BEFORE THE ARBITRATOR

In the Matter of the Final and Binding Interest Arbitration Dispute between

RACINE WATER WORKS UTILITY

and

WATER WORKS LOCAL 63, AFSCME, AFL-CIO

WERC Case 699, No. 63550, Int/Arb-10190
Dec. No. 31232-A

Appearances:

Mr. Thomas G. Berger, District Representative, AFSCME Council 40, AFL-CIO, P.O. Box 044635, Racine, WI 53404-7013, appearing on behalf of the Union.

Davis & Kuelthau, S. C., by Mark L. Olson, Esq., 111 East Kilbourn Ave., Suite 1400, Milwaukee, WI 53202, appearing on behalf of the Employer.

ARBITRATION AWARD

The Union has represented a bargaining unit of Water Department employees for many years. On April 8, 2004, the Employer filed a petition with the Wisconsin Employment Relations Commission requesting arbitration with respect to the replacement for the parties' collective bargaining agreement which expired December 31, 2003. Following mediation by a member of the Commission's staff, the Commission determined by order dated February 1, 2005 that arbitration was required. The undersigned was appointed by Commission order dated March 3, 2005. A hearing was held in Racine, Wisconsin on July 12, 2005, at which time the parties were given full opportunity to present their evidence and arguments. Briefs and reply briefs were filed by both parties, and the record was closed on October 24, 2005.

Statutory Criteria to be Considered by Arbitrator
Section 111.70 (4) (cm) 7

7. 'Factor given greatest weight.' In making any decision under the arbitration procedures authorized by this paragraph, the arbitrator or arbitration panel shall consider and shall give the greatest weight to any state law or directive lawfully issued by a state legislative or administrative officer, body or agency which places limitations on expenditures that may be made or revenues that may be collected by a municipal employer. The arbitrator or arbitration

panel shall give an accounting of the consideration of this factor in the arbitrator's or panel's decision.

7g. 'Factor given greater weight.' In making any decision under the arbitration procedures authorized by this paragraph, the arbitrator or arbitration panel shall consider and shall give greater weight to economic conditions in the jurisdiction of the municipal employer than to any of the factors specified in subd. 7r.

7r. 'Other factors considered.' In making any decision under the arbitration procedures authorized by this paragraph, the arbitrator or arbitration panel shall also give weight to the following factors:

a. The lawful authority of the municipal employer.

b. Stipulations of the parties.

c. The interests and welfare of the public and the financial ability of the unit of government to meet the costs of any proposed settlement.

d. Comparison of wages, hours and conditions of employment of the municipal employes involved in the arbitration proceedings with the wages, hours and conditions of employment of other employes performing similar services.

e. Comparison of the wages, hours and conditions of employment of the municipal employes involved in the arbitration proceedings with the wages, hours and conditions of employment of other employes generally in public employment in the same community and in comparable communities.

f. Comparison of the wages, hours and conditions of employment of the municipal employes involved in the arbitration proceedings with the wages, hours and conditions of employment of other employes in private employment in the same community and in comparable communities.

g. The average consumer prices for goods and services, commonly known as the cost of living.

h. The overall compensation presently received by the municipal employes, including direct wage compensation, vacation, holidays and excused time, insurance and pensions, medical and hospitalization benefits, the continuity and stability of employment, and all other benefits received.

i. Changes in any of the foregoing circumstances during the pendency of the arbitration proceedings.

j. Such other factors, not confined to the foregoing, which are normally or traditionally taken into consideration in the determination of wages, hours and conditions of employment through voluntary collective bargaining, mediation, fact-finding, arbitration or otherwise between the parties, in the public service or in private employment.

The Employer's Final Offer

1. Duration: Two (2) years, January 1, 2004 through December 31, 2005.

2. Salary:
   A. 2004: +3.5% Effective January 1,2004.
   B. 2005: +3.5% Effective January 1,2005.
   C. Standby / Relief Standby: Increase daily rates by 3.5%, effective January 1, 2004; January 1, 2005.
   D. DNR Licenses / Shift Premiums: Increase hourly rates by 3.5%, effective January 1, 2004; January 1, 2005.
   E. Electrical Technician: Adjust wages for this position for employees to receive $0.25 per hour additional increase in 2005, in addition to the standard 3.5% increase.

