IN THE MATTER OF ARBITRATION	INTEREST ARBITRATION
between	
City of Isanti, Minnesota	BMS Case No. 10-PN-1306
-and-	
Law Enforcement Labor Services, Inc., Local No. 217 (Police Officer Unit)	September 28, 2010

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APPEARANCES

For City of Isanti, Minnesota

Frank J. Madden, Attorney, Frank Madden & Associates, Plymouth, Minnesota
Don Lorsung, City Administrator
Irene Bauer, Assistant City Administrator/City Clerk
Clark Joslin, City Attorney
Kristi Smith, City Finance Director

For Law Enforcement Labor Services, Inc., Local No. 217

Dennis O. Kiesow, Business Agent
Daniel J. Vandenheuvel, Police Officer
Dusten B. Noreen, Police Officer

JURISDICTION OF ARBITRATOR

Law Enforcement Labor Services, Inc., Local No. 217 (hereinafter referred to as the "Union" or "LELS") is the certified bargaining representative for six non-supervisory essential licensed Police Officers employed by the City of Isanti, Minnesota (hereinafter referred to as the "City" or "Employer") as defined in Bureau of Mediation Services ("BMS") Case No. 96-PCE-1437, dated April 16, 1996.

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The City and Union (hereinafter referred to as the "Parties") are signatories to an expired contract that was effective January 1, 2008, and remained in full force and effect until December 31, 2009.

The Parties entered into negotiations for a successor collective bargaining agreement. The Parties were unable to during bargaining and mediation to resolve some of their outstanding issues. As a result, on May 14, 2010, the BMS received a written request from the Parties to submit the unresolved issues to conventional interest arbitration. On May 17, 2010, the BMS determined that the following items were certified for arbitration pursuant to M.S. 179A.16, subd. 2 and Minn. Rule 5510.2930:

1. Duration - Term of Agreement - Article 29
2. Wages 2010 - Amount of Adjustment, If Any - Appendix A
3. Wages 2011 - Amount of Adjustment, If Any - Appendix A
4. Insurance 2010 - Plan Design, Employer Contribution - Article 22.1
5. Insurance 2011 - Plan Design, Employer Contribution - Article 22.1
6. Sick Leave Cap - Should Cap Be Increased? - Article 20

The Parties selected Richard J. Miller to be the sole Arbitrator from an arbitration panel submitted by the BMS. A hearing in the matter convened on August 12, 2010, at 9:30 a.m.

in the Library Conference Room at City Hall, 110 First Avenue North, Isanti, Minnesota.

The Parties were afforded full opportunity to present evidence and arguments in support of their respective positions. Pursuant to the statute and agreement by the Parties, the record was closed on August 16, 2010, and post hearing briefs were due on August 30, 2010. The post hearing briefs were timely submitted by the Parties and received by the Arbitrator via e-mail on that date, but after the close of business hours. The Arbitrator then exchanged the briefs via e-mail on August 31, 2010, the next business day, after which the record was considered closed.

ISSUE ONE: DURATION - TERM OF AGREEMENT - ARTICLE 29

POSITION OF THE PARTIES

The current, expired collective bargaining agreement provides for a two-year term, effective January 1, 2008 through December 31, 2009. The Union proposes a one-year term from January 1, 2010 through December 31, 2010. The City proposes a two-year term from January 1, 2010 through December 31, 2011.

AWARD

The duration of the collective bargaining agreement shall be for a one-year term from January 1, 2010 through December 31, 2010.

RATIONALE

The City is located on Minnesota Highway 65 about 40 miles north of Minneapolis. In the 2000 census the City's population was 2,324 and the current population is estimated at 5,204 residents. The City's Police Department employs six Patrol Officers, one Lieutenant, and the Chief of Police. The Union represents the six Patrol Officers.

The City employs 22 non-union employees. The only other unionized group of City employees is four maintenance employees represented by IUOE Local 49. Thus, the City employs a total of 32 union and non-union employees.

While it is true that the other unionized group (maintenance employees represented by IUOE Local 49) settled for a two-year agreement effective 2010-2011, this bargaining unit consists of only four City employees compared to six City Police Officers in the LELS bargaining unit. While six employees versus four employees is not a vast difference; nevertheless, LELS is a larger bargaining unit (one-third larger) and the largest in the City. Most certainly, the smallest group of unionized employees should not exclusively dictate the terms and conditions of the largest unionized group in the City.

