

# SEA View *Broadside!*

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SPECIAL EDITION

October 2008

## *More than a year later, and still no contract* **Bargaining as root canal therapy**

The state's collective bargaining system is broken. If legislators and the public don't demand change, kiss civil service and fair treatment for public employees goodbye.

By the STATE ENGINEERING ASSOCIATION

**B**ack in the 1920s, Henry Ford used to brag that customers could buy his Model T car in any color, just as long as that color was black. Nearly a century later, Wisconsin government, which is supposed to collectively bargain in good faith with its employees, instead rules by fiat on some of the most important terms of the contract, presenting rigid and inflexible positions as "proposals."

In essence, the state channels Henry Ford, in so many words telling its represented employees: You can have any labor agreement you like, as long as it's the one we demand. Wisconsin legislators and citizens need to know that **state government has, with impunity, increasingly violated its own laws related to collective bargaining with employees.** In particular:

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- The state begins negotiations unlawfully late.
- It makes proposals unlawfully late.

The Doyle administration's negotiating team consists of folks who have virtually no authority to bargain. They have reduced collective bargaining to meetings where they merely go through the motions. Little of substance results except 1.) the state rejects almost all proposals made by the employee union, and 2.) the state periodically presents inflexible dictates, prepared in advance by other state officials who never come close to the bargaining table.

The Doyle Administration, it is clear, does not take seriously its responsibilities to public employees. It gets away with this because Wisconsin law does not provide any effective remedies for bad-faith bargaining. And so, many labor organizations simply take the state's offer and defer to next time. Biennium after biennium, the state of Wisconsin comes to the bargaining table with little, or nothing, or worse.

**WHAT'S A "BROADSIDE?"**

1. All the guns on one side of a warship.
2. The simultaneous discharge of these guns.
3. A forceful verbal attack, as in a speech or editorial.

Wisconsin's State Employment Relations Act defines collective bargaining as “ **the mutual obligation of the State as an employer . . . and the representatives of its employees, to meet and confer at reasonable times, in good faith, with respect to the subjects of bargaining provided in s. 111.91(1) [generally: wages, hours and conditions of employment] with the intention of reaching an agreement . . . .**”

**SEA VIEW SCHEMATIC**

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*Bargaining with the state is like root canal therapy. It's inflexible and it hurts. It's also illegal.*

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However, “collective bargaining” is not what happens when one side comes to the process with fixed and inflexible positions on mandatory subjects or when one side effectively removes major areas of concern from the scope of bargaining. In recent years these inflexible positions have included the following:

- **Health insurance** – The state changed its health insurance program and insisted that the contribution rates it unilaterally established be imposed on a retroactive basis. That included the state's decision to make unions pay for contributions of employees who had retired or otherwise left state service. *Turn to page 3*



- **Travel expense reimbursement** – The state sets the reimbursement rates for business mileage below the Internal Revenue Service rate and imposes on employees a “turn-down” rate which it does not adjust for years at a time. Meanwhile, gas prices and general inflation dig into employee pockets. Why does the state think its employees should have to subsidize the cost of state-related business travel? The state surely must know this is wrong, but evidently doesn't care. We doubt many if any state managers have to put up with the meager turn-down rate when they drive for work.

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- **Contracting out bargaining-unit work** – By one measure, more than 60% of engineering services at the Department of Transportation are contracted out at significantly higher cost to the state. Arguably, contracting out is a convenient way to avoid the requirements of the civil service system while engaging in political trade-offs for campaign contributions. Ethics concerns notwithstanding, in such tough budgetary times why does the state not care about getting the most bang for the buck?
- **Wage adjustments**
  - The state effectively refuses to bargain general wage adjustments. For the current contract period, it proposed *an* adjustment, but then manipulated the package of numbers at will to reduce its cost. These adjustments are the same for all bargaining units that have settled, and the same as proposed to SEA.
  - The state's positions on market adjustments to wages are arbitrary, and clearly insufficient to meet the market. To pay for this insufficient market adjustment, the state insists on significant concessions in other areas of the contract.

The state clearly considers it desirable to have wage uniformity among all its employees and to get this it is willing to override its bargaining obligations. Since the state sits at all bargaining tables, it is the only side that can propose, insist upon and virtually impose uniform terms on all “collective bargaining agreements.” Individual bargaining units have no effective way to deal with critical subjects of bargaining because of the state's insistence on its unilateral (or perhaps the word is “unitary”) concept of a common wage structure.

**EXECUTIVE SUMMARY: BROKEN BARGAINING**

Wisconsin legislators and citizens need to know that their state government has, with impunity, increasingly violated its own laws with respect to collectively bargaining with its employees.

- The state begins negotiations unlawfully late.
- It makes proposals that are unlawfully late.

Whenever it does deign to sit down at the bargaining table, it simply refuses to bargain in good faith. And just to rub salt in the wound, the state's “professional” labor negotiators are quick to blame represented employees whenever a deal isn't reached on a timely basis.

This isn't fair bargaining. It isn't good government. And it's getting worse.

The State Engineering Association would agree to mediation. However, given recent history, it's unclear that the state would either agree to the mediation itself or to the eventual fact-finding. Until it does, or until it begins bargaining in good faith, state employee morale will continue to decline.