3. Health Insurance:

   A. Deductibles:
      1) 2004: No Change. ($200 / Single and $500 / Family.)
      2) 2005: $300 / Single and $600 / Family.
   B. Lifetime Insurance Continuation Benefit: Delete benefit for employees hired on or after December 1, 2005. Post-retirement insurance benefits (same as pre-December 1, 2005 hires) available until Medicare eligibility for such employees.
   C. Lifetime Maximum Benefit: Increase amount from $1.5 million to $2.0 million, effective January 1, 2005.

4. Incorporate ALL tentative agreements submitted between the parties in the 2004 - 2005 collective bargaining negotiations.

The Union's Final Offer

All tentative agreements reached by the parties through the last negotiation meeting held on July 11,2004.

Article 25 Insurance	
Annual deductibles effective January 1, 2004	No change to current coverages

Annual deductibles effective January 1, 2005	$300 single coverage
	$600 family coverage

Lifetime maximum to be increased January 1,2005 to $2,000,000.

Appendix "A" Wages

Increase wage rates across the board effective January 1,2004	2.5%
Increase wage rates across the board effective January 1,2005	3.0%

The Employer's Position

The Employer argues that it has historically paid 100% of both single and family health insurance premiums, and is not attempting to modify this pattern, even though premiums have increased 26.9% from 2003 to 2005. The Employer argues that the cost of providing lifelong benefits to retirees, however, is now prohibitive, with retiree claims amounting to 53.2% of total medical claims in the Water Utility in 2002, 20.8% in 2003, and 33% in 2004. Claims for retirees over 65 years old, and therefore eligible for Medicare, amount to 30% of all retirees' claims in 2002, 90.5% in 2003, and 40.7% in 2004. Furthermore, retiree prescription claims from the beginning of 2003 through April, 2005 are almost exactly two-thirds of all prescription claims filed with respect to the Water Utility.

This pattern, the Employer argues, takes place in the context of new accounting rules applicable to governments (GASB 45), which are about to highlight the costs and place them in full public view. The Employer argues that the record shows very high costs to the Utility from both medical claims and drug prescriptions filed by retirees, and that the Utility has sought to address these spiraling costs by capping them for the future, rather than by limiting the benefit of any current employee. The Employer calculates that its costs render it vulnerable to privatization, a pressure not felt by actual departments of the City of Racine, and that the Utility differs from city units in other respects which make city bargaining units not true internal comparables. The Employer also argues that contrary to the Union's apparent impression based on the hearing, the Water Utility has no new source of revenue available, as its supplying of water to outlying municipalities is long-standing (it also argues that even the Wastewater Utility, which has a new compact with outlying municipalities, will derive no revenue from this that are allocable to labor costs, since it provides revenue sharing only for capital projects and plant development.) The Employer costs the final offers at 3.17% for its own package and 2.1% for the Union's package in 2004, and 6.55% for the Employer's package and 6.22% for the Union's package in 2005. The Employer argues that for 2004, its own proposal exceeds the CPI increase, while Union's does not, a factor favoring adoption of the Employer's proposal.

The Employer argues for a pool of comparables that includes Appleton, Green Bay, Janesville, Kenosha, Madison, Milwaukee, Oshkosh, Sheboygan, Waukesha, Wauwatosa, and West Allis, based on a 1987 award between these parties by Arbitrator Frank Zeidler. The Employer

argues that the Union erroneously excludes Wauwatosa and West Allis, apparently because some of their water supply is by the city of Milwaukee, but that these communities are both included in the 1987 award establishing the comparable pool, and have positions in their collective bargaining agreements which parallel some of those at the Racine Water Utility. The Employer argues that Racine is a wage leader among this pool and that the Employer's proposal will continue that pattern. The Employer also argues that the retiree health insurance benefits offered by Racine Water Works exceed those of any other water utility in the comparable pool, in most cases by a very large margin, as the most generous among the others typically require some payment by retirees and/or greater amounts of service, or cut off the benefit as of a retiree's eligibility for Medicare, as the Employer's proposal here would do. The Employer contends that the benefit in question is so expensive and so in excess of what other comparable employers are doing that no quid pro quo is actually required, under decisions by a number of arbitrators. Nevertheless, the Employer argues, it has made a generous quid pro quo offer.

