ENVOY AIR INC. & TRANSPORT WORKERS UNION
INTEREST ARBITRATION BOARD

TRANSPORT WORKERS UNION OF AMERICA, AFL-CIO,	)	
Union	)	**OPINION AND AWARD**
-and-	)	***Amendment Round Process***
ENVOY AIR, INC,	)	
Company	)	

BEFORE

Joshua M. Javits, Esq., Chairman
James E. Conway, Esq., Neutral Arbitrator
William L McKee, Ph.D Neutral Member
Ramon E. Hernandez, Company Board Member
Gary Shults, Union Board Member

APPEARANCES

For the Company

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For the Union

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I. INTRODUCTION

Envoy Air ("Company"), formerly known as American Eagle Airlines, is a regional airline based in Irving, TX. It and The Transport Workers Union ("Union" or "TWU") are parties to an eight-year collective bargaining agreement ("CBA") effective from January 1, 2013 through December 31, 2020. The agreement, encompassing rates of pay, work rules and benefits applicable to Envoy's aircraft maintenance technicians ("AMTs") and related employees, is a product of negotiations undertaken pursuant to Section 1113 of the Bankruptcy Code following the Company's filing for bankruptcy. Reflecting the circumstances in which it was bargained, it incorporates concessions Envoy sought from the AMT group, just as with other classes of represented employees, as a prerequisite to its reorganization.

In the bargaining leading to conclusion of that CBA, the Company developed and the parties relied upon a "benchmarking" process in which Envoy's total AMT and related labor costs were compared to what was determined to be the industry weighted average ("IWA") costs of certain of its competitors. The concessions made by the Union were predicated upon those benchmarking standards.

The governing CBA contained an "Amendment Process," encompassed in "Letter of Agreement Y ("LOA Y") allowing either party to propose amendments when deemed warranted by changes in the regional airline industry. In assessing what, if any, changes would be appropriate, the parties agreed to again employ the same benchmarking standard relied upon in the pre-Section 1113 bankruptcy negotiations that led to the CBA.

In 2016, the Union exercised its right to initiate such an amendment round. Thereafter it reached a tentative agreement with the Company on mutually acceptable modifications to the CBA pursuant to the terms of LOA Y. Distributed to the membership on September 16, 2016 for a vote, however, that agreement failed to ratify. This Board was then impaneled to hear evidence and argument from both sides regarding whether the CBA should be adjusted, and if so, exactly how in accordance with the range of positions submitted by each side. The parties agreed that the final and binding determinations of this Panel would then govern the rates of pay and relevant other terms for the four remaining years of the contract.

Hearings on the issues stated below took place on October 3, 4, 5 and 6, 2016, in Irving, TX. Both parties appeared, represented by counsel and presented testimony and documentary evidence. The proceedings were transcribed by a certified court reporter. Upon receipt of closing briefs dated December 23, 2016, the record was closed. Without regard to whether expressly referenced herein, all evidence received and argument presented has been considered in preparation of this Award.

II. STIPULATIONS

A. Procedural

1. This matter is properly before the five-member Interest Arbitration Board as provided in LOA Y (1113 Amendment Process) of the CBA between the parties.

2. The parties have fully complied with LOA Y of the CBA.

3. For purposes of calculating the award standard in Paragraphs D.1 and 2.a of LOA Y:

a. The comparator airlines are: SkyWest ("SW") and Republic Air Holdings ("RAH");

b. Weightings for the industry weighted average ("IWA") based on number of aircraft are: SkyWest – 58%, Republic – 42%.

B. Stipulated Issues

Whether to award any of the following proposals to the respective proponent pursuant to LOA Y:

Company Proposals in Brief

A**.** Rates of pay**.** The Company proposed no increase in rates of pay.

B. Geographic Premium Proposal

1. If the Company determines that any or all of its rates of pay in Article 4 (Compensation), at any station, base, location or classification, are non-competitive with local market rates for similarly situated jobs, the Company may implement a Geographic Premium.

2. The Company will determine the amount and which classification(s) within a station, base or location will be eligible for the Geographic Premium. The amount of

Geographic Premiums may vary by classification within the same station, base or location.