### Late contracts no problem for the state

The state has, in recent years, followed the practice of delaying commencement of negotiations on a successor agreement until after expiration of the existing agreement. The contract purportedly covering the 2003-'05 biennium in fact has an effective date of May 26, 2006, and a termination date of June 30, 2005. The contract purportedly covering the 2005-'07 biennium has an effective date of May 27, 2006 and a termination date of June 30, 2007. **The preceding dates are correct – those are not typographical errors. The first of these contracts literally ends before it begins!**

# **Broadside!**

## **The state's broken bargaining**

The 2006-'07 contract contains a provision that the parties would exchange initial proposals for the successor agreement on or before April 16, 2007. However:

- The state was not, in fact, ready to exchange initial proposals until July 18, 2007, three months late.
- The state did not even make an initial proposal regarding wages until Jan. 25, 2008. Its proposal started at a 6.76% lift. In actuality, based on so-called frozen data (which overstates the actual cost to the state) the increase proposed by the state was 2.05% for the first year of the contract and 3.39% for the second year of the contract. The state accomplishes such sleight of hand by delaying the implementation date of wage changes so that they are in effect for a shorter period of time during the fiscal period.
- On April 4, 2008, the state made its second offer, which produced a supposed 7.47% lift, but actually meant a reduction in compensation offered for the period – specifically, a 2.04% increase for the first year and 2.80% the second year.
- On April 18, 2008, the state increased the supposed lift to 7.95%, with real increases of 2.00% for the first year and 3.17% for the second year.
- On April 30, 2008, the state proposed a 8.07% lift with real annual increases of 2.00% the first year and 3.26% the second year.

To summarize: After more than a full year of bargaining, the state has moved 1.31% on the lift for the two-year period, but proposed fiscal year increases have actually shifted in the negative direction; -0.05% the first year and -0.13% for the second year.

This latest, modest and compromised lift is further offset by the state's insistence that, in exchange, SEA give back a previously negotiated benefit, which SEA has had for more than 10 years and which represents an annual cash value in excess of 2%. The benefit was negotiated as a previous substitute for higher wages. The state argues that among state employees, only state SEA members have such a benefit, but we know this to be untrue.

In plain English: **We're being asked to work for less**. Not a smaller increase; a real **decrease**.

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### Fiscal crisis claim doesn't pass smell test

The state would say, if anyone cared to ask, that during the bargaining period its fiscal situation has deteriorated and thus it cannot afford to offer more. The State Engineering Association is certainly willing to consider the state's financial challenges, but we ask:

- How can the state afford to pay approximately 18% more for engineering work performed by consulting firms, whose engineers often work side by side, year in and year out, in state office buildings with state employees? [That's a number the Department of Transportation produced.]
- Why can the state contractually commit to paying private consultants (who now perform a majority of DOT's engineering services, at least in terms of cost) up to 5% annual increases, while pleading poverty when it comes to paying its career-committed professionals? Maybe because virtually all of the principal officers of private consulting firms make substantial contributions to elected officials in one or both parties, depending on where it will do them the most good. This arrangement falls short on integrity, costing taxpayers millions of extra dollars without added benefit.

Furthermore, when the state in recent years has sought to hire staff engineers, it often has had difficulty filling positions. It has routinely resorted to offering salaries to new hires that are above the standard rate. Result: Many new hires start with salaries substantially higher than existing state engineers who have provided many years of dedicated service. Needless to say, this is not a morale booster. Just as important, it belies the argument that the state doesn't have the money to pay its existing staff comparable wages.

### How SEA "bargaining" with state has gone so far

After a calendar year and 11 full days of bargaining sessions here is what has been accomplished:

- The state has agreed not to release the names, addresses and social security numbers of state employees covered by the agreement.
- The state has agreed to provide leave for employees performing military service and to pay benefits for such employees. (state's proposal)
- The state has agreed to a minor modification regarding the provision of safety sunglasses, promising to really honor the provision this time, unlike contracts past.

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### ANOTHER STATE UNION FILES COMPLAINT; ATTORNEYS SAY THE STATE BARGAINS UNFAIRLY

SEA's complaints aren't unique. The union that represents about 340 assistant district attorneys has filed a claim against the State of Wisconsin to get better pay for prosecutors.

In a claim filed against the Office of State Employee Relations, the Association of State Prosecutors said the agency bargained in bad faith for allegedly not addressing a huge turnover problem among prosecutors.

Officials said that Wisconsin has lost more than 70% of its full-time prosecutors since 2001 when the state stopped paying them based in part on their experience. The complaint also alleges that OSER didn't make the union a new wage offer for seven months.

Association officials said more money is needed to keep experienced prosecutors in the system. The state also needs to add positions to address a critical staffing shortage, the union added.

OSER Secretary Jennifer Donnelly denied that her office has violated any state labor laws. She said the association's bargaining team should return to the table to discuss the matter.



- The state has agreed that employees will be permitted time off with pay for the purpose of donating blood, including apheresis.

### *That's it from the state.*

SEA meanwhile offered 12 proposals, all of which were rejected by the state without any counteroffer.

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The cost of this futility: The state pays for 20 employees to sit at the bargaining table. At \$50 per hour per person, the cost is about \$8,000 per day or just under \$90,000 so far. That's some kind of value for an administration that worries about its deficit.

### **It's a broken system**

The Office of State Employee Relations does not “bargain” with state employee groups. OSER is willing to meet but only to dictate terms. SEA understands that bargaining and meeting are not synonymous, but you'd think the two concepts would intersect at least once in a while.

**P**art of the problem is that the state's team clearly meets without any authority to engage in substantive bargaining. A typical meeting may start around 10:00 am. The state typically rejects all SEA proposals without a counter. This does not leave much to talk about.

The state may make an economic offer, but, as we have seen this year, an increased lift may actually reduce the dollars which employees would receive during the term of the contract. We then have a caucus and SEA returns with a counteroffer. The state then usually wishes to break for the day so it can consult regarding the counteroffer. A lot of time is spent with little result.

### **How do we get off the dime?**

The State Engineering Association would be willing to participate in mediation pursuant to §111.87 Wis. Stat. or “fact finding” pursuant to §111.88 Wis. Stats. These procedures can only produce a voluntary agreement, because the neutral mediator or fact finder has no authority to impose terms on either party. The state rarely, if ever, agrees to use these statutory mechanisms, but maybe it ought to consider doing so now. Because if it continues down the road of ignoring its own rules and laws, and rolling over represented employees, it will continue to present a model of bad government.