In comparison, the Employer argues, the Union's attempt to maintain the status quo is both misplaced and unrealistic. The status quo, the Employer argues, cannot actually be maintained, because the factors comprising that status quo — particularly health insurance premiums, the cost of prescription drugs, and the proportion of the population that is aging — continue to rise year by year. Still, the Employer argues, it is willing to maintain the existing benefit for all existing employees, arguing in detail that this is not a substitute for any shortfall in other benefits, based on item by item comparison of call-in pay, sick leave, worker's compensation, vacation, holidays, funeral leave, WRS, overtime pay, jury duty, standby pay and health insurance across the external comparable pool. The Employer also argues that local economic conditions should be considered, and that these are adverse because of layoffs in the area and because of the relatively high amount of shared revenue received from the state, which in turn is based on a calculation of local economic assets and needs.

In its reply brief, the Employer argues that the Union has offered no solution, and disputes the Union's claim that its offer is less costly than that of the Utility, because the Utility incorporates a future cost control. The Employer objects to the Union's reference to the City as the employer, arguing that this is a misleading concept because of separate governance and separate types of revenue. It objects to the Union's analysis of health insurance comparisons with other water utilities, because employees' out-of-pocket costs in most of the other units are not calculated by the Union to include the premium sharing obligations which those employees have and which Racine Water Works employees do not have. The Employer argues that its health insurance package overall is more than competitive. The Employer also objects to the Union's assertion that the Employer should have offered an alternative method to fund retiree health insurance benefits in future, arguing that the Union offered no evidence that it had ever proposed such an alternative itself, or indeed any other method for controlling retiree health insurance costs in future.

The Union's Position

The Union argues that the "greater weight" factor favors the Union's proposal, to the extent that it is relevant, because the Union's offer is less costly than the City's. But the Union argues that comparables are much more important, and that the Union's proposal mirrors the cumulative wage increases over the three-year period of 2003 to 2005 among other represented units of the City of Racine, being identical to most in 2004 and 2005; while a few units had larger increases in one year or another, they all balance out essentially the same if 2003 is also taken into account. Similarly, the Union argues, its proposal matches retiree health insurance provisions in all bargaining units of the City of Racine except for the crossing guards and the Wastewater unit, which is also open for bargaining. The Union contends that fairness and consistency require that the same benefit be maintained here. External comparables, in the Union's view, show wages for an operator at about the median among the external comparables weighed by the Union, while health insurance costs to the Employer have been at or below the median of the external comparables.

The Union pays particular attention to the out-of-pocket costs to employees from deductibles and prescription drugs, as well as coinsurance, and argues that Racine Water Utility employees pay 20% of the cost of generic prescription drugs in both 2004 and 2005 where most of the comparables' employees pay closer to 5%; that Racine family insurance premiums are rising, but are toward the low end of the comparable pool in both years; that both single and family plans in Racine have deductibles in 2004 that are above the average of the comparables, and are even more above the average with the increased levels mutually agreed on for 2005; and that maximum employee payouts for coinsurance for both single and family plans in the Racine Water Utility are far higher than any of the comparables for both years. In sum, the Union argues that the total compensation of the Water unit's employees, including wages, health insurance and other benefits, are in line with external comparables, but in no way excessive.

The Union argues that in light of this pattern, the Employer is fully required to meet the usual tests of whether a change in the status quo is warranted. Noting that arbitrators have differed to some degree on the definition of those tests, the Union argues that the first test, whether defined as an unanticipated problem or a need for the change, is not demonstrated as met in a situation where the premium costs, even including the retirees, are lower than nearly all of the external comparables, while out-of-pocket costs show that Racine employees pay more than any of the external comparables. The Union also disputes the testimony by the Utility's General Manager, Tom Bunker, concerning the impact of GASB 45, arguing that the City needs to continue to account and budget for all current employees anyway, that projections of these costs are inevitable, and that budgets are routinely built upon such projections.

With respect to the second test of a proposed change in the status quo, the Union argues that the City's final offer does not reasonably address the problem, because any potential benefit or savings that may occur will not show a savings for at least 35 years, assuming that new employees are hired relatively young, i.e. at about age 30. The third test, the Union argues, is that a comparison to the appropriate comparables must demonstrate a need for a change; here,

the Union argues strongly for use of the City of Racine bargaining units as the key comparables, pointing out that all of these units that have full-time employees continue to have the same benefit under current contracts. Even in the Police Department, where the Employer has proposed a change in health insurance, the Employer does not propose this change, and recently reached a tentative agreement without a cap on retiree health benefits ever being discussed.

