were $5,487,151, which was about 52.1% of revenues. The amount spent on the bargaining unit salaries and benefits came down $208,319, primarily due to lower District costs for health insurance. This was a 3.6% reduction in bargaining unit costs, which exceeded the .9% reduction in revenues for that year.

I am assuming that the District's estimates of its revenue for next year, 2013-2014, are reasonably accurate. The Association did not specifically challenge the District's revenue projections for 2013-2014. The Association did show that the District's projections are not always entirely on target; however, the biggest discrepancy occurred in the 2010-2011 school year, when the District was able to sell a building for $309,000. With the fund balance as low as it currently is, I think the District should be given some benefit of the doubt. If there is some additional revenue, that can help build the fund balance back up.

The District is projecting revenue of $10,070,268 for 2013-2014. This is a decrease of $457,990 from the just completed year. This is a 4.35% decrease in revenue. As discussed above, the District is projecting a 2.3% loss of students for this year. Essentially, the District is projecting a loss of revenue of about 2% in addition to the loss which can be attributed to falling enrollment.

Another way of looking at this is that the District is projecting revenue of $10,070,268 and enrollment of 1,107 for the coming year, which yields total revenue per pupil of $9,096. This is down 2.1% from the $9,292 total revenue per pupil in the just completed year as calculated from the final budget.

Translated down to this bargaining unit, with roughly 52% of the District's revenues attributable to this bargaining unit's salaries and benefits, it would be reasonable to ask this bargaining unit to absorb about 52% of the projected loss in revenue. This would be about $238,000. Of this amount, a slightly larger portion is due to enrollment related loss than is due to other factors. If 2.3% of the revenue loss is attributed to enrollment loss, that can be calculated as about $126,000. The remaining $112,000 can be thought of as the reduction which this unit needs to absorb due to decreases in revenues which go beyond the enrollment declines.

As best I can determine, a half-step advancement on the salary schedule would have a cost in salaries plus FICA plus MPSERS retirement of about $53,000. (Based on District Ex. 44 and Assn. Ex. H.13)

Adding this $53,000 for the half step to the $238,000 calculated above (for this unit's proportionate share of projected revenue loss) yields a total of $291,000 in needed cost reductions from this unit's salaries and benefits.

Information was presented that three teachers are retiring at this time, all at the MA level, one each at steps 14, 18, and 31. If the District replaces these three with three new hires at the first BA step, the District would by my calculations save $85,797 in salaries. After counting FICA and the MPSERS retirement contribution, this would be a savings of $114,667. If none of the three retirements are replaced, the savings would be greater: $186,730 in salary, plus about $60,000 for FICA and MPSERS, plus health insurance costs which average about $12,000 per employee, for a total of about $282,000.

My recommendation is that the needed cost reduction be achieved primarily by not filling the three FTE positions occasioned by the three retirements. This would result in 69 bargaining unit members for 1,107 students, or a ratio of just over 16 students per bargaining unit member. This is lower than the 17.1 for 2010-2011 or the 16.5 for 2011-2012 which I calculate from District Exhibit R-7.

I calculate the savings from not filling the three positions at about $282,000 (depending on the exact benefits status). The parties would need to identify another $9,000 in savings according to these calculations. I am recommending that the tuition reimbursement be reduced by half in order to achieve this. The evidence indicated that the tuition reimbursement here is significantly more generous than what is provided by most of the "comparable" districts.

For years after 2013-2014, I would recommend that the parties try to use a similar analysis of what proportionate share of any lost revenues should be absorbed by this bargaining unit. Then, look at how many positions should realistically be eliminated to keep pace with decreasing enrollment. Next, try to identify a dollar figure for decreases (or increases) for this bargaining unit. And then negotiate over how best to achieve that.

For years after 2013-2014, I am not entirely comfortable with the District's projections. A major revenue assumption in District Exhibit 26 was an assumption that the KRESA enhancement millage would not be renewed, resulting in a 3.6% fall in revenue. However, the testimony indicated that this millage has been renewed once before. On the expenditure side, the District's projections apparently assumed that staffing would basically remain at its current level even though enrollment declined 3.6% in 2014-2015 and another 3.1% the following year. If enrollment does fall this much, staffing would need to be decreased to keep pace.

The parties may prefer to allocate resources in a different manner than what I am recommending here. I am primarily trying to provide recommended dollar estimates for this bargaining unit which could help the parties focus on what is reasonable and realistic for this bargaining unit.

Kathleen R. Opperwall
MERC Fact Finder

Dated: August 1, 2013