In the Matter of the Interest Arbitration Between

The City of East Peoria	:	
-- and --	:	OPINION AND AWARD
Policemen's Benevolent Labor Committee	:	
ILRB No. S-MA-16-249	:	

Before Matthew W. Finkin, Arbitrator.

This matter was heard in East Peoria, Illinois, on July 20, 2017. The City was represented by Dennis Triggs, Esq. The Union was represented by Shane Voyles, Esq. Post-hearing written briefs were exchanged under date of Sept. 5, 2017. The matter is ready for disposition.

Stipulations

The parties have waived the tripartite panel so to permit the jointly selected neutral arbitrator to decide the dispute. The parties have also waived the fifteen-day starting requirement and have stipulated to the comparable communities to be set out in due course. They have further stipulated that all necessary legal prerequisites have been satisfied and to the sole issues in dispute.

The Issue

The sole issue between the parties is the wage increase for the bargaining unit for the years 2016-2017, 2017-2018, and 2018-2019. The parties' last offers are set out below.

The Union's demand is:

2016-2017	+2.00%

2017-2018	+2.25%
2018-2019	+2.25%

The City's offer is:

2016-2017	+1.50%
2017-2018	+1.50%
2018-2019	+1.50%

In addition, the City is offering a $2,000 increase in the entry level wage each year.

Statutory Standards

5 ILCS 315/14(h) sets out the standards the Arbitrator is to apply to the issues in dispute:

(1) The lawful authority of the employer.
(2) Stipulations of the parties.
(3) The interests and welfare of the public and the financial ability of the unit of government to meet those costs.
(4) Comparison of the wages, hours and conditions of employment of the employees involved in the arbitration proceedings with the wages, hours, and conditions of employment of other employees performing similar services and other employees generally:
    (A) In public employment in comparable communities.
    (B) In private employment in comparable communities.
(5) The average consumer prices for goods and services, commonly known as the cost of living.
(6) The overall compensation presently received by the employees, including direct wage compensation, vacations, holidays and other excused time, insurance and pensions, medical and hospitalization benefits, the continuity and stability of employment and all other benefits received.
(7) Changes in any of the foregoing circumstances during the pendency of the arbitration proceedings.
(8) 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.

Comparable Communities

The parties are agreed on the communities that should be considered comparable under 5 ILCS/315/14(4)(A):

Collinsville
East Moline
Galesburgh
Morton
Ottawa
Pekin

The Facts

A. Wage Data: Comparables

There are slight discrepancies in the figures given by the parties for the salary comparisons with comparable communities. Figure 1 uses the City's data including longevity pay for unit employees as of January 1, 2016, compared to the agreed-to comparable communities.

Figure 1

Salary Comparisons with Longevity (Jan. 1, 2016)

	Start	1 Yr	3 Yrs	10 Yrs	15 Yrs	Top
Collinsville	60,986	69,514	70,907	73,674	75,088	77,189
East Moline	46,608	51,196	57,694	64,373	67,161	70,216
Ottawa	51,340	53,143	54,938	61,844	63,594	57,094
Morton	47,472	52,339	64,159	66,675	67,933	69,191
Pekin	54,271	58,429	62,857	64,747	66,097	68,798
Galesburg	47,778	48,945	51,428	59,359	60,523	62,851
AVERAGE	51,409	55,594	60,331	65,112	66,733	69,223
East Peoria (dollar difference) (% difference)	42,688 -8,721 -16.96%	52,252 -3,342 -6.01%	76,730 +16,400 27.18%	79,799 +14,687 22.56%	81,334 +14,601 21.88%	84,403 +15,180 21.93%

This comparison resonates against the data which Arbitrator Peter Feville confronted in rendering his interest award on wages for these employees in 2014:

Figure 2

Comparables (2014)

	Start	1 Yr	3 Yrs	10 Yrs	Top
Average of Comparables	46,711	52,121	56,846	61,790	65,171
East Peoria	40,226	49,238	72,304	75,196	79,534
$ Difference	-6,485	-2,883	+14,458	+13,405	+14,362
% Difference	-16.2	-5.8	+27.2	+21.7	+22.04

In that interest arbitration the Union's final offer was for a 2.75% increase in each of the contract's three years. The City's final offer was 2.00% in each of those years. Arbitrator Feuille found the City's position in closer conformity to 5 ILCS 315/14. That Award results in the display set out in Figure 1, reiterated in Figure 3.