The Union argues that the quid pro quo offered by the City is unacceptable, because the City offers a 1.5% additional wage increase for all employees, but no mechanism to replace the lost benefit for employees hired after December 1, 2005. Retiree insurance, the Union argues, is a vital benefit, and the quid pro quo is woefully inadequate, particularly since it does nothing for the employees who stand to suffer the loss while offering a slightly higher wage increase to current employees who will not be affected. The Union further argues that the Employer's approach creates a two-tier system, which is divisive in a unit of only 28 members. For these reasons, the Union argues, the City has failed each portion of the multi-prong test applied by most arbitrators, regardless of which version of that test is used. The Union points to a City of Oak Creek decision by arbitrator Stephen Briggs (Dec. No. 20634-A, 10/28/83), noting that the employer there sought to reduce its contribution toward retiree insurance premiums for new hires, and quoting Arbitrator Briggs as stating

> "The City is attempting to change a 10 year old status quo. Accordingly, it has the burden of demonstrating to the Arbitrator that its position is the more reasonable when judged against statutory criteria. On the public interest criterion, however, the Arbitrator is not convinced the reduction in city premium payments for retiree health insurance is more reasonable. As the Association correctly pointed out, City costs for such contributions would not be reduced for approximately 30 years. And there is nothing in the record to suggest that the City could not reasonably meet those expenses when they occur. Moreover, the City did not argue that it would not be able to do so, or that it would have to significantly raise taxes to meet related financial burdens."

The Union argues that the situation here offers a significant parallel, with the additional factor that the accounting changes relied on by the City do not take effect or impact the City for another year, so there is no urgency under this contract for elimination of a benefit collectively bargained over 30 years ago. Finally, the Union argues that the City has the ability to pay, based on water rates in the record that show that the City has lower water rates than many of the comparable communities, including Kenosha, and that in any event the Union's final offer is 1.5% less over the contract term.

In its reply brief, the Union argues that internal comparables have been found to carry more weight than external, where the dispute involves fringe benefits that are held in common. The Union points to the Employer's position in the previous case involving the same parties in 1987, noting that the Employer then argued that the historical internal settlement pattern lent support to its wage proposal, citing the city hall, police department clerical staff, nurses,

crossing guards, police and fire units, and referring to these as "other City employees" who had accepted fiscal restraint. The Union argues that the Employer's own words at that time put to rest the claim that the City of Racine units are not the primary comparables to the Water Utility. The Union reiterates that its proposal maintains the benefit in question at the same level as other City of Racine bargaining units, and that its wage proposal is identical to recent settlements in those units. With respect to the external comparables, the Union argues that the external comparables' wage settlement pattern is all but identical to the Union's proposal here, and that the Union here has agreed to high deductibles and very high maximum out-of-pocket costs, offsetting both the benefit disputed by the Employer and the fact that the Employer pays the full premium. This, the Union asserts, puts into context the undeniably generous retiree health insurance benefit, along with the fact that the eligibility requirement (governed by a "rule of 75") is more stringent than the various requirements in the external comparables. But the Union lays particular stress on the principle that while this particular benefit may be generous, it has been bargained at the sacrifice of other fringe benefits enjoyed by employees of other municipal units — such as dental insurance in many of the external comparables, which these employees do not have.

Discussion

This is an unusual case on several levels, to the point where traditional costing reveals little. The Employer seeks, in a nutshell, to obtain a cap on what it has demonstrated is an extraordinarily expensive benefit, where all current employees are not only insulated from the effects of the cap, but will receive the same quid pro quo as the future employees, not yet hired, to whom the cap will actually apply. The rate of replacement of the current pool of employees cannot be known.

Furthermore, the first new employee to feel the actual effects of the cap on retiree health care will not actually feel those effects for decades — 35 years, if the employee is hired at age 30, and if Medicare both continues to exist in its current form and keeps the same eligibility age for that long (both of which are tall assumptions.) For this, the Employer offers to pay up front.

