MINNESOTA BUREAU OF MEDIATION SERVICES

INTEREST ARBITRATION

ALBERT LEA INDEPENDENT SCHOOL

DISTRICT #241,

EMPLOYER,

ARBITRATOR'S AWARD

-and-

BMS Case No. 08-PN-0262

ALBERT LEA EDUCATION ASSOCIATION,

UNION.

ARBITRATOR: Rolland C. Toenges

DATE OF FINAL POSITIONS: January 14, 2008

DATE OF ARBITRATOR SELECTION: January 24, 2008

DATE AND PLACE OF HEARING: February 22, 2008

Albert Lea, Minnesota

DATE OF AWARD: March 13, 2008

ADVOCATES

FOR THE EMPLOYER:

FOR THE UNION:

Patricia M. Maloney, Attorney

Ratwik, Roszak & Maloney, P.A.

Lee F. Johansen, Negotiation Specialist

Education Minnesota

WITNESSES

Larry E. Kellogg, Director Finance & Opns.
Albert Lea, ISD #241

James D. Sheehan, School Finances.Com
Albert Lea, ISD #241

Andrea Cecconi, Research Spec.
Education Minnesota

ALSO PRESENT

Ann M. Thomas, School Finances.Com
Albert Lea, ISD #241

Jeff Hyma, Field Staff
Education Minnesota

ISSUES CERTIFIED AT IMPASSE

1. Salary – 2007-2008, Schedule A
2. Salary - 2008-2009, Schedule B
3. Salary – 2007-2009, Additional Compensation – Schedule C
4. Wages – ECFE/ABE Hourly Wages, Article XXI

JURISDICTION

The instant matter came on for hearing pursuant to a determination by the Commissioner, Minnesota Bureau of Mediation Services (BMS), that the Parties

had reached an impasse in their attempt to negotiate an agreement setting forth terms and conditions of employment.

The Parties selected Rolland C. Toenges to arbitrate the issues in dispute.

The instant matter is being conducted in accordance with the provisions of the Minnesota Public Employment Labor Relations Act, 179A.01 – 179A.30 (PELRA). The Parties submitted final positions on issues in dispute in accordance with Minn. Stat. Section 179A.16.
Under PELRA, the teachers at issues are defined as "non-essential employees" and upon a certification of impasse by the Commissioner, BMS, may chose to strike or submit the issues in dispute to binding arbitration, as has been done in the instant case.

The Parties, being a "School District" and "Teachers," are subject to the provisions of Minn. Stat. Section 123B.05, CONTRACT DEADLINE AND PENALTY. This statute provides a penalty in the form of state aid reduction, if the Parties have not signed a collective bargaining agreement (CBA) on or before January 15, 2008. However, an exception is provided if the Parties have submitted all unresolved issues to interest arbitration in accordance with Minn. Stat. Section 179A.16 before December 31, 2007, and have filed final positions with BMS before January 15, 2008. The Parties are in compliance with the stated statutory requirements and the items in dispute are properly before this interest arbitration proceeding.

Minn. Stat. Section 123B.05 provides that the arbitrator must issue a decision on the items in dispute within 60 days after the January 15 deadline for submission

of final positions. The Commissioner, BMS has notified the Arbitrator that this deadline is March 14, 2008.

A hearing was held on February 22, 2008 in Albert Lea, Minnesota. The Parties were afforded full opportunity to present evidence, testimony and argument bearing on the issues in dispute. All witnesses were sworn under oath. There was no request for a stenographic record of the hearing.

The Parties stipulated that the Arbitrator's decision is to be based on "final offer, total package." This requires that the Arbitrator must choose either the Employer's position on all items in dispute or the Union's final position on all items in dispute.

The Parties waived the filing of post hearing briefs.

BACKGROUND

Albert Lea Independent School District No. 241 (District/Employer) is a public school system and operates a K-12 education program. District No. 241 encompasses an area of some 228 square miles and consists of seven educational facilities. There are some 3, 556 students and 241.32 full time equivalent teaching staff.