The Union's position is a more realistic approach because of the uncertainty of the 2011 economic climate locally, regionally,

state-wide, and nationally and how this climate may trickledown to the City. The Union's position for a one-year contract is also more reasonable as it will allow the Parties to return to the bargaining table to resolve issues for 2011, namely, wages and health insurance, which are the compelling issues at impasse for 2010.

In addition to allowing the Parties to negotiate their own terms and conditions of employment for 2011, there is also the lack of external wage settlements for 2011, which makes it difficult, if not impossible, to implement a fair and equitable award. There are only four of the thirteen comparable city groups (derived from the 2007 comparable worth study conducted by Springstead, Inc.) that have settled contracts for 2011. Consequently, there simply is not enough solid data to support a two-year award in these uncertain economic times. Moreover, the four wage settlements for 2011 (4% - City of Milaca; 0% - Lakes Area - Chisago City and City of Lindstrom; and 0% - Paynesville) are extremely diverse and do not establish a consistent pattern of settlement for 2011. These diverse settlements would tend to skew the data, resulting in an unfair wage award for 2011 for both Parties at this time.

As a result of the Arbitrator's award for a one-year contract for 2010 only, Issue Three - Wages 2011 and Issue Five -

Insurance 2011 are no longer issues at impasse for resolution in this case.

ISSUE TWO: WAGES 2010 - AMOUNT OF ADJUSTMENT, IF ANY - Appendix A

POSITION OF THE PARTIES

The Union's position for 2010 is a 3.0% general wage increase. The City's position is a 0% general wage increase. The City is not proposing to freeze step movement for 2010.

AWARD

A 0% general wage increase for 2010 with step movement.

RATIONALE

The general trend among active Minnesota interest arbitrators is to base their interest arbitration decisions on four highly recognized considerations: the employer's ability to pay; internal equity; external or market comparisons; and other economic factors (e.g., Consumer Price Index, turnover, retention rates, etc.).

It is undisputed by the Parties that our economy whether local, regional, state-wide, or nation-wide is faltering under extreme economic pressures exerted within the United States and internationally. Thus, interest arbitrators can no longer ignore or simply give passive review to the financial condition of an employer. A thorough analysis must be done by an arbitrator to ascertain whether the employer can afford the economic demands

being made by a union, and even if the employer has the ability to pay, should the arbitrator exercise financial constraint in his or her economic awards in these unsettled economic times.

In fact, PELRA endorses the concept of financial constraint by requiring arbitrators in interest arbitration proceedings to consider the "obligations of public employers to efficiently manage and conduct their operations within the legal limitations surrounding the financing of these operations." Minn. Stat. §179A.16, subd. 7 (2009). Not since the early 1980s has the employer's ability to pay become such a paramount consideration in interest arbitration.

In this case, the State of Minnesota's financial condition substantially impacts the financial resources available to the City. Everyone agrees that the State's financial condition is bleak and cannot be ignored. In order to address the budget deficit, the State of Minnesota has unalloted millions in State aid to counties, cities, human service programs, and higher education. Since 2007, the City of Isanti has lost $506,887 in Local Government Aid ("LGA") and Market Value Homestead Credit. The City expects to lose an additional $37,002 in 2011. Given the fact that the State has a $5.8 billion deficit, the City's remaining State aid is at serious risk and jeopardizes the revenue stream to the City.

As a result of the repeated last minute cuts in State aid and the unpredicability and difficulty of making budget decisions based upon speculated receipt of State aid, the City implemented a policy in February 2009 such that any LGA funds received are used as revenue in the following year. This policy allows the City to have additional time to react to any reduction in State aid. (Employer Exhibit #27). If the LGA flip is not accounted for in the 2009 budget, revenues would have been under budgeted by $29,813. (Union Exhibit, p. 118).

As a result of the significant cuts to the City's State aid, the City is more financially dependent on local property tax revenues to fund its expenditures. (Employer Exhibit #23). The City, however, has experienced a decline in the value of its tax base, which has reduced the City's revenue. Specifically, the City's tax capacity rate decreased almost 5% in 2010 and it is estimated to decrease by almost 9% in 2011. (Employer Exhibit #24).

The City has a balanced budget predicted on no general wage increases for any of its employees. An award of any wage increase will significantly impact the budget and the City's ability to fund it, since 65% of the budget is personnel costs and the Police Department represents the largest expenditure in the City's general fund budget.

The 2010 budget was not balanced solely on the "backs" of City employees. The 2010 budget was also balanced on cuts such as $107,500 in street maintenance projects including seal coating, crack scaling, and patching. In addition, $162,376 was transferred from the capital replacement fund to the general fund. (Employer Exhibits #23, 28). This same magnitude of cutting expenditures for the 2011 budget is a priority with the City to offset the anticipated reduction in revenue. Clearly, the City has been proactive in reducing expenditures in order to manage its budget in a fiscally responsible manner with reduced revenues.