**The State Engineering Association believes that the collective bargaining process and the civil service system are broken. Without rededication to the fundamental concepts behind these systems it is unlikely that a basis for true labor peace can be restored.**





**News from the sections**

**Confirmed: You don't have to be a state employee to win a state employee award**

**It may sound incredible, but it's true. A private contract consultant stationed in a state office recently won a State of Wisconsin employee appreciation award.**

That's what State Engineering Association members in the Southeast Section learned from a district Department of Transportation manager at the section's Sept. 25 annual meeting in Milwaukee.

The manager, Dewayne Johnson, was invited to hear concerns of SEA members along with Gloria McCutcheon, a DNR manager in the same district. About 100 SEA members attended the event.

Johnson commented in response to a question from a SEA member asking why several private consultants had received employee appreciation awards intended for state staff. Johnson identified one private contract worker who received such an award.

In a generally cordial but sometimes pointed Q&A with the managers, SEA members pursued that line of questioning, also asking why so many private consultants have taken up long-term residency in state office buildings, and why they are treated in many ways like state employees, while being paid more.

By one estimate, 70 private consultants are housed on a more or less permanent basis in the DOT's Barstow Street facility in Waukesha. One SEA member said many of them appear to be logging overtime and weekend hours working on the North-South Freeway and other projects.

Johnson said the presence of the consultants at Barstow and three other state buildings is because the state has made a commitment to having an integrated project team. That also explains the employee appreciation award to a non-employee. Johnson praised SEA members and state employees in general for their good work.

One SEA member expressed concern over perceived conflicts of interest involving contractors. He said state managers and consultants have appeared at contractor-

organized events such as Brewers and Packers games and other venues, including a party at Milwaukee's Italian Community Center. Johnson reported attending one such event, paying his own way.

For her part, McCutcheon acknowledged that DNR like DOT has hiring and salary challenges. The agency has been getting smaller for years, she said, and is increasingly driven by fees instead of general tax revenues. Managers have tried very hard to recruit and retain engineers and other technical staff, McCutcheon said.

She said that not long before the catastrophic June floods, one northern DNR district had only a single dam engineer, but fortunately added two more in time.

Other comments at the session:

- Published salaries of state workers have further eroded morale because the pay ranges show how much state employees are lagging behind the consultants who increasingly replace them.
- The last time the DNR looked at lagging technical staff salaries and made market-rate adjustments was in the early 1990s.
- The number of contractors compared to state engineers working on the preliminary designs, environmental impact reviews and other tasks relating to the North-South Freeway project is more than 60%, above the DOT's goal of about 50%. -- RML



*SEA southeastern section members question managers at their annual meeting. -- R. Legro photo*

**From the president****Hail, and farewell****Tom Mugan**

This is my last newsletter message in the capacity of SEA president. I had mixed emotions as I made the decision not to seek another term of office. Ultimately, I knew this was the best decision.

It is frustrating that I have not been able to bring back better news from SEA's attempts at negotiations for a contract to replace the one that expired about 15 months ago. While I won't dwell here on the lack of success at the bargaining table, I will say that I am proud of the way the SEA Bargaining Team hung together and worked for our entire membership.

Aside from bargaining, together we have done a number of good things over the last year, including:

- We have worked systematically toward resolution of a number of grievances that have languished. This should continue to be a priority for SEA in future years.
- We published 10 high quality issues of this newsletter.
- We were able to get our message out to the public via a couple of newspaper articles. I firmly believe that communication with citizens is an important part of success for any public employees labor organization.
- The SEA Board continued work on the process of updating/revising our by-laws.
- In March, SEA convened current and prospective leaders for a training session on grievance representatives, section presidents and other officers.
- The SEA web site continues to be better all the time and provides us ready exposure and the opportunity to advance our image with the public and other groups.
- We conducted another successful SEA Day.
- The SEA Board completed a controversial but, I believe, needed process of reviewing stipend amounts that will begin to compensate our leaders for their future time and efforts to the organization.

I want to emphasize how proud I am of the professional manner in which SEA members go about their business. This was never more evident than during and following the June floods.

Thanks to all of the members of the SEA Board and committee chairs, SEA office and other paid staff, the Bargaining Team, and all SEA members for making my job as president of SEA easier. It has been rewarding for me to have led and served such a great organization. There is much that we have accomplished for which I am proud and thankful.

*Respectfully,*

**Tom Mugan**

**Audit says outsourced printing more costly than hiring 35 new state employees**

A Legislative Audit Bureau audit says the state could save as much as \$616,500 by hiring 35 state workers instead of paying a private contractor to do the work.

According to news reports, the Department of Administration (DOA) based the outsourced work on analysis that the state could save \$950,800 over five years by continuing to contract with Spherion Corp. for printing and mailing services. However, the audit bureau said DOA used outdated information.

SEA is conducting a study of Act 89, a young law that requires state agencies to analyze the cost-effectiveness of outsourcing state work. The audit bureau recently turned down a request from SEA that agency reports filed under the act be audited.

The printing audit was the first performed by the audit bureau based on a tip to a fraud hot-line that lawmakers created earlier this year.



# *The legislative year in review*

**S** **ate budget:** Last year Wisconsin was notable for the most overdue budget in the nation. After an extended standoff between the Senate, Assembly and governor, the 2007-'08 budget finally was signed in November '07. It contained \$200 million in cuts to state government and a \$250 million structural deficit. Then tax collections fell far below projections, creating a \$600 million shortfall, and another debate ensued to reach a budget repair bill – passed in time to let road contracts.