The Employer and Albert Lea Education Association (Union) have a lengthy history of collective bargaining. In renegotiating their 2005-2007 CBA, the

Employer and Union have agreed upon all provisions for their 2007-2009 CBA, except those identified herein as in dispute.[1]

District No. 241 operating revenue is derived from several sources, including state aid, local property taxes and special program funding. In fiscal year ending June 30, 2007, the District's revenue was approximately 32.3 million with expenditures of approximately 32.8 million. Drawdowns from the unreserved-undesignated General Fund balance have been used to cover the revenue shortfall.

The trend in recent years for expenditures to exceed revenue is eroding the District's unreserved-undesignated General Fund Balance. The unreserved-undesignated General Fund Balance, measured as a percentage of expenditures, has fallen from 12.10% in fiscal year ending June 30, 2003 to 7.09% in fiscal year ending June 30, 2007.[2] The unreserved-undesignated General Fund Balance is considered a best measure of financial health. The June 30, 2007 balance is slightly less than one month of expenditures.[3]

District No 241 revenue is derived primarily from state aid, which is based on student enrollment. In fiscal year ending June 30, 2007, state aid comprised

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[1] Employer Exhibit #7.
[2] Employer Exhibit #23.
[3] Union Exhibit #7, Uniform Financial Accounting and Reporting Standards Compliance Report (unaudited) shows the General Fund Balance decline from 13.12% as of June 30, 2005 to 8.22% as of June 30, 2007.

about 86% of the District's total revenue.[4] State aid in 2007-2008 is to increase by 2% and in 2008-2009 by 1%.

In recent years, District No. 241 experienced a declining trend in student enrollment, which has had a significant negative affect on revenue. The Employer is projecting a reduction of about $532,000 in state aid during fiscal year ending June 30, 2008 due to a drop in student enrollment.[5] The Employer is projecting that the drop in student enrollment will continue for the foreseeable future.[6] From 2001-2002 through 2007-2008 student enrollment has dropped from 3,793 to 3, 219. By 2013-2014 it is projected to drop to 2,868.[7]

In fiscal year ending June 30, 2007, overall District General Fund expenditures increased 3.70% over the previous fiscal year. Employee salaries increased 6.76% and employee benefits increased 5.97%. Employee salaries and benefits comprised about 78% of the total General Fund expenditures. The higher increase in employee salaries and benefits was partially offset by a decrease in expenditures for other budget items.[8]

District No. 241 receives additional tax revenue via voter-approved referenda. Based on dollars per resident pupil unit, the referenda revenue is $498 per pupil in 2008. Revenue from the latest referendum approved by voters in late 2007 will come on line in 2009 and is projected to increase the per pupil amount to $958.

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[4] Employer Exhibit #23.
[5] Employer Exhibit #24.
[6] Employer Exhibit #24.
[7] Employer Exhibit #24.
[8] Employer Exhibit #23.

The referenda revenue has a built in inflation factor, which is projected to increase it annually to $1071 per pupil in 2015.[9]

At issue in the instant proceeding is the percentage increase to be applied to the teacher salary schedules. The Employer's position is for a 2% increase each year in all salary schedules. The Union's position is for a 2.3% increase in all salary schedules in the first year (2007-2008) and 2.4% in the second-year (2008-2009).[10]

In addition to the percentage increase in the salary schedules, teachers are eligible to receive additional increases, depending on their position in the salary structure.
The salary structures (Schedules A & B) consist of twelve steps and five lanes. Teachers progress to higher pay steps based on length of service and to higher pay lanes based on educational credits. Each step is about 10% higher than the previous step. The difference between each lane is about the same.[11]

Teachers normally advance one pay step each year. Advancement up the pay lanes is dependent on acquiring additional educational credits.[12]

Teachers with seventeen years of service receive longevity pay of $500 per year. Teachers designated as Grade, Subject, or K-12 Curriculum Managers receive an annual stipend ranging from $1,190 to $4,169.[13]

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[9] Employer Exhibit #24.
[10] Employer Exhibit #4 & #5.
[11] Employer Exhibits #4 & #5.
[12] Employer Exhibit #6 at pages 8 & 9.
[13] Employer Exhibit #6 at pages 8 & 20.