There is no doubt on this record that the Union's salary proposal represents the pattern of settlements, internal or external. There is also no doubt that Racine Water Utility is in no sense in a catch-up situation. The record is replete with exhibits demonstrating the range of variation in one benefit or another enjoyed by this bargaining unit in comparison to water utilities with which the Employer has previously been compared in other locales. (With respect to City of Racine units including the Wastewater Utility in Racine, there is general consistency in benefits.) But the Union does not argue that the Employer's proposal is in any way accounted for by a need to catch up in any benefit area, and the record shows that all in all, the employees in this bargaining unit are well up among the external comparables in wages and benefits. No more exact measurement is useful, under the circumstances: It is clear that the

additional 1.5 percent wage boost over two years represented by the Employer's offer in comparison to the Union's is entirely accounted for, as the Employer argues, as a quid pro quo for the insurance change sought.

As to the appropriateness of an external versus internal comparison, the record is mixed. First, there is some dispute over the external comparables; but while, in view of the above, there would be little consequence to modifying the pool, I see no reason to do so, and accept the external comparable pool as previously decided in 1987 by Arbitrator Zeidler. There is no question that Racine's Water Utility provides a far more generous retiree health insurance benefit than the average of the external comparables. Indeed, as the Employer argues, it is the only such utility in the comparable pool to provide an uncapped benefit for life entirely at the employer's expense. This is also a partial answer to the Union's contention that retiree health insurance is a "vital" benefit: water utility employees are hardly the lowest paid among municipal employees generally. The fact that among the external comparables in this type of unit, all of which are also among the better-paying cities in Wisconsin, not one offers the benefit at the level present here, suggests that the parties in units similarly employed have not agreed that such a generous level, at least, is vital.

The Wastewater Utility is also open for bargaining, with essentially the same respective proposals on the table. The "conventional" City of Racine bargaining units are mostly settled, on terms essentially similar to the Union's proposal here. Thus one potentially crucial question is whether, as would be more typical in a benefits-oriented dispute, internal comparables should be weighed more heavily than external.

Most arbitrators, most of the time, have found internal comparables somewhat more significant than external comparables on fringe benefit issues, because of the obvious value in keeping consistency on something so easily compared by employees themselves across bargaining units within a single employer. Here, the Employer argues vigorously that it is not the same employer as the City of Racine. I note that there are prior arbitrators, as argued by the Employer, who have sometimes found that publicly owned utilities are in a somewhat different position from most city bargaining units, essentially for the reasons argued here by the Employer: they have their own economic sources in fees rather than taxes, they tend to have their own governing bodies, and the cities in question exercise looser control than over, say, City Hall or the Police Department. Yet the membership of the governing body of the Racine Water Utility is heavily within the control of the political establishment of Racine, and there have been many situations in which arbitrators have treated water utilities as similar enough to other city bargaining units to be included in the internal comparable pool. Indeed, this was the position of the Employer the last time these parties pursued a dispute to interest arbitration. I conclude that both the internal and external comparables are strongly relevant in this situation, but that because the water utility is not a typical city department, the usual preference for internal comparables on a fringe benefit issue is weakened. With the internal comparables strongly favoring the Union and the external comparables strongly favoring the Employer, I conclude that on balance these factors slightly favor the Union's final offer.

The Union has correctly pointed out that there is no immediate threat of privatization, and that the GASB 45 standards will not take effect until a year after the contract now in dispute. To this extent, the Union's argument that there is no immediate need to make a change has some logic, particularly since the Employer's proposal, for a long time, will only cost money, at least in labor cost terms, while not saving any for a period of several decades.

Against this, the Employer offers essentially a relatively sophisticated financial argument, whose underlying significance is all too easy to overlook. The Employer's best point, in essence, is that a failure to make any provision for remedying a situation which has gotten seriously out of balance renders the Utility vulnerable to external pressures, whether in the form of privatization, higher interest on bonds, or some form of "unknown," while good management requires planning and avoidance of such to the extent possible. The Employer's argument that GASB 45 is inevitable and that it will place the "long tail" liability created by the retiree insurance provision in a stark and highly public light stands without rebuttal by the Union. (It is also worth noting that the accounting rule change takes place in 2007. Given how long many contracts in Wisconsin and the public sector take to negotiate, e.g. the fact that this proceeding did not go to hearing until 18 months into the two-year contract involved, the Employer's concern for the timing does not appear premature.) The costs of the benefit, simultaneously, stand without effective rebuttal; the Employer has demonstrated that a high percentage of its overall insurance costs are accounted for by retirees over the age of 65. The pattern, furthermore, is one of continuously rising costs.[1] The underlying significance, though, in my view, is centered on the likely financial consequences, as this operation is capital-intensive and requires bond financing. The degree to which GASB 45's disclosure of "long tail" financial liabilities will drive up financing costs and undermine the Employer's financial viability is, admittedly, speculative. But the recent sad history of some major and formerly rock-solid private companies, at least partly for reasons related to their obligations to retired employees, suggests that the Employer's concerns are not mere fantasy.