## Legislative Update

By Gretchen Wheat  
Second Vice President

More economic downturn and extensive June flooding in much of southwest and southeast Wisconsin additionally strained the budget. State agencies were subjected to repeated rounds of budget lapses. The Legislature recommended a budget fix including \$65 million in state agency lapses, but the governor's veto increased lapses to more than \$265 million and reduced the compensation reserve by \$25 million.

In early September, the federal transportation fund (general, not mass transit) was drying up, since it is funded by the federal gasoline tax, and Americans have greatly curbed their driving habits in response to high gas prices. As of this writing, it is anticipated that by the end of September federal funds would not be sufficient to make full payments to states for their federally funded projects. An emergency federal proposal is being considered to come up with \$8 billion to cover transportation aid to states.

**Ethics and campaign finance reform:** In December 2006, the governor and new Senate and Assembly leaders announced agreement on major, bipartisan ethics reform. The governor called the agreement a “major breakthrough on significant ethics and elections reform.” But, many promises added up to no action. So-called “issue ads” paid for by “soft money” must be stopped, so each candidate is held accountable for their campaign. As the statewide November general election approaches, ask your legislators what they are willing to do to make Wisconsin once again a government for the people, of the people and by the people.

**Outsourcing:** In the past six years, the state workforce has been reduced enormously. Workload is at an all-time high, and the state's pay offers are near rock bottom. State agency budgets are squeezed, while outsourcing escalates unchecked. State employees are told there's no money, yet the state absorbs cost increases passed along from contractors, including salaries. In many cases, contractor employees have state offices and equipment. The state also pays contractors the maximum IRS mileage rate, while state employees are forced to conduct State business inefficiently to avoid reimbursement at the much lower “turn down rate”.

**Continuing education:** Legislation passed allowing the Dept. of Regulation and Licensing (DRL) to create rules requiring engineers and certain engineering related professionals to have continuing education to maintain their DRL credentials. SEA neither supported nor opposed the legislation, but commented to legislators about the need for the state to do a better job as an employer to provide employee training.

**Sick leave conversion:** In response to bad press in 2006 about legislators convicted of crimes still having sick-leave conversion benefits, and state elected officials having an overall lack of sick-leave use, some legislators vowed to forgo their sick-leave conversion benefits. The 2007 legislative session also saw proposals (unsuccessful) to eliminate the program for state elected officials. SEA supports sick leave conversion for civil service employees, because it is an attractive benefit to employees that is provided at an economical price. For



this reason, it is widely practiced by forward-thinking organizations. Regardless of any future legislative action, SEA believes your current balances and conversion are safe.

**WI Retirement System (WRS):** A Legislative Council Report, “2006 Comparative Study of Major Public Employee Retirement Systems,” December 2007, shows the WRS is no Cadillac. The report found the WRS provides modest payments, compared to other US public retirement systems. The WRS is also average in the minimum age (55) and years of service (30) for retirement without reduced benefits. The WRS also limits the maximum benefit, while a majority of surveyed plans did not.

**SEA Day 2008:** This year at SEA Day, members had a group discussion with Senator Fred Risser. As follow-up, he asked the Legislative Audit Bureau (LAB) to take up two significant SEA concerns: cost justifications for outsourcing under Act 89 and mileage reimbursement rates. LAB declined to take up the issues, but SEA continues to pursue these issues. One of Sen. Risser’s suggestions to SEA for our next SEA Day is to invite a panel of legislators, so more would directly hear our concerns.

**Help SEA get a contract:** What are some things can you do to help us get a contract? A number of members have reduced their participation in voluntary state events. This year, make charitable donations outside the State Employees Combined Campaign. SEA is working on a group alternative.

## Retirement and Health Insurance Report

by **Melvin B. Sensenbrenner** *SEA Retirement & Health Insurance Representative*  
and **Daniel J. Joyce** *SEA Retirement & Health Insurance Co-Representative*

### GROUP INSURANCE BOARD MEETING – Aug. 26, 2008

The GIB approved the CY 2009 group health insurance premiums. The average premium increase (all plans) from CY 2008 to CY 2009 is 6.9 % for both single and family coverage.

The average of all plans went from \$562.24 to \$626.53 single coverage; and from \$1,402.08 to \$1,562.64 family coverage. The actual premium cost for individual plans for CY 2009, and a comparison of the CY 2008 and 2009 rates for each plan was provided to SEA board members at the Sept. 13 meeting.

Of course, the above increases do not reflect out-of-pocket increases to SEA members, as the state picks up a portion of the premium. How much of the premium the state picks up is a bargaining item. Unless and until SEA gets a contract, CY 2008 out-of-pocket premium costs will apply. Other supplemental programs are as follows:

#### DentalBlue

Effective Jan 1, 2009, there are no changes to benefit levels. However, increases are:

- Dental HMO plan ... 0% increase
- Dental PPO plan .... 8.4% increase
- Supplemental Plan .....16.2% increase

Open enrollment is Oct. 6 -Nov. 14 for eligible annuitants along with active state and university employees.



**EPIC Dental, Excess Medical, and AD&D**

Effective Jan 1, 2009, there will be an overall rate increase of 23.9% for annuitants and 29.5% for actives. The rate increase is attributed to an 86.5% benefits increase and a 13.5% cost increase.

**Status of Long-Term Care Insurance, as of 2007**

In 2007, there were five insurance companies having policies in force through the state’s long-term care insurance program. Now only John Hancock and United of Omaha insurance companies are currently offering policies to new subscribers. The total number of policies issued since the program began in the early 1990s is nearing 7,500. There has been a steady increase in the number and proportion of actives, along with spouses or parents, who purchase policies as compared to annuitants. Actives made up over 80% of issued policies in 2007. In 2007, 455 new applications were received. Of these, 98 were denied. The most common reason for denial: depression, diabetes, stroke and combined medical history.

**Long Term Disability**

As a result of the large positive fund balance, the premium suspension will continue.