Employees that perform special assignments, such as coaching and other extracurricular activities (Schedule C), receive additional salary based on position and activity.[14]

In addition to the above referenced pay system, the District has implemented a pay for performance arrangement, referred to as "Alternative Teacher Professional Pay System" (Q-Comp). Under this arrangement, teachers that achieve established goals receive Q-Comp pay, which is in addition to any other pay for which they may be eligible. The Q-Comp is paid annually and is currently about $1,875.00. All but about three of the 241 FTE teachers have met the established goals and receive Q-Comp pay. The Q-Comp pay arrangement is outside the CBA. It is partially funded by the state and the remainder by local taxes. It is subject to annual review by the State Department of Education[15]

The District provides health insurance and life insurance benefits for active and retired teachers. For retired teachers the benefit is the same as the single premium provided for active employees but is frozen at the rate in effect at the time of retirement. Although the cost of this benefit is projected to increase over the next several years, it is expect to eventually decrease due to a "403 buy out match" arrangement.[16]

The District provides matching contributions to a 403(b) annuity plan for teachers with at least three years of teaching experience in the District. The

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[14] Employer Exhibits #4 & #5.
[15] Employer Exhibit #8.
[16] Employer Exhibit #27 & #6 at page 13.

match is three (3%) percent. For teachers with eighteen or more years of service the District match is the legal maximum.[17]

With the assistance of their respective affiliated associations, the Parties have developed a comprehensive system of analyzing the cost impact of proposals. The analysis is based on total cost, including both salary and benefit costs. This cost analysis shows that the total cost of the Employer's proposal is 4.77% in the first year (2007-2008) and 4.65% in the second year (2008-2009). It shows the Union's proposal is 5.03% in the first year and 4.98% in the second year.[18] Although there are slight differences in each Party's costing analysis, they are essentially in agreement.

There are seven exclusively represented bargaining units in the District, including the unit at issue in the instant proceedings. As of the date of the hearing, the Employer had reached settlements with two of these units for the 2007-2008 and 2008-2009 school years. The salary settlement amount was consistent with the Employers position in the instant proceeding (2% each year).[19]

The Employer has also settled individual contracts with some eleven administrative employees for the 2007-2008 and 2008-2009 school years. With two exceptions, the salary increase provided in these contracts is 2% each year.[20]

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[17] Employer Exhibit #6 at pages 25 & 26.
[18] Employer Exhibits #9 & #10.
[19] Employer Exhibit #15.
[20] Employer Exhibit #15.

The exceptions are due to a realignment of positions in the District's classification structure.

EXHIBITS

EMPLOYER EXHIBITS:

1. Mutual Agreement to Arbitrate, dated 12/19/2007.
2. BMS Request for Final Positions on Items In Dispute.
3. Minn. Stat. Section 179A.16, Interest Arbitration.
4. Employer's Final Position on Items in Dispute.
5. Union's Final Position on Items in Dispute.
6. Master Collective Bargaining Agreement, 2005-2007.
7. Summary of Parties Tentative Master Agreement for 2007-2009.
8. MOU for Alternative Professional Pay System (Q Comp).
9. Costing of Union's Final Position.
10. Costing of Employer's Final Position.
11. Percentage Increase in Teacher's Compensation Based on Employer's Final Offer and Step Increases.
12. Minimum Percentage Increase in Teachers Compensation at Top Cell, Based on Employer's Position.
13. Settlement History of Improvements in Salary Schedule.
14. Settlement History – Total Package.
15. Comparison of Settlements With Other District Bargaining Groups and Unrepresented Employees.