Thus it matters that the Union makes no proposal to address a situation in which its best argument against the Employer's proposal is that the Employer has been so restrained in that proposal that no savings are to be had for many years, because no current employees are affected. In this situation, I conclude that the Employer has shown the need for a change.

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[1] This, along with the enormous increase in the relative cost of health insurance since 1973 as compared to wages or most other benefits, distinguished the situation here from that presented to Arbitrator Briggs in the 1983 Oak Creek case noted above.

Again, it is a relatively sophisticated argument that the Employer makes as to the nature of the proposed remedy, because the kind of straightforward cut in premium contributions or immediate benefits applicable to employees generally, or more to the point to retirees, which many employers have been bargaining for in recent years, is not what is on the table here. But in view of the fact that employees in Racine are paying substantial out-of-pocket costs in the form of co-pays and deductibles, as well as of the fact that in the very expensive insurance premiums typical in southeast Wisconsin, Racine's is well short of the highest, the record adequately demonstrates that it is the retiree health insurance costs, particularly over age 65, that stand out here. Thus the Employer's proposal appears to be an appropriately targeted response to the particular problem.

The Employer disputes whether a quid pro quo would even be required for a change that does not apply to any existing employee and that has no effect even on future employees for many years. There is no need to evaluate the case in these terms, however, because the Employer has offered such a clear quid pro quo. The Union objects that in a final offer targeted to the problem of retiree health costs, the Employer should have made some provision that was responsive to retirees' future health needs, by offering some kind of alternate coverage. This deserves a direct answer. I find that the fact that the Employer has provided a substantial quid pro quo, in a form which individual employees can very easily turn into their own choice of future-oriented substitute, is actually a powerful argument in favor of the Employer's final offer. Here, a full 1.5 percent of the proposed wage boost is directly attributable to the quid pro quo element. Ignoring for the moment the "windfall" aspect of this to current employees who are not subject to the capped benefit, the reality is that any future employee who is concerned about availability of a retirement health supplement, over and above Medicare, is free to put one and a half percent of wages into an IRA or similar account to grow tax-deferred toward that objective.

There is no way to avoid making large assumptions in any attempt to calculate what the resulting amount might look like. But I will at least try to make such a calculation for illustrative purposes; to avoid making such assumptions is to abdicate calculation entirely.

When knowingly making large assumptions of this kind, I believe the safest choice is to adopt those assumptions that well-regarded fiduciaries, already charged with the interest of the same employees in an uncertain world, have determined to be the best available. In this instance, all of the employees affected have the Wisconsin Retirement System as their primary provision for retirement. Wisconsin Statute 40.02 (7) specifies the interest rate assumed to be obtainable by the WRS, currently at 8%. That seems a fair place to begin a calculation of imputed earnings of Wisconsin public sector employees in some reasonably comparable type of account, such as an IRA.[2] For convenience, I will use the further assumptions a) that a new employee will spend

[2] It is also worth noting, in partial response to the Union's objection to the "two tier" element, that WRS terms applicable to these employees have changed prospectively for new employees, more than once over the years.

most of a career at the Water Utility in a middle-ranking job, such as meter reader, and b) that he or she will reach the top rate of that job early enough in a career that the top rate can be used as the basis for calculation. Both for convenience and as an offset for the fact that for the first few years, a new employee is obviously not at the top rate, I will use the January 1, 2003 rate, the last in the prior contract, or $20.12 per hour, as representative. 1.5 percent of this rate generates approximately $52 per month.

Given a 35 year span of savings at that rate, compounded at 8%, a typical savings calculator (the one used here was the widely used Savings Calculator page at www.bankrate.com) generated an accumulated total of approximately $120,000.