Figure 3 sets out a comparison of how the parties positions match up.

Figure 3

Match-Up of Offers (2017)

Current (2016)	Start	1 Yr	3 Yrs	10 Yrs	Top
	42,688	52,252	76,730	79,799	84,403
Union (+2.25%)	43,542	53,297	78,265	81,395	86,091
City (+1.50%)	45,328*	53,036	77,880	80,996	85,667

*Includes $2,000 @ entry level

These differences carry over by the differential between them of .0075 for each of the next two years. The relative ranking vis-à-vis comparable remain the same under both positions, *i.e.* East Peoria continues to pay significantly higher wages at and after three years of service.

Figure 4 sets out the projection of wages increases in the comparable communities.

Figure 4

Available Salary Increase Data for Comparable Communities

Average	2015	2016	2017	2018	2019
	2.42%	2.10%	2.44%	2.38%	N/A

However, data availability diminishes by the lack of information from one comparable in 2016, two in 2017, and four in 2018, making the comparison of increase less informative and reliable as time goes on.

B. Wage Increases: Internal

Figure 5 sets out the rate of wage increase for other employees of East Peoria.

Figure 5

Internal Comparables

(in %)

	2016	2017	2018	2019
Firefighters*	1.75	1.75	1.75	----
Dispatch	1.75	----	----	
Eastside Center	1.75	1.75	1.75	Reopener
Public Works	1.75	1.75	1.75	----

* Does not include the Incentivized Fitness Day

C. Cost of Living

The Union has submitted aggregate Consumer Price Index data indicating an increase of 1% in 2016 and a projection of 1.7% for 2017. More refined data zeroing in on Midwestern urban areas of less than fifty thousand in population show an increase of 1.1% April 2016 to April 2017.

D. The City's Financial Conditions

As will developed in greater detail in the analysis of the arguments below, the parties positions deal in depth with the application of subsection (3) of 5 ILCS 315/14(h), *i.e.* the "interests and welfare of the public and the financial ability of the unit of government to meet those costs."

The City of East Peoria has a population of about 23,000 with an EAV of just over $441,000,000 according to the 2016 Annual Financial Report of the State Comptroller's office. In that year, the City had total revenues of about $21 million. According to the City's financial audits, its unrestricted general fund balances and the unit of fiscal years 2014, 2015, and 2016 are set out in Figure 6:

Figure 6

Unrestricted General Funds

(end of fiscal year)

2014	2015	2016
$5,051,081	$3,680,918	$766,957

As the Standard & Poors Rating (S&P) report of Sept. 8, 2016, states the City's tax base has grown moderately following a slight decline. Its sales tax revenues have increased over the past three years: from $11.1 million in 2014, to $12.3 million in 2015, to $12.8 million in 2016.

The reason for the rather sharp decline in unrestricted general funds at the close of the 2016 fiscal year is the product of the City's aggressive plans to develop its downtown and riverfront area. To do this it incurred a debt of $131.4 million which will require debt service of $10.1 million. Those payments will begin significantly to decline in 2026.

The City's financial situation was explored in depth in the testimony of its Finance Director-Treasurer, Mr. Jeff Becker. Adverting to the S&P report, Mr. Becker pointed to the City's increasing pension costs and decline in state gaming tax from it sharing arrangement with the City of Peoria for a riverboat gambling outlet. The City's revenue from that source in FY2011 was just over $3.5 million. The decrease thereafter is set out below in Figure 7:

Figure 7

Riverboat Gaming Tax Receipts

FY 2015	$2,849,199
FY 2016	$2,682,854
FY 2017	$2,422,739

Mr. Becker pointed out that S&P had downgraded the City's rating. A downgrade ordinarily results in a higher rate of interest on the City's borrowing, more on that below. He also noted that the S&P report was prepared before the Caterpillar company relocated a major portion of its facility out of the City. He testified that S&P has a norm of cash on hand for governmental operations of three months cash flow. By that standard, the City should have cash on hand of $13 million; instead, as of the 2016 Annual Report it had just over $750,000. Mr. Becker also testified to certain capital needs of the City, notably a wastewater treatment plant, which is costed at $46 million. However, that has not yet been incurred; but it will require borrowing.