16. Comparison of Salary Schedules with Big 9 Athletic Conference Schools.

17. B A Degree Minimum Rate Comparisons: 2004-2007 & 2007-2009.

18. B A Degree Maximum Rate Comparisons: 2004-2007 & 2007-2009.

19. M Degree Minimum Rate Comparisons: 2007-2009.

20. M A Degree Maximum Rate Comparison: 2004-2007 & 2007-2009.

21. Minnesota School Board Association's Teacher Settlement History.

22. Education Minnesota's Career Earnings Report.

23. Excerpts of District No. 241 Financial Audit for Year Ended June 20, 2007.

24. District No. 241 Enrollment History and Projections.

25. District No. 241Referendum History.

26. District No. 241 General Fund Balance Projections.

27. Extraordinary Expenses: Retire Benefits.

UNION EXHIBITS:

1. Introduction:

   (a) Selection of Arbitrator.
   (b) Certificate to Arbitrate.
   © Minn. Stat. Section 179A.16 – Interest Arbitration.
   (d) Minn. Stat. Section 123B.05 – Contract Deadline and Penalty.
   (e) 2005- 2007 Master Collective Bargaining Agreement.
   (f) Basic Facts About the Albert Lea Schools.
   (g) Map of the Albert Lea School District.

2. Final Positions:

(a) Union's Final Position.
(b) Employer's Final Position.
(c) Cost Comparison of Final Positions.

3. Costing of Positions:

(a) Costing Methodology.
(b) Costing of Union's Position.
(c) Costing of Employer's Position.

4. Comparison, Group #1:

(a) Big Nine Conference – Map.
(b) Big Nine Conference – Total Package Settlement Comparisons.
(c) Big Nine Conference – "Corners" Comparisons.
(d) Big Nine Conference – 20 Year Earnings Potential Comparison.

5. Comparison, Group #2:

(a) Comparison Group #2 – Map.
(b) Salary Comparison – Schools With Similar Enrollment.

6. Comparison of Extra curricular Pay:

(a) Schedule "C" Comparison – Five Big Nine Selected Positions.
(b) Schedule "C" Comparison – Schools With Similar Enrollment.

7. School Finance:

(a) Key Definitions.
(b) Basic School Finance Terms.
(c) Uniform Financial Accounting and Reporting Standards Compliance Table – 2005, 2006 & 2007.
(d) Change in Unreserved and Reserved Fund Balance.
(e) Budgeted vs. Actual Revenue and Expenditures – 2005, 2006 & 2007.
(f) General Education Revenue Projections – FY 2005 to FY 2009.
(g) Union and Employer Proposals as a Percent of New Referendum Revenue.
(h) Albert Lea Area Schools Preliminary 2007-2008 Budget.

8. Summary:

POSITIONS OF THE PARTIES

THE UNION PRESENTS THE FOLLOWING ARGUMENTS IN SUPPORT OF ITS POSITION:

- The Union's position of increasing all salary schedules by 2.3% in 2007-2008 and 2.4% in 2008-2009 is both financially responsible and reasonable.

- External comparisons are the only proper comparison to be used. In the instant case, almost all of the external comparisons are available. This differs from the case in Rochester by Arbitrator Miller, who reasoned that internal comparisons are appropriate when adequate external comparisons are not available.

- The Union's position balances the economic needs of the teachers and the financial condition of the Employer.

- The analysis and comparison of settlements of comparable school districts illustrates that the Union could have justified asking the Arbitrator to award a more lucrative settlement than it has proposed, but it did not.

- The Union understands the Employer is passing through a transitional period with declining enrollment. However, the Employer is not without resources.

- The new referendum will come on line in the second year of the contract. With this in mind, the Union has proposed a modest salary package in an effort to reach an equitable settlement of the 2007-2009 Master Contract.

- The Union's position will result in a relative loss of value with other comparable schools, at nearly every point of comparison.

- The Union has accepted the need to share in the sacrifices that are called for due to the current economic conditions in the District. However, the Union does not believe the burden should fall disproportionately on the teachers.

- The Employer's position deviates too far from the status quo. At nearly every benchmark, the Employer's proposal falls below the norm of the comparable schools.

- Although the District's unreserved-undesignated General Fund Balance has declined to 7.09%, it is with the acceptable range of 5% to 10%.

- The Employer's position asks more than what is reasonable and should be denied.

- The position put forward by the Union is fair and affordable. The $148,000 difference between the positions of the Parties is affordable. The Arbitrator should award the Union's position.

THE EMPLOYER PRESENTS THE FOLLOWING ARGUMENTS IN SUPPORT OF ITS POSITION:

- Albert Lea Area Schools is a high paying school district.

- The Employer's position will not change Albert Lea Area School's salary rank in the Big Nine comparison group.