**Group Life Insurance**

The most recent change in premium rates occurred on July 1, 2008, when employee premium rates were reduced. Claims have been down, which allowed the board to reduce premium rates frequently. Employee premium contribution rates will be continued at the current levels in 2009

**UPDATE ON HR 6382**

This is the bill being debated in Congress that revises the Pension Protection Act of 2006. Currently, the Pension Protection Act effectively caps the rate of return to market rate of return. This provision, as it is written, could hurt well-run pension plans like the WRS. HR 6283 seeks to change the language of this provision. Your Health and Retirement Co-representatives are actively monitoring the progress of this bill. We have had discussions with Dave Stella, ETF Secretary.

**STATE OF WISCONSIN INVESTMENT BOARD MEETING – Sept. 10, 2008**

**SWIB Performance**

	Calendar YTD thru June 30, 2008		Calendar YTD thru July 31, 2008		Calendar YTD (preliminary) thru Aug. 31, 2008	
	\$s (in billions)	Performance (as % gain)	\$s (in billions)*	Performance (as % gain)	\$s (in billions)**	Performance (as % gain)
<b>Core Fund</b>	75.050	-6.1	74.035	-7.1	73.739	-7.5 (B.M. -7.0)
<b>Variable Fund</b>	5.961	-11.1	5.868	-12.2	5.874	-12.1 (B.M. -12.1)
<b>Total</b>	81.011		79.903		79.613	

\*Corrected by SWIB

\*\*Preliminary

Global Sector portfolio managers provided an update. Here are some noteworthy highlights:



- Large retailers have expanded rapidly into international markets since 1990, with China and India representing huge opportunities on a 20-year view.
- Top five global retailers: Wal-Mart, Carefour, Home Depot, Tesco, and Metro
- US is the world's largest economy at 18.2% of global GDP. Next closest: Japan at 8.1% of global GDP.
- Commodity (oil, steel, agricultural products) returns have been stellar. For 2008, the Goldman Sachs Commodity Index has been 150%, and MSCI World Index more than 300%. Energy makes up 76.5% of commodities.
- The demand for commodities is driven by emerging markets (India and China the largest).
- Oil prices are up over five times since 1995
- 2006 largest oil and gas companies, as a percentage of worldwide reserves: Saudi Arabian Co., National Iranian Co., Iraq National Oil Co.
- 2006 largest oil and gas companies, as a percentage of worldwide production: Saudi Arabian Co., National Iranian Co., Petroleos Mexicanos
- China is the largest global metals consumer (over 50% for iron).
- China's steel demand is increasing. US demand is flat.
- Consumption of grains has exceeded supply in the past several years. Inventories are at a 20-year low. Primary drivers of demand: global population growth, demand for higher protein diets, biofuel demand.
- Long-term global commodity demand will be fueled by emerging market growth; the near-term economic slowdown is making pricing very volatile.

Managers of the Small Cap portfolio are in the process of revising investment guidelines, in an effort to reduce volatility and enhance the investment process.

A second quarter review was provided by SWIB staff and consultant EnnisKnupp. A summary of the review:

- Under-performance during first and second quarters of '08 results in a trailing one-year performance of Core Fund below that of the benchmark.
- Despite ranking near the bottom of the public fund universe during the second quarter, the Core Fund ranks favorably over longer periods of time.
- Several of the largest contributors to active risk – LSV Russell 1000 Enhanced, LSV International Equity, and the Small Cap portfolio – posted relative under-performance
- Manager monitoring activities are continuing, and collaborative between SWIB and EnnisKnupp
- ISI charts provided a gloomy outlook, with anemic growth (GDP) projected through first quarter 2010.

Bill Ford, Wisconsin Legislative Council, presented the 2006 Comparative Study of Major Public Employee Retirement Systems. This report was provided to the SEA Board several months ago, and is also available on the web at <http://www.legis.state.wi.us/lc>.

Two of the most prominent public fund CIOs were guest speakers. They discussed strategies used by their states' pension funds in current markets. They suggested new and intuitive analytical tools need to be developed. The discussions were informational only. SWIB will not act on the recommendations.

Jane Hamblin, chief legal counsel, reported that SWIB received \$1,192,545 in August in distributions from securities fraud class action settlements. Vicki Hearing, public information officer for SWIB, provided a communications update. She provided copies of an information paper, a SWIB Report, and a brochure entitled "Investing for Your Retirement." These publications, and particularly the brochure, provide an excellent description of how SWIB invests the money set aside by participants in the Wisconsin Retirement System. Dan or Mel can obtain additional copies for distribution if membership is interested.

-- Dan Joyce



## WCOA MEETING – Sept. 17, 2008

SWIB's Information Paper was handed out. The paper discusses SWIB's strategy for long-term investment in the context of the current market downturn. I'll have copies of this available at the SEA annual meeting.

Ken Johnson, SWIB's chief operating officer, explained that some high profile companies (such as Lehman Brothers, Morgan Stanley, and AGI) have gotten into trouble primarily because:

- They stepped over the line on acceptable risk taking.
- Their investments were secured by mortgages.
- Their investments were highly leveraged.

Due to the vast holdings of these companies, their failures have adversely affected all sectors of the global market, with the exception of consumer staples. SWIB has experienced the loss of billions of dollars in assets since the end of December. However, this loss is associated with the overall market downturn and not with investments in these high profile failed companies, which represent less than half one percent of SWIB's investments. Ken handed out a Journal Sentinel article that reiterates this. I'll have copies of this available at the SEA annual meeting.

Ken also provided an initiatives update. Here are a few highlights:

- Increasingly, more of WRS assets are being managed internally – 30% today vs. 23% on 12/31/07. Some \$3.4 billion was moved from external to internal portfolios with a cost savings of \$4.6 million annually. This is by design, and is intended to reduce the overall cost of funds management.
- The index manager search reduced fees \$3.6 million.
- Optimized equities manager mix.
- Completely reorganized large cap sector management.
- More efficient investment structure now possible under the Investment Modernization Act 212.
- Moving closer to industry norms for staffing.