3. As market conditions change, the Company may cease utilization of a previously established Geographic Premium. Employees already receiving such a premium will continue to receive it except as provided under paragraph 4 directly below.

4. Any employee receiving a Geographic Premium who voluntarily or involuntarily transfers or is displaced to a station, base, location or classification that is not utilizing a Geographic Premium will, at the time of transfer, have his rate of pay reduced to the appropriate pay rate (and vice versa).

C. Personal Days Off ("PDO"), Article 5

1. Amend Article 5.G.1 to include the Saturday/Sunday prior to Memorial Day and Labor Day as "Special Days."

2. Amend Article 5.G.1 and 2 to include the addition of the holidays listed in Article 6 (Holidays).

Union Proposals in Brief

A. Three percent (3%) across the board increases effective January 1, 2017, and on each successive January 1 through 2020.

B. Personal Days Off: Add additional 24 hours of PDO.

C. Overtime: Implement Daily Overtime.

D. Longevity Pay as follows:

5-10 YOS - $0.05/hr.
11-15 YOS - $0.10/hr.
16-20 YOS - $0.15/hr.
20+ YOS - $0.25/hr.

E. Holiday Pay as follows:

Double time if worked.
Straight time if not worked.

III. RELEVANT CONTRACT PROVISIONS

ARTICLE 5 - PERSONAL DAYS OFF

A. Personal Days Off (PDO) hours can be accumulated up to a maximum of 224 hours, to be used in the following calendar year on an individual basis per Article 5B, below.

F. Employees must bid all but sixty-four (64) hours of Personal Days Off to be used in one-week blocks of time during the following year. These one-week blocks of time off, or Consecutive Personal Days Off (CPDOs), must be bid as [set forth in the contract].

G. The remaining sixty-four (64) PDO hours that have not been bid as CPDOs may be taken for any reason during the following year, except in Sections 1 and 2, below. It will be the responsibility of the employee who will be absent from work for a PDO to report the fact to his immediate supervisor at least two (2) hours prior to normal shift starting time in accordance with local procedures.

1. The following are considered "Special Days": New Year's Eve, Super Ball Sunday, the Day After Thanksgiving Day, and Christmas Eve. PDOs requested for the "Special Days" must be made at least seven (7) but not more than fourteen (14) days in advance. PDOs requested for the "Special Days" will be paid at straight time and cannot create overtime for the employees.

ARTICLE 6 - HOLIDAYS

A. The following holidays will be observed and compensated as set forth herein:

New Years Day	Labor Day
Memorial Day	Thanksgiving Day
Independence Day	Christmas Day

LETTER OF AGREEMENT Y
AMENDMENT PROCESS

The following procedure will be followed in the event that either party desires to make alterations to specific provisions of the Collective Bargaining Agreement ("CBA") between the Transport Workers Union of America, AFL-CIO ("TWU") and American Eagle Airlines ("Company").

A. Notice, Initial Meetings and Negotiations

1. No earlier than April 1, 2016, but no later than April 30, 2016, either party may serve written notice specifying which provisions of the CBA the party proposes will be deleted added or amended, as provided for in this Letter of Agreement. Negotiations will commence no later than June 1, 2016 and continue for a period not to exceed ninety (90) days. Ratification of any tentative agreement will be governed by the TWU Constitution and Bylaws.

3. Three (3) months prior to April 1, 2016, the Company will share any studies, reports or the results of any benchmarking exercises which it conducts in preparation of the Amendment Around. Such information shall include the carrier selected in the benchmarking.

7. If the parties are unable to reach a complete and final agreement on all issues on or before August 31, 2016, the parties will finalize the Amendment Round through the interest arbitration procedure outlined below. All prior agreed-two items in negotiations will become part of the arbitration Final Award without change. Nothing in this paragraph will prevent either party from proposing and/or agreeing to items as a "package."

C. Submission of Items to the Board

4. The parties will submit to the Board the single, separate, and specific last offer or positions made by each of the parties on the remaining open issues, identified and limited as described in paragraph 1 and 2 above. The Board will be limited in its award to the open issues presented, and the award must be within the limits set by the offers or positions of the parties and must embody and reflect the industry average of the regional carriers as defined in D. below.