- Although the Employer's position will place Albert Lea Area School's salary increase lower than the statewide average, it is adequate and consistent with the pattern of internal settlements and offers to other bargaining unit not yet settled.

- Albert Lea Area Schools uses patterned bargaining and the School Board wants to conserve money in the General Fund and to maintain progress in class size.

- Albert Lea Area Schools has the highest starting salary among the Big Nine comparison group and is over $3,000 above the average of the group.

- Albert Lea Area Schools rank number four (4) among the Big Nine comparison group in BA maximum salary and is above the average of the comparison group.

- Albert Lea Area Schools ranks number one (1) among the Big Nine comparison group in MA minimum salary and is significantly above the BA average of the comparison group.

- Albert Lea Area Schools rank number two (2) among the Big Nine comparison group in MA maximum salary and is above the average of the comparison group. In fact, the Employer's position moves Albert Lea's rank from number three (3) to number two (2).

- The Employer is concerned about its long-range financial health. State aid is to increase 2% in the first year and 1% the second.

- Albert Lea Area Schools has already gone to taxpayers for additional funding, causing increased taxes on their homes. A bond levy referendum was approved in the fall of 2007.

- Albert Lea Area Schools has made one (1) million in cuts for this year.

- In addition to salaries provided in the CBA, teachers receive Q-Comp, which is partially locally funded at a rate of $70 per student.

- In addition to the salary increase at issue in this arbitration, the Employer pays 92.5% of the single premium for health insurance and $235 per month for family coverage in 2007-2008 and $255 in 2008-2009.

- When the increased cost of insurance is added to the Employer's two percent (2%) salary increase position, the cost is from 2.43% to 2.96% in 2007-2008 and from 2.46% to 2.95% in 2008-2009.

- Additional paid time off days will add another .55% increase in 2008-2009 over 2007-2008.

- There is additional cost associated with items settled between the parties that are not involved in this arbitration, which includes faster payout of severance, paid travel time between schools and increased compensation for unused vacation days from 50% to 75% of the daily rate.

- Using only external comparisons of minimum and maximum salary rates is flawed, as it does not reveal what employees are actually being paid.

- There are differences in salary structure that affects what employees are actually paid within the pay steps and lanes. Picking a specific step in the salary range for comparison, such as the Union has done with Step #9, is not a good measure because of the varying number of steps among the comparison group. Further, published salary rates also do not reveal trade offs that may have influenced salary decisions.

- The student count based on Department of Education data is not accurate now, as Albert Lea has dropped enrollment more than other school districts. Also, Albert Lea's size is not comparable to other school districts in the comparison group.

DISCUSSION

It is first noted that the cost difference between the positions of the Parties is not great (about $148,000). This is somewhat less that one percent (1%) of the District's total annual salary expenditure as of June 30, 2007. However, the fact that this issue is before the instant arbitration proceeding underscores its importance to both Parties.[21]

In general, the Employer wants to conserve as much of its financial resources as possible to maintain the integrity of its General Fund Balance and to continue progress on reducing class size. The Union wants to maintain a competitive salary position with other school districts. The positions of both Parties are well reasoned and understandable. Both Parties seem respectful of each other's position.

Internal Equity

The Employer argues that internal equity should be a primary deciding factor as it has salary settlements with two other bargaining units at two percent (2%) each year and has settled individual contracts with a number of school officials at this rate. Further the Employer points out that its position with the other bargaining units, still in negotiations, is consistently at two percent (2%). The record shows that, in addition to the teacher unit, there are four other bargaining units yet to be settled.

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[21] $148,000 is .076% of Salaries of $19,359,428 as shown in Employer Exhibit #23.

The Employer argues that it is important for employee morale to maintain a consistent settlement pattern. The Employer also argues that a deviation from the pattern, without substantial justification, can lead to undue employee dissatisfaction and "whipsawing" in negotiations with other units.

Arbitrator' Authority

The Arbitrator is bound by stipulation of the Parties to pick the position of one or the other in its totality. This arrangement is commonly referred to as "Final Offer – Total Package." Therefore, the Arbitrator is without authority to craft an award that presents a compromise solution.