The Union presented information from the City's budget documents for 2009 showing the fund balance for the City as of December 31 was in excess of $1,952,758. (Union Exhibit, p. 92). The City's external auditor recommends that the amount of unreserved fund balance in the general and special revenue funds as of December 31 be approximately 40 to 50 percent of fund operating revenues, or no less than five months of operating expenditures. The City's December 31, 2009 fund balance, measured at its peak, was 69% of the next year's budgetary expenditures. If the LGA flip policy is not accounted for in the 2009 budget, the City's fund balance would have been 55% of the next year's budgetary expenditures. This is consistent with the

average fund balance for 4th Class Cities (populations 2,500 to 10,000) of 55%. (Union Exhibit, p. 117). This fund balance is used for the City to pay its bills from cash flow until the tax payments are received by the City. This requires a minimum of 50% of operating revenues. The City's fund balance also helps the bond rating which in turn keep interest rates low for borrowing money. The City's bond rating is impacted by reductions in the fund balance.

Based on a five year projection, which assumes continued property valuation changes of a 10% reduction in 2011, 5% reduction in 2012, and no change in 2013 and 2014, and a 1% increase in 2015, and the elimination of LGA in 2011 and going forward, the City's fund balance decreases from approximately 70% of operating expenditures in 2009, to 46% of operating expenditures in 2010, and 4% of operating expenditures in 2011. In 2012, the City will be in the red as the fund balance will be a deficit amount of -30% of operating expenditures. (Employer Exhibit #26). This projection is consistent with the findings of the Humphrey Institute's study wherein they found that if current revenue and spending trends continues and no policy changes are made, Minnesota cities will be broke by the year 2015. (Employer Exhibit #13). Consequently, the City must be financially responsible and its expenditures must be sustainable.

The Union assets that its proposed wage increase of 3.0% in 2010 will cost the City only $9,941.40 in additional monies. (Union Exhibit, p. 93). The Union's estimate ignores the "roll-up" automatic costs to the City of any wage increase, including PERA contributions in the amount of 14.1% in 2010, FICA payments, workers compensation, and overtime pay. These wage payments to Police Officers become fixed permanent ongoing costs to the City after implementation.

In its presentation, the Union was critical of the City's budget decisions and suggested that the City Council could simply raise taxes to increase revenue to the City. To the contrary, citizens are already being heavily taxed by the City. For example, the net tax levy already ranks in the top one-fourth for cities over 2,500 in population. (Employer Exhibit #25). The City spends more per capita on public safety in comparison to 4th Class Cities (populations 2,500 to 10,000). Residential home values have decreased significantly in the City so additional taxation is an addition burden on the taxpayers and is not the preferred solution to increase revenue.

While the above evidence shows that the City may have the ability to pay for the 2010 wage increase proposed by the Union, any wage increase would be viewed in strict scrutiny by the general public and elected officials.

An internal comparison is also one of the recognized criteria in interest arbitration. Uniformity in settlements, including wages and benefits, among all employee groups is of great importance in maintaining labor relations stability, employee morale, and avoiding "whipsaw" bargaining.

There has been a long history in the City of consistent wage settlements among the two bargaining units and non-union employees. For 2010, the internal pattern of a 0% general wage increase has been established for the other unionized group (maintenance employees represented by IUOE Local 49) and non-union employees. (Employer Exhibit #41). The salary award is identical to the consistent internal settlement pattern established over many years. The salary award also allows for a step wage increase, if a Police Officer is so eligible for movement on the salary schedule.

The Union's argument regarding internal factors relates to pay equity. The evidence establishes that the City is in compliance with the Local Government Pay Equity Act. (Employer Exhibit #45). In addition, Pay Equity supports an award of the City's final position on compensation. The Police Officer classification is a male-dominated class of employees that is currently $2.61 per month above predicted pay. (Employer Exhibit #44).

The Parties agree, in part, to an external comparison of cities of similar size and proximity to Isanti that were used in a 2007 market survey conducted by Springstead, Inc. for the City Police Officers. This survey included sixteen cities (excluding Isanti): Becker, Big Lake, Cambridge, Centerville, Chisago City, Foley, Lindstrom, Milaca, Mora, Paynesville, Princeton, Rush City, St. Francis, Wyoming, North Branch, and Rogers. (Employer Exhibit #46). It should be noted that Chisago City and Lindstrom combined police departments and are known as Lakes Area. In addition, Foley, Mora, and Rush City have no police departments. Thus, the comparability group is reduced to thirteen cities with police departments. (Employer Exhibits #48, 49).