Mr. Becker testified that gaming revenue is restricted for use on capital projects, but tax revenue is deposited into the City's general fund and can be used for any City purpose. He confirmed the accuracy of the S&P's report regarding the City's flexibility in the allocation of funds. With respect to the Camp Street/Washington Street TIF development projects, however, sales tax revenues from those properties are dedicated to debt service on them. The City

Treasurer's office provided the following figure for 2017 that shows the debt in excess of revenue of just over $4.7 million. Unrestricted sales tax revenues comes to just over $5.1 million.

Mr. Becker further testified that the audit may reflect the allocation of funds according to the month of collection; this could affect the figures reported from one fiscal year to the next. Thus, the $767,000 shown on the report noted above was actually, as audited, $851,000 which the City has no plan to spend down.

On cross examination, Mr. Becker testified that the City had purchased insurance in order to keep a lower rate of interest. As a result, there has been no immediate impact on the city's cost of debt service by virtue of the rating downgrade, though it will "if we [the City] do other loans."

Analysis

The key statutory criteria operative here are: how the proposals match up vis-à-vis employees in comparable communities; how the proposals match up vis-à-vis other of the City's employees, *i.e.* in equity of treatment in that internal orbit of comparison; and, the impact on the City's financial ability and public welfare.

The cost of living figures have been analyzed by the parties albeit to different effect: the range is between 1.2 to 1.4% by the City's account. The Union suggests 1.7% is more accurate in light of the latest available figure, *i.e.* projecting the agreement's effect going forward. Taking the City's figure, of an approximate average cost of living increase of about 1.3% over time, the City's offer puts the employees barely ahead of the cost of living in terms of disposable income, that is, by about 0.02%. The Union would increase their purchasing power a bit more.

Turning, then, to comparability. The long-standing wage structure for the officers in East Peoria is uncompetitive at the outset, but quickly exceeds the comparables thereafter thereby encouraging long service and the availability of the officers' experience and expertise to the community. Both offers retain East Peoria's standing at and above three years' service vis-à-vis the comparable communities, save that the City proposes to spend more at the entry level. Insofar as the policy of a low entry and first year wage has not incurred turnover and loss of sunk recruitment and training costs, not accounted for in what has been presented on the record, the City has offered no rationale for this part of its proposal. On the other hand, the Union's offer comports more closely to the general pattern of wage growth in comparable communities than does the City's; in fact, it falls below the average in 2016, 2017, and 2018, though for reasons explained, the latter is less indicative due to small sample size.

Turning then to the internal orbit of comparison, the City has succeeded in keeping the wage growth of all other bargaining units at 1.75%, which, in fact, was its penultimate offer, reduced to 1.5% after the undersigned was selected. The City has argued that the greater agreed-to increase for these employees then what it has now offered the Union reflects trade-offs made, savings incurred, by extending the schedule by which top pay is achieved for these other City employees. However, these facts were known at the time it offered parity of treatment; and though the schedule extension may represent an eventual saving to the City over time, what it means for the duration of this agreement is that the City is now offering its officers a lower rate of current increase than all of its other unionized workers.

In sum, viewed through the lens of these three key statutory factors, the undersigned has to conclude that, thus far, the Union's offer more reasonably comports with them than does the City's offer. Thus, analysis turns to 5 ILCS 315/14(h)(3): whether the City has proven that its ability to pay and the public welfare implicated in the City's finances militate to the contrary. From the financial data supplied, it is clear that the City is in sound financial shape despite immediate cash flow pressure: the bond rating change has had no immediate effect; and, as the undersigned reads the S&P report, the City's current financial situation is sound as are its financial prospects. The City's investments in its future are bearing fruit; its debt service will encounter slow decline in the next seven years and steep decline thereafter. The decline in gaming tax revenue is offset by an increase in sales tax revenue: the former fell by $427,000 over three years; the latter rose considerably more over that period of time.

Under the system the legislature has fashioned the undersigned has no authority to craft those terms that seem to him to best comport with the criteria the legislature has set out: he must accept one or the other party's proposal on the ground of that which, in comparison, is more reasonable – or less unreasonable. Arbitrator Feuille granted the City's offer in a prior award because the Union's arguments for a higher wage, for employees already rather well paid, simply failed to persuade. In this instance, the City's argument to its current financial needs, though not without force, failed nevertheless to justify the disparity in how it chose to deal with all its other workers. Instead, it offered less than their uniform increase; an increase below that of comparable communities and which, in dollar terms, keeps the unit members only slightly ahead of the increase in cost of living.

AWARD

The Union's offer is Awarded.

Matthew W. Finkin
Arbitrator

20 Sept. 2017

Date