External Market Comparisons

Arbitrators are usually reluctant to deviated from the internal settlement pattern with respect to an employer's uniform benefit programs and when there is a close occupational relationship with the employers other employee units or groups. However, consideration is usually given to external market relationships when a distinctive occupational group is involved and when there is a well-defined and substantial external comparison group of similarly situated employers and employees.

The Parties both use as a comparison group the "Big Nine" school districts that make up the athletic conference of which Albert Lea Area Schools is a part. Actually, although there were nine schools in the conference at one time, there is now seven, all located geographically in the southeastern quadrant of the state.

The record shows that five of the seven schools in the "Big Nine" comparison group have settlements for the 2007-2008 and 2008-2009 school years. Salary schedule increases for the five schools range from 2.0% to 3.54% with an average increase of 2.57% in 2007-2008 and 3.01% for 2008-2009.[22]

The record shows that the state wide average of schools having settlements average 2.38% in 2007-2008 and 2.30% in 2008-2009.[23]

A comparison of minimum and maximum salary rates with the "Big Nine" group, using the Employers position, shows that Albert Lea ranks number one (1) in BA minimum salary and number four (4) in BA maximum salary. Albert Lea's minimum salary is significantly above the average for the group and Albert Lea's BA maximum salary is moderately above the group average.[24]

A comparison of minimum and maximum salary rates with the "Big Nine" group, using the Employer's position, shows that Albert Lea ranks number one (1) in MA minimum salary and number two (2) in MA maximum salary. Albert Lea's minimum salary is significantly above the group average and Albert Lea's MA maximum salary is moderately above the group average.[25]

The Employer introduced an exhibit showing "Career Earnings." Rather than merely comparing minimum and maximum rates, this exhibit purports to show how an Albert Lea teacher's earnings would compare to other school districts, if

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[22] Employer Exhibit #16.
[23] Employer Exhibit #16.
[24] Employer Exhibits #17 & #18.
[25] Employer Exhibits #19 & #20.

measured over a considerable time period. This exhibit shows that, since 2003-2004, the career earnings of Albert Lea teachers rank highest among the "Big Nine" comparison group and in the top fifteen percent (15%) of 343 school districts statewide.

The Union introduced exhibits showing a comparison with the "Big Nine" group at BA minimum and maximum and MA minimum and maximum and included comparison at step nine (9) of the salary range. These exhibits purport to show the affect of both the Employer's position and the Union's position on monthly gain or loss of earnings with the comparison group. The summary exhibit shows a slippage in earnings from the average of the comparison group, under both the Union and Employer positions, but a greater slippage under the Employer's position ($107 to $178 at BA minimums and maximums and step nine [9]). Although at MA step nine (9), both the Employer and Union positions would result in a gain with the comparison group, the Employer's position would produce a smaller gain by $154.[26]

Another Union exhibit shows a comparison with the "Big Nine" group using 20-year earnings. Although the exhibit shows that the 20-year earnings of Albert Lea teachers is highest of the comparison group (number one), the Union's position would result in increased earnings of about .003% in 2007-2008 and .007% in 2008-2009.[27]

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[26] Union Exhibit #4.
[27] Union Exhibit #4.

The Union introduced exhibits using a salary comparison group of nine (9) schools with student populations closest to that of Albert Lea. Only one of these schools (Winona) is in the "Big Nine" group. Two of the Schools are in the Minneapolis/Saint Paul Metro area (Inver Grove Heights and South St. Paul). The others tend to be located in east central Minnesota, but in closer proximity to the metro area than the "Big Nine" group.[28]

The exhibits show that the average percentage salary increase among the nine-school comparison group is slightly higher than that proposed by either the Union or Employer positions (a fraction of 1%). The Union argues, that although the slippage in the Employer's position is not great, the question is how much slippage is acceptable.[29]

The Union's nine-school (9) comparison group, with student population closest to Albert Lea, shows results similar to those derived by the comparison with the "Big Nine" group. Albert Lea BA minimum is highest among the group; BA and MA at step nine (9) rank number three (3); Albert Lea's schedule maximum ranks number seven (7) in 2007-2008 and number six (6) in 2008-2009. The Union's summary exhibit shows slippage from both the Union's and Employer's proposals, but slightly greater from the Employer's proposal. The Union's 20-year career earnings comparison shows Albert Lea ranks number two (2) among this comparison group under both Parties proposals.[30]

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[28] Employer Exhibit #5-2.
[29] Union Exhibit #5.
[30] Union Exhibit #5.