5. The award will be subject to provisions of the Duration Section of the CBA.

D. Standard for Award

1. The standard, or "benchmark," used by the Board in determining resolution of the items submitted to it shall be the two large regional carriers with the most competitive labor costs, with AMT and related populations (the carriers used for the benchmark may vary by title group) similar to American Eagle's, operating at least 200 aircraft of similar equipment type as the Company, within the seat range of aircraft operated by the Company. No airline that is in bankruptcy as of November 1, 2015, may be used in this analysis. A bankruptcy filing by an airline after November 1, 2015, shall not be a cause for its exclusion from this analysis. The parties will endeavor to agree on the carriers to be used by the Board. If the parties cannot reach agreement, the decision of defining the two carriers shall be decided by the Board and the decision shall be final.

2. The basis for adjustments to the contract provisions during this Amendment Around will be American Eagle's AMT and Related labor costs position relative to the average of the total AMT and Related labor costs at the comparative carriers in paragraph 6 above. Included

in the study will be the total AMT and Related wages, benefits, work rules, and longevity (computed separately for each Title Group).

a. This shall be determined by a combination of the appropriate application of such carriers' contract elements or terms of employment to Eagle's Schedule of flying and population and the application of Eagle's pay rates and contract elements to the average of the competitive carriers' AMT and related seniority (such analysis will be completed by Title Group).

IV. GENERAL BACKGROUND

Envoy Air, Inc., together with two other regional carriers, PSA Airlines and Piedmont Airlines, is a wholly owned subsidiary of American Airlines Group, Inc. ("American"). American also contracts with seven other independent regional airlines, allocating its flying among the regional carriers through a bidding system in which the regional airlines submit price quotes based on "block hour" costs.

The Company has a fleet of approximately 153 aircraft with bases at the following airports: (1) Dallas/Fort Worth International Airport; (2) Sawyer International Airport; (3) Miami International Airport; (4) Springfield-Branson National Airport; (5) Northwest Arkansas Regional Airport; (6) Port Columbus International Airport; (7) O'Hare International Airport; and (8) Clinton National Airport. As of the date of the hearing, the Company was preparing to resume operating a base at LaGuardia Airport, as well.

The Company's "AMT and Related," group includes Aircraft Maintenance Technicians, Inspectors, Tool and Die Mechanics, Ground Support Technicians, Repairmen, Aircraft Cleaners, and Inventory Control Specialists. There are 955 employees in the AMT and Related group, 682 of whom are AMTs.

In conjunction with the Chapter 11 Bankruptcy filed by the Company and its parent company, AMR, it sought financial concessions from the Union designed to bring the Company's labor costs in line with other regional airlines.[1] The Union was under serious pressure to accommodate the Company's requests for changes to the November, 2011 Agreement in that context, concerned that the Bankruptcy Court might otherwise reject the CBA in its entirety under Section 1113 of the Bankruptcy Code.

[1] The Company requested and received concessions from its other represented labor groups – pilots, flight attendants, fleet service workers, ground school instructors and flight dispatchers – as well.

As part of the 1113 negotiations, the Company prepared a benchmarking analysis in which it compared its total labor costs for the AMT and Related groups to labor costs for the same employee groups at comparator airlines, calculated on an industry weighted average based on fleet size. The Company's Director of Finance Air Operations & Analysis, Charles Clark, who prepared the benchmarking model for the 1113 negotiations, testified that he did not have all of the data about the comparators' labor costs and, thus, was required to make several assumptions in his model.

In the bankruptcy proceedings, the parties negotiated a new CBA, effective January 1, 2013. In that agreement the Union gave the Company concessions totaling approximately $6.2 million per year. These concessions were largely derived from reducing benefits such as holiday and premium pay and numbers of sick days or PDOs rather than base rates of pay. Specifically, the Union (1) forfeited daily overtime; (2) reduced holiday pay from double time to time-and-one-half for holidays worked, and from a whole day to half a day's pay for holidays not worked; (3) forfeited 24 of the 28 hours allotted for sick days and allowed the Company to merge the remaining 24 hours of sick days into PDOs; and (4) allowed one week (40 hours) of vacation days to be converted to PDOs.