Isanti Police Officers are paid very competitive salaries. Even with a 0% general wage increases in 2010, wages for Isanti Police Officers will exceed the average maximum wage paid in the comparison group. (Employer Exhibits #53, 54).

The external data also demonstrates that many cities in the comparison group have settled for 0% for 2010: Chisago City, Lindstrom, North Branch, Paynesville, Princeton, Rogers, and Wyoming, which is more than half of the comparison cities. (Employer Exhibit #50).

The external comparison data also demonstrates that if a comparison city agreed to provide a wage increase in 2010, many

of those settlements were part of either a multi-year contract and/or were completed prior to the Governor's unallotment of State aid in December 2008. (Employer Exhibit #50). There have been significant changes in the economy and State aid received by local units of government since these settlements were reached.

The trend for a 0% wage increase is not exclusively limited to cities. For example, the State of Minnesota, Hennepin County, Dakota County, and the majority of Washington County all settled for 0% wage increase for 2010, some with and some without step movement.

The final consideration is other economic factors (e.g., Consumer Price Index, turnover, retention rates, etc.).

The CPI for Urban Wage Earners and Clerical Workers for the first half of 2010 (through June) was 3%. (Union Exhibit, p. 214). There are, however, reports from economists in August 2010 that indicate we are likely entering a period of deflation with declining demand, prices, and wages. (Employer Exhibits #22A, 22B). Given this indication, it is likely that the 2010 CPI is headed toward zero or a negative CPI similar to what occurred in 2009.

Whatever impact that the CPI may have on Police Officers is also the same impact that is felt by all other City employees who also received a 0% wage increase. Given this internal wage

pattern, the CPI should have no impact on the award in this matter.

Attraction and retention is another component of economic factors. The City has excellent attraction in its Police Officer unit. In 2007, the City received 38 applications for a vacant position. (Employer Exhibit #43). The City has had very few separations. (Employer Exhibit #42). Thus, attraction and retention are not important issues in this case.

Based on the foregoing considerations, the evidence overwhelmingly supports a salary award of 0% for 2010 for Police Officers.

ISSUE FOUR: INSURANCE 2010 - PLAN DESIGN, EMPLOYER CONTRIBUTION - ARTICLE 22.1

UNION POSITION

The Union's position is to retain the current health insurance plan design and contract language in Article 22.1 as follows:

> 22.1 Health Insurance. The Employer will provide a health and medical care insurance program to all employees. Employer will pay 100% of the premium for single coverage. Effective 2004 the employee shall be required to contribute $100.00 plus the percentage of increase in the city's policy for health care coverage (example 17% increase in rates, employee contribution is $117.00). For each year thereafter, for the duration of this agreement, the employee contribution for the previous year shall increase annually by the same percentage as the increase in the city's policy for health care coverage.

CITY POSITION

The City proposes to revise the contract language as follows:

> 22.1 Health Insurance. The Employer will provide a health and medical care insurance program to all full-time employees. The Employer will pay 100% of the premium for single coverage health insurance. Employees choosing dependent care health coverage will be required to pay according to the current City policy in place as of 3/24/10. Essentially employee contributions toward the premium costs of dependent coverage will increase by the same percentages as the City's overall policy cost increase for the foreseeable future, however it is agreed that the current contribution policy will continue beyond the term of this Agreement only if renegotiated and agreed upon as part of any future labor agreement between the Employer and the Union. The Employer shall have sole discretion in choosing and designating the health and medical care group insurance plan provided that such plan shall be the same plan as available to non-union employees of the City, and shall provide coverage and benefits at least equivalent to the coverages provided under the Blue Cross/Blue Shield "120 Group Plan" as set forth in the attached Schedule B. Employer will pay a lump sum stipend of $1,000.00 in 2010, and $1,000.00 in 2011 to each employee to reduce the financial impact upon employees during 2010 and 2011 resulting from the change to the higher deductible and co-pay costs resulting from the change from the former Aware Gold Health Insurance plan to the "120 Plan." These stipends will not be continued after 2011 as they are intended only as a two-year temporary transitional benefit and not a permanent contract benefit. Employer and employees understand and acknowledge that the stipends herein provided will be subject to all applicable payroll taxes and withholding.

AWARD

The Employer shall retain the current health insurance plan design and contract language in Article 22.1.