The Union introduced an exhibit showing a salary comparison with the "Big Nine" group for selected "Extra Curricular" assignments. These consist of Head Football Coach which ranks number one (1); Assistant Football Coach, which ranks number two (2); Head Softball Coach, which ranks number six (6) in 2007-2008 and number five (5) in 2008-2009; Assistant Softball Coach, which ranks number seven (7); and Head Speech Coach/Director, which ranks number four (4).[31]

Among the "Big Nine" comparison group, Albert Lea Area Schools has the lowest student enrollment. Albert Lea's enrollment of 3,556 is about 53% of the 6,752 average of the comparison group. Albert Lea also has the fewest teachers. At 241.32 FTE, Albert Lea's teaching staff is also about 53% of the 455.69 FTE average for the comparison group. The School in the "Big Nine" comparison group most similar to Albert Lea in student enrollment and teaching staff is Winona. Winona's salary rates consistently rank lowest among the "Big Nine" comparison group[32]

The "Big Nine" student enrollment and teaching staff average is skewed upward by Rochester Schools. Rochester Schools has a student enrollment more than 4.5 times that of Albert Lea and a teaching staff about 4.4 times that of Albert Lea.

Under either Parties proposal, Albert Lea's salary rank among the "Big Nine" group in 2007-2008 and 2008-2009 is unchanged from preceding years, with one exception. At the MA step 9 comparisons, Albert Lea's rank went from 3 to 5 in

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[31] Union Exhibit #6.
[32] Union Exhibit #4.

2008-2009. This change in rank appears caused by an abnormally large 2008-2009 increase (8.5% - 9.3%) in the step 9 rates shown for two of the comparison schools.[33] There is no explanation in the record of this aberration.

Under either Parties proposal, Albert Lea's salary rank among the "Big Nine" group, using the "20-year Career Earnings" comparison, remains number one (1).[34]

Under either Parties proposal, Albert Lea's Salary rank among the Union's "Similar Enrollment" group remains unchanged (number one [1] at the BA minimum; number three [3] at BA Step 9; number three [3] at MA Step 9; number six [6] at Schedule Maximum; and number two (2) at 20-year Career Earnings).[35]

However, two of the schools in the Union's "Similar Enrollment" group are metro schools (Inver Grove Height and South St. Paul). Metro schools tend to fall into different market category than outstate schools. This is evidenced by these schools occupying the number one (1) and two (2) ranks in most of the comparisons. If these two metro schools were removed from the "Similar Enrollment" group, Albert Lea's rank would be number one (1) at BA Step 9; number one (1) at MA Step 9; number five (5) at Schedule Maximum; and number one (1) at 20-year Career Earnings.[36]

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[33] Union Exhibit #4.
[34] Union Exhibit #4.
[35] Union Exhibit #5.
[36] Union Exhibit #5.

Under either Parties proposal, Albert Lea's salary rank in the Union's comparison of selected "Extra Curricular" remains unchanged with two exceptions. In 2008-2009, Head Softball Coach drops from number four (4) to five (5) and Assistant Softball Coach drops from number four (4) to number five (5).[37]

The Employer cautions having too much reliance on external comparisons of minimum and maximum salary rates, as it does not reveal what employees are actually being paid. The Employer also points out that picking a specific step in the salary range for comparison is not a good measure because of the varying number of steps in salary structures among the comparison group. The Employer further points out that salary rates are at times affected by trade offs that do not get properly measured in salary comparisons.

Although the external market comparison data introduced by the Parties is among the most sophisticated this Arbitrator has observed, it is not without limitations. Comparing minimum and maximum salaries captures pay policy but not pay practice. The difference being what teachers could be paid versus what they are actually paid.