Clearly, many other sets of assumptions could be made, and at the extremes, with widely varying results. But this simple calculation, using what I believe are reasonably "vanilla" assumptions, is enough to demonstrate that the result is not likely to be a trivial amount. From this perspective, of course, there is still no way to tell how well the quid pro quo stacks up in hindsight, 35 years or more hence, in comparison to the presumed continuation of the benefit. No one can predict with confidence that the benefit would even still function the same way (changes in Medicare rules, for instance, could make it more or less valuable), or indeed that our entire national health-care system will still look anything like the way it does today. But there is no reasonable way to describe such a quid pro quo as insignificant. Moreover, the Employer has been willing to extend the value of the quid pro quo to all current employees, who are not even affected by the Employer's retiree health care proposal. And unlike the retiree health provision, it also generates a benefit for those new employees who do not choose to spend their entire remaining career with one employer.

In sum and substance, for these reasons I conclude that the Employer has made a substantial showing of a need to change an extraordinarily expensive benefit; has been more than responsible in the approach it has taken, by exempting all current employees from the effects; has targeted the particular aspects of the benefit appropriately in relation to the cost effects on the Employer; and has advanced an offer of a very significant quid pro quo, which individual employees are free to devote to a future-oriented replacement fund. What the Employer argues in respect to the Union's proposal — that the Union has proposed nothing to solve the problem — is not quite right, because arguably, the imputed savings involved in the Union not seeking the additional 1.5 percent in wages could reasonably be costed against the future cost of retiree health insurance. But it is not targeted to that purpose, and it leaves the gaping discrepancy between the Employer's budgeting and those of comparable water utilities open for the increased scrutiny which it is reasonable to expect in future. Because the cost of this benefit has clearly gotten out of hand, and because increased transparency of public budgets is the purpose behind the accounting rule change, it is reasonable to anticipate that transparency will indeed result in such increased scrutiny. It is not necessary to make inherently unreliable predictions as to the possible consequences of such scrutiny to find that this set of circumstances outweighs the slight preference for internal comparables over external noted above, such that the Employer's proposal is the more reasonable overall.

The Statute's Weighing:

In terms of the specific statutory standards for determining reasonableness, the "greatest weight" factor is not relevant. I find that the "greater weight" factor concerning local economic conditions is neutral, because the near-term increased costs of the Employer's proposal somewhat balances the long-term likelihood that the Union's proposal would be more expensive indirectly, e.g in higher costs for bond financing. Among the other factors, the lawful authority of the employer and the stipulations of the parties are not argued, and the financial ability of the Water Utility to meet the costs is neutral since it can meet the immediate and near-term costs of either offer. The interests and welfare of the public appear better served by the Employer's proposal, because it is more responsive to what are clearly becoming more searching standards for management of public enterprises. The internal public-sector comparables strongly favor the Union's proposal; the external comparables strongly favor the Employer's proposal; the balance of the comparables slightly favors the Union proposal. Comparison to private employment was not made. The Employer's proposal exceeds the CPI while the Union's approximately meets it, but in the circumstances of this case the CPI is not a meaningful determinant. The overall compensation factor is essentially neutral because there is a rough balance between the attractiveness of the Employer's offer and the status quo in overall compensation terms, and no more accurate calculation can be made when the prospect of direct savings from the Employer's approach is so far in the future. And there were no relevant changes during this proceeding. Among the "other factors," however, a major element is the likely continued increase in the extraordinary cost of an unusual benefit, particularly in the light of a pending change in the probable level of public scrutiny of the Employer's business. This represents a change in underlying conditions, to which the Employer's proposal, with its quid pro quo, is responsive, while the Union's is not.

Summary

I conclude, for the reasons above, that while comparability slightly favors the Union's proposal overall (as balanced between internal and external comparables), and while there is always a strong argument to be made in favor of the status quo, particularly when a change to the status quo will cost significant dollars in the short term and produce its most direct significant remedy only in the very long term, the Employer has made a credible showing that its costs for retiree health insurance beyond the Medicare age have become extraordinary, that its effort to address these costs is timely, and that it has advanced a very substantial quid pro quo, while insulating all current employees from the Medicare-age cap on future employees' retiree health benefits. The Union's proposal is less expensive in the immediate future, but does nothing to address the growing imbalance in costs, and is therefore less reasonable.

For the foregoing reasons, and based on the record as a whole, it is my decision and

AWARD

That the final offer of the Employer shall be included in the 2004-2005 collective bargaining agreement.

Dated at Madison, Wisconsin this 16th day of December, 2005

By_____
Christopher Honeyman, Arbitrator