Although the 2013 CBA did not provide for any automatic "snap backs" to pre-bankruptcy terms and conditions as circumstances changed, it did provide an option for either party to initiate an amendment process in 2016 if it believed the Company's costs were no longer in line with comparator airlines.

The process under LOA Y for initiating and establishing a right to an amendment provides a standard for comparing the Company's costs to its competitors that is similar to the benchmarking the Company used during the 1113 negotiations, *i.e.*, comparing the Company's labor costs to those of certain comparators representing an industry wide average. (IWA). The Company authored and proposed the language of LOA Y, which the Union accepted without proposing any modifications.

After the Union invoked LOA Y and requested amendments to the CBA in 2016 encompassing the above proposals, a tentative new agreement was reached in August, 2016 following two months of talks. Using the benchmarking data developed by the Company and shared with the Union, the agreement included a two percent annual pay

rate increase; an additional eight hours of PDO; the option to extend vacation by one day; and a return to double time for holidays worked and straight time pay for holidays not worked.

On the same day that settlement was concluded American announced it had reached agreement with its mechanics providing for substantial pay increases. The Envoy-TWU tentative agreement was rejected by Union membership, reportedly because of membership dissatisfaction with pay gaps between the two carriers.[2] The proposals of the parties set forth above were then advanced to interest arbitration before this Panel for determining which, if any, should be adopted consistent with the criteria agreed upon for making those judgments.

V. DISCUSSION & ANALYSIS

A. Constructing the Appropriate Model

"Benchmarking"

The tentative agreement that failed ratification was accepted by both sides as satisfying the standards agreed upon for adjusting wages and other terms. Among other changes, it provided for annual pay increases of 2% across the board from 1-1-17 through 1-1-20. Triggered by the membership rejection, the Union now seeks an additional 1% over and above those increases. As evidenced by the very significant volume of data and advocacy before us on this subject, to say that the parties are not of a common mind on how to construct and apply the Standard set forth in LOA Y does not quite say it all.

Unquestionably, both sides clearly understand the objectives of this interest arbitration, its relation to Envoy's fragile condition and the need to avoid contentious labor strife. The parties both openly state that the interest arbitration clause in LOA Y, Section D. was intended to be a mechanism for ensuring that wage rates for airline mechanics remained fair and equitable in the years following contract ratification, as well as to ensure that Envoy's wage provisions would be competitive with the two regional carriers selected for comparison.

After that, however, disorder sets in. The mouse in the closet is this: While the parties agree that any modifications to the CBA must conform to the *Standard for Award*

[2] The Company acknowledges that certain employees, particularly pilots, have been given discretionary pay increases but insists that no working group has been restored to its pre-bankruptcy pay and benefit levels.

of LOA Y, each applies the standard differently, generating extremely different results. Envoy has its AMT workforce costing $2.4 million more than the comparators. The Union has Envoy at $3.626 million below IWA. The debate over "process" producing those disparities, including assumptions used in benchmarking, all arise from a somewhat imprecise draft of important language, drawing the Board onto a kind of metaphysical battlefield.

The Union's Position

LOA Y, Section D. establishes that any adjustments to the contract in this round must be based upon the explicit standard stated: "American Eagle's AMT and Related labor cost position relative to the average of the total AMT and Related labor costs at the comparative carriers." It further acknowledges that the governing terms do not address every detail as to how the benchmarking process for determining those costs was to be conducted. Beyond acknowledging that there would be industry benchmarking with two comparators, the Union emphasizes that there was no further discussion of standards; all discussion of models was handled by consultants; and there was no understanding that bankruptcy modeling would be employed. Further, it admits that the language of LOA Y lacks clarity. Since it does not clearly indicate how industry benchmarking is to be done, the Board must make that decision, and LOA Y's use of the term "appropriate" affords it latitude to do so, according to the Union.

The Union argues that the Company's method of assessing relevant data for these purposes is flawed. The only way Envoy avoids concluding that its AMT costs are not nearly $2.4 million above but at least $3.626 million below IWA is by failing to apply LOA Y correctly, the Union asserts. The industry must be benchmarked by first costing "the comparators contract elements or terms of employment to [Envoy's] schedule of flying and population," *i.e.*, to Envoy's seniority, and then applying Envoy's "pay rates and contracts elements to the average of the comparative carriers' AME & Related seniority." What the Company has done, however is apply average comparator pay and seniority to the makeup of its AMT workforce. That methodology is unsupported by contract language, according to the Union.