The career earnings approach comes closer to pay practice but still does not account for variables such as the length of pay steps, length of pay lanes, and varying conditions for progressing up these steps and lanes. Also, there are variables in supplementary payments, such as Q-Comp, longevity pay, and the

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[37] Union Exhibit #6.

value of the employers benefit plan. These variables can have a significant affect on total compensation, which is not apparent by merely observing salary rates.

In summary, the external market data shows that both the Employer's and Union's position would increase Albert Lea's salaries somewhat less that the average in the comparison groups. However, under either position, Albert Lea's salary rank among the comparison groups would remain essentially unchanged and Albert Lea's salary rates would generally continue to be well above average. Based on a 20-year Career Earnings comparison, Albert Lea salaries rank in the top 15% of 343 statewide school districts.[38]

Financial considerations

Although the Parties present a somewhat different analysis of the District's financial situation, there is no dispute that Albert Lea Area Schools is experiencing difficult financial times.

There has been a trend of declining enrollment in the District for a number of years and projections are for this to continue into the future. The District's primary source of revenue (state aid) is based on enrollment, which means a corresponding reduction in its primary revenue source. This loss of revenue places financial stress on the District because fixed costs do not necessarily decrease at the same rate as enrollment.

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[38] Employer Exhibit #22.

As noted earlier, the District has covered its loss in revenue by drawing down funds from the unreserved-undesignated General Fund Balance to a point of critical concern. The District has also secured supplemental revenue via a referendum approved in late 2007, resulting in increased taxes for citizens of the District. While the Employer would use the projected new revenue from the referendum ($1,775,4529) to shore up the General Fund, the Union proposes to use some of this new revenue ($148,427 or 8.36%) to fund the increased cost of its proposal.[39]

The Employer argues that conserving the additional cost of the Union's position is critical to maintain its financial health and to the maintenance of morale with other employees. The Union argues that the additional cost is manageable within the financial parameters facing the District. While the Arbitrator finds merit in both arguments, it must be decided which is most compelling.

The record shows that an award of the one party's position will not fatally harm the other party. An award of the Employer's position will leave the teachers with a salary increase somewhat below the market pattern, but their salaries will continue to remain in a favorable market position. While it is clear that the Employer needs to conserve every dollar possible, the $148,000 additional cost of the Union's position is within the financial means of the District, although it may require cutting or reducing other budget items the District believes of critical importance.

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[39] Union Exhibit #7-21.

The climate of fiscal restraint in the District is evidenced by settlements at 2% with other bargaining units and contract individuals. It is also evidenced by the Employer's stalwart position resulting in the instant proceeding and its 2% position in the ongoing negotiations with other bargaining units.

The Employer argues that to exceed the 2% settlement pattern it has established with other employees will cause those employees to feel they are bearing an unfair part of the burden in maintaining the Districts financial health. The Employer argues that the likely outcome would be for them to seek retribution in the next round of bargaining ("whipsawing"), which will result in further deterioration of the Districts financial health and an unduly contentious labor-management relations climate.

The Union argues that, although it recognizes sacrifices are called for due to the current economic conditions, the burden should not fall disproportionately on the teachers. The record shows that the Employer's position calls for the same sacrifice from teachers as is being called for from all other District employees.

FINDINGS

Considering all of the evidence, testimony and arguments presented by the Parties, the Arbitrator finds the Employers position most compelling that calls for uniformity in the settlement pattern to maintain employee morale and a

sound constructive labor-management relations climate during this period of necessary fiscal restraint.

The teacher's salary increase of 2%, each year, although somewhat below the market increase pattern, will continue to be in a favorable position in the external market.

AWARD

The Employer's position of a two percent (2%) 2007-2008 salary increase in Schedules A, B, C and ECFE/ABE Hourly Wages is awarded.

The Employer's position of a two percent (2%) 2008-2009 salary increase in Schedules A, B, C and ECFE/ABE Hourly Wages is awarded.

CONCLUSION

The Parties are commended on the professional and thorough manner with which they presented their respective cases. It has been a pleasure to be of assistance in resolving this matter.

Issued this 13th day of March 2008 at Edina, Minnesota.

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Rolland C. Toenges, Arbitrator