Brandon Duck, ETF Audit Director, discussed SWIB's internal audit function, whose purpose is to provide independent, objective assurance and consulting services designed to improve SWIB's operations. I can make copies of Brandon's report available upon request.

### Legislative update:

ETF may recommend to the Legislature that the variable fund be dropped. [More on that in an upcoming newsletter article on the Sept. 18-19 Retirement Board meeting.]

The May 2008 Budget Repair Bill mandates that ETF create a mechanism for deducting insurance premiums from annuities for safety officers. In 2009 ETF will develop an election form. The Budget Repair Bill also mandates that ETF implement the "HEART" Act, which provides a death benefit retroactive to Jan 1, 2007, if a person dies in the line of duty. Ch 40, Wis. Stats., needs to be revised to be consistent with this federal law.

### 2009-2011 Budget Request

The ETF Board on Friday, Sept. 19, was to ask the assistant secretary of DOA to be open-minded in moving forward ETF's budget request. A consultant's study shows that WRS participant need for service will double over the next 20 years. The problem is that ETF cannot accurately predict short-term needs. Therefore, ETF will be asking DOA for a process similar to SWIB's, which is the submittal of budget increases to the Joint Finance Committee at any point in time (as opposed to the current process of requesting DOA approval every two years).



**New on-line presentations on ETF website:**

- Income continuation program
- Retire then return to work
- Dual Choice info

**Dental Programs**

Ed Frank handed out descriptive information on the WREA offered dental programs. I'll make copies available for the upcoming at SEA meeting.

Next WCOA meeting is Oct 15.

-- Dan Joyce

**Notes from Sept. 18-19, 2008 meeting of the Combined Teachers Retirement, Wisconsin Retirement, and Employee Trust Fund Boards**

Below is a discussion of meeting items relevant to SEA membership:

**Video library updates**

The latest complete listing of on-line programs will be handed out at the October SEA annual meeting. The number of on-line programs is now eighteen.

**How money purchase retirement benefits are calculated, and how to calculate the variable adjustment to formula retirement benefits [available on website]**

Copies of these useful calculations will be available at the October SEA annual meeting.

**304(b) closure**

This item is discussed at length in the September Trust Fund Newsletter. Reiterating, effective January 1, ETF will no longer accept additional contributions to WRS accounts. Copies of the notice will be provided at the October SEA annual meeting.

**Legislative update**

HEART Act (Heroes Earnings Assistance and Relief Tax Act of 2008).

ETF is in the process of implementing the recently enacted federal H.R. 6081. A provision of the act requires qualifying pension plans such as WRS to treat persons who die while performing "qualified military service" as if they were active employees at time of death, for WRS death benefit purposes. The provision is retroactive to January 1, 2007. ETF will work with the state legislature to modify ch. 40, Wis. Stats., and/or administrative codes to reflect the HEART Act. WRS must be amended by 12/31/2012 to reflect certain provisions in the Act.

2007 Wis. Act 226

This was discussed in a recent SEA newsletter article (ref. WCOA Meeting - Sep 17), and relates to public safety officers and health insurance premiums.

**2009-2011 ETF budget proposal**

This item was discussed in a recent newsletter (ref. WCOA Meeting - Sep 17) and won't be repeated here.



### Long Term Disability Plan actuarial report

In this report, the actuary recommended that premium collection suspension remain in effect through CY 2009. The ETF Board approved.

### Hiring a tax attorney

The ETF Board approved a request by Bob Conlin, Deputy Secretary, for authority to hire a tax counsel. It has been ten years since ETF has undertaken a thorough review of its compliance with Internal Revenue Code (IRC) with assistance of a tax counsel.

### Cost Effectiveness Management (CEM) study

A benchmarking study was performed by CEM Benchmarking Inc. The study report analyzes cost and service levels of pension administration functions of ETF as compared to peer public retirement systems. I can provide copies to anyone interested. Some highlights:

- 77 leading global pension systems participated, WETF is one of them
- ETF administrative cost of \$53 per active and annuitant is lower than the peer group. Peer median is \$65 (2007 analysis).
- ETF call center uses 7.6% of ETF budget (vs 11% for peer group)
- \$9 per call, same as the peer group
- Total service score of 60 was below the peer group median of 73.

### Variable Fund

At the June Board meeting, the board voted to recommend that the Variable Investment Fund be phased out. An informational paper was provided that explores alternatives and ramifications of each option. Copies of the paper will be provided at the October SEA annual meeting.

### Secretary's Report

#### Market Value of Liabilities

This is an esoteric topic related to how actuaries evaluate public pension plans. Copies are available.

#### Privacy Study

ETF has implemented policies to reduce unnecessary use and transmission of full SSNs and is examining options for eliminating the SSN as the primary identifier for WRS participants.

#### Mandatory Electronic Direct Deposits

ETF is in the process of developing a policy to require electronic direct deposits of WRS annuity payments. This will save ETF mailing costs and improve confidentiality of personal information.

#### Implementation of 2007 Wis. Act 226

This was discussed in a recent SEA newsletter article (ref. WCOA Meeting - Sep 17), and relates to public safety officers and health insurance premiums.

### **WANTED: Your comments, story ideas, and calendar items**

What's going on in your area? Are members in your section doing great things, either at work or off hours? What's going on in your neck of state government? SEA View readers want to know.

**Share your ideas, opinions and suggestions. SEA View will print guest columns from members as**

**space allows.** We're also interested in your feedback and suggestions. How are we doing? Got a take on an issue of interest to members in general? Email [sea\\_wis@yahoo.com](mailto:sea_wis@yahoo.com).