RATIONALE

The City is proposing the modification of the health insurance plan and contribution formula so that the Police Officers will have the same health insurance plan and contribution formula as all other City employees. Specifically, the City is proposing to replace the current "Cadillac" Aware Gold health insurance plan with the 120 Plan - a comprehensive major medical $500 deductible health plan effective on July 1, 2011. In order to reduce the financial impact on employees during 2011, resulting from the change to the 120 Plan, the City's final position includes the payment of a $1,000 stipend in 2011 to each Police Officer.

It is undisputed that Police Officers cannot be enrolled in the 120 Plan for 2010, even if it had been awarded by the Arbitrator, because the Aware Gold shall remain in effect until July 1, 2011. All of the other City employees have had the 120 Plan since July 1, 2010.

Retaining of the current plan coverage and method of determining premium cost sharing for 2010 is acceptable to the Union. However, the Union remains vehemently opposes the Employer's proposed language because it removes negotiated terms and conditions of employment from the collective bargaining agreement and places them in a non-bargained policy. This

radical change places the determination of benefit levels solely in the hands of the City. Consequently, the bargaining unit no longer bargains this issue; it merely gets what the City is willing to give. This radical change is in stark contrast with the principles of PELRA.

The 120 Plan shifts an unreasonable increase in medical expense onto the employee. While the 120 Plan includes the same co-pays as the current plan, it adds a $500 deductible for single and $1,000 for family subscribers. The 120 Plan also increases the maximum out of pocket considerably from $1,500 per person to $1,800 for single and $5,000 for family. In addition, the employee and family will quickly reach the maximum out of pocket and pay much more under the 120 Plan as this Plan has an 80/20 co-insurance for most medical treatments. This is a major change as the current plan pays at 100% after the co-pay.

The City argues that since the new 120 Plan was accepted by the other bargaining unit and was imposed on the non-union employees, the Arbitrator must accept the Employer's position in order to maintain internal consistency among all City employees. The Employer's argument fails to recognize that the City is keeping the current plan for Police Officers for 2010, which is the duration of the one-year agreement awarded by the Arbitrator, and also for the first half of 2011 until July 1, 2011. Since

the Arbitrator awarded a one-year contract for 2010 only, he has no jurisdiction to award the Employer's position for 2011. This demonstrates the same health plan for all employees does not exist for 2010 and negates any internal consistency argument.

The Union is not in agreement with the Employer's position because of the 0% general wage increase and the Employer's offer of a fully taxed $1,000 stipend for 2011. This is not an acceptable quid pro quo for the Union. As a result, this sensitive issue to best left for the Parties to resolve during successor collective bargaining for 2011.

ISSUE SIX: SICK LEAVE CAP - SHOULD CAP BE INCREASED? - ARTICLE 20

POSITION OF THE PARTIES

The Union requests that the sick leave maximum accumulation cap be increased from the current 480 hours to 960 hours. The City proposed no change to the current contract language of a maximum accumulation cap of 480 hours.

AWARD

Maintain the current sick leave maximum accumulation cap of 480 hours.

RATIONALE

Employees currently accrue up to a maximum of 480 hours of sick leave. In accordance with Article 20.3 of the contract,

employees receive 50% of all accumulated sick leave, with the maximum accumulation of 480 hours, upon retirement or resignation in good standing. Based on Article 20.6 of the contract, employees can "sell back" up to 6 days per year if they are over the 480 hour sick leave maximum. If a 960 hour sick leave accrual maximum was incorporated in the contract, future payouts would be significantly larger based on the increase in the cap. Accordingly, the Union's position would result in a large unfunded liability for the City, and in effect, doubles the City's liability at the time or retirement or resignation.

In addition to financial considerations, the City's position is supported by the clear internal pattern. No other employee group at the City has a 960 hour sick leave accumulation cap. Rather, all City employees have the same sick leave maximum accumulation cap of 480 hours. (Employer Exhibits #67-70).

The current sick leave accumulation cap was negotiated and has been present in the Parties' collective bargaining agreements since 2001. (Employer Exhibit #67). Of the six members of the Police Officers bargaining unit, the vast majority have sick leave accruals far less than 480 hours. In fact, only one Police Officer has more than 480 hours, and he is at 503 hours. (Employer Exhibit #66). Thus, there is no need at this time to increase the sick leave accumulation cap to 960 hours.

The Parties are to be complimented on their professional conduct at the hearing and the comprehensiveness of their oral presentations and their written briefs.

Richard John Miller

Dated September 28, 2010, at Maple Grove, Minnesota.