-- By Dan Joyce



## September 13, 2008 Board Meeting Summary

Meeting held at La Quinta Inn & Suites, Madison

By Duane Hubeler, Secretary

### **Attendance:**

**Executive Board:** Tom Mugan – President, Leroy Stublaski – First Vice President, Gretchen Wheat – Second Vice President, Duane Hubeler – Secretary, John Bolka - Treasurer

### **Board Members:**

Tom Peronto, Wisconsin Rapids President  
Jim Liptack, Southeast Section  
Tony Allard, Green Bay President  
Sandy Anderson, Central Office President  
Gordon Stinson, La Crosse Section  
Michael Wendt, Rhinelander President

David Solberg, Eau Claire President  
Larry Legro, State Agencies President  
Brian Mattson, Superior President  
Khader Abu al-eis, Madison President  
Bob Schaefer, DNR Madison President

### **Specialists:**

Willie Haus, Attorney  
Dan Joyce, Health & Retirement

Sandy Henke, SEA Office  
Ron Legro, Communications Specialist

**Guest:** Paul Caleb, State Agencies Section

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### **Meeting Begins:**

Tom Mugan called meeting to order at 8:40 am. Introductions were made.

### **Approvals:**

The June 28, 2008 Board Meeting minutes were reviewed. Schaefer moved to accept the minutes with one change. Khader seconded. Motion carried. The Correspondence Report was reviewed. Tom Mugan accepted the Correspondence Report.

### **Election and Legislative Report:** *By Gretchen Wheat*

Gretchen received a copy of a letter from the Legislative Audit Bureau to Senator Fred Risser denying his request to audit Act 89 compliance and to research the mileage turn-down rate that DOA uses. The federal highway fund is running out of money and will begin pro-rating their payments to contractors. Gretchen also reported that the Department of Regulation and Licensing has begun the long process of writing rules to implement the statute change regarding continuing education for Professional Engineers and Architects.

### **Bargaining:** *By Willie Haus*

There is still no movement to report.

### **Grievance Report:** *By Leroy Stublaski*

Note: A-xxx indicates an Association grievance

A-307 (filed 5/3/99) – DOT D2 – Denied work time to take PE exam. Arbitration pending.

A-351 (filed 7/19/01) – DOT D4 – RLS exam reimbursement. Consolidated with A-307.

A-352 (filed 6/25/01) – DOT D3 – PE licensing fee reimbursement. Consolidated with A-307.



- A-361 (filed 10/30/01) and A-362 (filed 10/31/01) – DOT D1 and D2 – Assignment of scheduled overtime. Arbitration pending .
- A-369 (filed 1/2/02) – DNR Water – Add-on as part of year-end leave cash out option. Arbitration pending.
- A-378 (filed 8/14/02) – DOT D1 - Not being paid appropriate mileage rate. Filed at Step 4.
- A-389 (filed 5/30/03) – DOT D3 - PE licensing fee reimbursement. Consolidated with A-307.
- A-394 (filed 8/1/03) – DOT D1 – Discipline Reassignment. Filed at Step 4.
- A-395 (filed 5/3/03) – DNR NER – PE Exam Reimbursement. Consolidated with A-307.
- A-402 (filed 3/25/04) – DOT-DTID – Discipline without just cause. Filed at Step 4.
- A-405 (filed 4/5/04) – DOT D5 – PE Exam and licensing fee reimbursement. Consolidated with A-307.
- A-410 (filed 6/29/04) – DNR Water – Granting of Restoration Rights. Filed at Step 4.
- A-419 (filed 12/23/04) – DNR Water – Add-on is part of year end cash out option. Filed at Step 4. Consolidated with A-369.
- A-420 (filed 1/27/05) – DOT – Turndown Mileage Rate. Filed at Step 4.
- A-429 (filed 4/27/05) – DOT D5 – PE licensing fee reimbursement. Consolidated with A-307.
- A-430 (filed 4-27-05) – DOT D5 – PE Exam Reimbursement. Consolidated with A-307.
- A-431 (filed 4-27-05) – DOT D5 – PE Exam and Licensing Fee Reimbursement. Consolidated with A-307.
- A-432 (filed 4-27-05) – DOT D5 – PE Exam and Licensing Fee Reimbursement. Consolidated with A-307.
- A-435 (filed 11/30/05) – DOT D4 - PE Exam and Licensing Fee Reimbursement. Consolidated with A-307.
- A-436 (filed 11-18-05) – DOT D2 - PE Exam and licensing fee reimbursement. – Consolidated with A-307.
- A-439 (filed 11-29-05) – DNR - Extra Mileage. Filed at Step 4.
- A-440 (filed 11-09-05) – DOT D1 - Lunch Money. Filed at Step 4.
- A-444 (filed 3-14-06) – DOT D2 – Individual Bargaining. Filed at Step 4.
- A-446 (filed 2-14-06) – DOT SW – PE exam and licensing fee reimbursement. Consolidated with A-307.
- A-447 (filed 3/27/06) – DOT NCR – Fleet vehicle assignment & utilization. Filed at Step 4.
- A-448 (filed 5/12/06) – DOT NCR – HAM used on current state employee in promotion. Filed at Step 4.
- A-453 (filed 8/18/06) – DOT NER - PE Exam and licensing fee reimbursement. Waived to Step 3.
- A-455 (filed 10/27/06) – DHFS-Reimbursement of surcharge for over 2000 miles. Filed at Step 4.
- A-456 (filed 9/13/06) – DOT NER - PE Exam and licensing fee reimbursement. Waived to Step 3.
- A-463 (filed 4/18/07) – DOT NER – PE for CE-Adv positions. Filed at Step 4.
- A-464 (filed 6/5/07) – UW - Termination without just cause. Filed at Step 4.
- A-469 (filed 8/20/07) – DOT NER – Mileage reimbursement rates. Filed at Step 2.
- A-472 (filed 12/04/07) – DOT NCR – Denied standby pay for 25-hour shift. Moved to Step 4.
- A-473 (filed 1/8/08) – DOT NCR – Denied 2 hours call-back time. Moved to Step 4.
- A-474 (filed 1/16/08) – DOT NCR – Denied 2 hours call-back time. Moved to Step 4.
- A-475 (filed 2/7/08) – DOT SE – Involuntary reassignment. Moved to Step 4.
- A-476 (filed 2/28/08) – DOT NCR – Denied benefits after car accident. Moved to Step 4.
- A-477 (filed 4/29/08) – DOT NCR - Denied 2 hours call-back time. Moved to Step 4.

**Communication Report:** *By Ron Legro*

Our Act 89 consultant, Professor Emeritus Ed Beimborn, is making good progress on his study, although he could use some non-DOT examples. There is no follow-up on the initial estimates that are used to comply with Act 89. No one knows if the estimated numbers are even remotely accurate.

**Health and Retirement Report:** *By Mel Sensenbrenner*

The poor performance of the stock market is reflected in the recent performance of funds used to finance the Wisconsin Retirement System, with larger losses seen in the variable fund. The Wisconsin Long-Term Care Program now has only two insurance companies offering coverage to new applicants. Enrollment in the program can easily be denied for pre-existing conditions like stroke or diabetes.

**Miscellaneous Items/Updates**



There are not many rooms left for the annual meeting in Wausau. All rooms are \$99.00.

**Section Reports:**

*Madison* — There are continued concerns over the lack of progress in bargaining and time to settle grievances.

*Southeast* — The annual section meeting will be Sept. 25. DNR and DOT regional directors are invited, along with Attorney Haus. The district gave an employee recognition award to an outside consultant.

*Green Bay* — There were recent interviews of five supervisor candidates, none of whom were chosen. Seven new CE – Entry positions have been announced. A section meeting is scheduled for 10/2.

*Wisconsin Rapids* — Monday is T-shirt day in the office. Planning for the annual meeting is ongoing. A section meeting is scheduled for 9/11.

*La Crosse* – No report.

*Eau Claire* – A section meeting scheduled for mid-August was rained out. The lack of progress in bargaining is affecting employee’s willingness to volunteer for various office social functions. There was a recent involuntary reassignment of an individual who was not the most qualified for the job.

*Rhineland* – Two SEA positions are set to be filled – one via transfer, one via reassignment.

*Superior* — Bargaining remains a big question with members. The section already has a proposal for members to forgo taking part in the SECC campaign this year and donate to charities on their own.

*Central Office/PSC* — A manager’s wife was recently hired as an LTE and some members were told to give her some work to do.

*DNR* — HR and management have proposed a change in the outside employment policy that will include virtually everything.

*State Agencies* — A bi-annual section meeting was set for Sept. 22. Several new members have been signed up.

**Financial & Membership Reports:** *By John Bolka*

John moved to accept the August 2008 Membership Report. Bob Schaefer seconded. Motion carried.

John moved to accept the July, 2008 Treasurer’s Report. Leroy Stublaski seconded. Motion carried. John moved to accept the August, 2008 Treasurer’s Report. Khader seconded. Motion carried

John submitted the Board Meeting Vouchers and moved for approval to pay them. Tony Allard seconded. Motion carried.

08-18 => 08-27, 29, 31, 34, 35, 36	\$1864.32
M-12 => M-23	\$2200.00
	\$4064.32

The state-level audit is scheduled for the weekend of Sept. 20. John moved to approve funds for a new wireless computer keyboard. Schaefer seconded. Motion carried.

**New Business:**

There was further discussion over board member stipends.

The meeting was adjourned at 3:35 pm. The next board meeting will be on Oct. 11, 2008, in Wausau.

**PUZZLING PUZZLER: TIME OUT**

***Our putz of a puzzling-puzzler puzzle-izer is taking a much needed break. So, no new puzzle this issue, but tune in next time for our next conundrum. Meanwhile, here's the solution to last issue's problem:***

Thirteen SEA members are in Eureka, Oregon attending a science conference. When they arrive at the Parallax Hotel to check in, they are told that only 12 rooms are available, even though reliable Sandy at the SEA office had made reservations for 13 rooms. The members are debating what to do when the hotel manager comes out. When the manager hears of the situation she assures the SEA members that the Parallax Hotel has enough space to accommodate each of them in a room.

The manager begins by taking two of the engineers to room #1, promising to come back in a few minutes to take one of them to another room. She does, taking the third engineer to room #2, the fourth engineer to room #3, the fifth engineer to room #4 and so on, until she has taken the twelfth engineer to room #11. She then returns to room #1 and escorts the extra engineer waiting there to room #12, announcing that all of the engineers are now happily settled in their own rooms.

**QUESTION: Is this possible? Why or why not?**

**SOLUTION:** No, it's not possible. The puzzle is based entirely on misdirection through wording and naming. The manager was merely trying to please. So, #1 & #2 engineers went to room #1; then #3-#12 went to rooms #2-11; then #2 engineer goes to room #12.

"Engineer #13 still doesn't have a room. Guess he's sleeping on the couch in the lobby," said our winner this month, **Barbara Cassen** of the DOT. Everyone who entered got this puzzle right, so it's obvious SEA members have good math skills and can also spot verbal misdirection. However, several of you, like Barbara, did imagine your own solutions to the problem. Several of you also suggested that it's possible the 13th engineer was actually a specialist. *Now, now, let's be nice, everybody.*

***Moving?***

Since we no longer send many copies of SEA View through the mail, it is difficult to track members who have moved. If you have a new address, please contact the SEA office so we can continue to send you mailings.