Among other issues with the Company's modeling, the Union asserts the model prepared by Envoy included improper assumptions, guaranteeing that its model would

produce artificially high total costs for Envy relative to its competitors. More specifically, in its benchmark model the Company used unsubstantiated average seniority date or Sky West and Republic. This approach was entirely unsupported by any language in LOA Y, which requires an applicator of the comparators' pay to Envoy's seniority, and vice-versa.

According to the Union, the Company justifies its seniority assumptions on grounds that it did not have precise seniority/longevity data for SkyWest and Republic employees. But it could have accessed that information. Rather than requesting seniority lists, it was satisfied to simply seek the bare minimum from the comparators for use in developing its benchmarking model--the "average seniority of the mechanic work group" at those airlines. In consequence of utilizing "average seniority" rather than the most comprehensive data available from those carriers, the parties are almost $6 million apart in their valuation of Envoy's cost position.

The benchmarking standard does not call for reliance on "average seniority" for each comparator carrier, according to the Union. No such reference can be found in LOA Y. Rather, it requires the application of two separate determinations: (i) the comparators' contract elements or terms to Envoy's schedule of flying and population, *viz.*, to Envoy's seniority, and (ii) the application of Envoy's pay and terms to the average of the comparators' seniority. There are important differences between that directive and what Envoy did in applying comparator pay to comparators' average seniority. How seniority is distributed is critical.

With inadequate information regarding the distribution of seniority at the comparator carriers, the Company's benchmarking model was fatally flawed. And together with failing to perform any sort of statistical analysis of the average seniority figures provided by SkyWest and Republic and settling for the inclusion of incomplete data in its benchmarking model, the Company was able to drive Envoy's total costs higher than would otherwise have been the case. In short, the Union contends that the Company's assumptions in its model with respect to seniority were so flawed and larded up with estimates that they offered no meaningful comparison between Envoy's costs and the costs of its comparators.

The testimony of expert witness Dan Akin, an air transport economist who has

consulted with various unions and companies, demonstrated that the Company's assumptions on seniority were inaccurate and inappropriate. Relatively minor adjustments to the Company's benchmarking model would have greatly reduced Envoy's total costs. The Union asserts that Akin established that if the Company had used known data in its model rather than estimates for SkyWest/Republic data on seniority, Envoy's mechanics would have shown as $3.626 million less expensive that its comparators.

According to the Union, the nearly $6 million difference between the costs estimated by the parties in their valuation of Envoy's relative cost position are attributable largely to the cost-driving influence of seniority. The Company concluded that its AMTs were $2.4 million more expensive than those of the comparators by applying their pay rates to an estimated or assumed "average" employee seniority distribution on those carriers. As testified to by Mr. Akins, LOA Y requires an application of comparators' pay to Envoy seniority, and vice-versa. There is no language in LOA Y authorizing the application of comparator pay to their "average seniority."

Where some relevant seniority information was lacking, Akins filled in the "gaps" in the benchmarking model differently than Mr. Clark. First, he applied the comparators' pay rates and contract terms to Envoy's longevity data and projections. He then applied Envoy's pay rates and contract terms to comparator seniority data and projections. Next, he applied the more specific longevity data that the Union was able to obtain from SkyWest rather than the general information Mr. Clark received and performed a statistical analysis regarding seniority distributions. Additionally, Akins accounted for license premiums, assuming that 7.3% of Envoy AMTs do not receive two license premiums. Further, he made different assumptions and projections regarding attrition and productivity. Lastly, he used Envoy's longevity data for costing comparator wages and contract factors when the data for the comparators were unknown.

The Union asserts that its proposed methodology for comparing Envoy's total cost to its comparator carriers produces more reliable results than that resulting from the Company's selection of average seniority computations. The Union was able to obtain an exact seniority list from SkyWest. It shows that the actual seniority of SkyWest mechanics was nine (9) years of service, not the seven (7) year average used by the Company in its model. Using SkyWest's exact seniority would have reduced Envoy's

total costs by over $1 million. And more generally, if the data proposed by the Union were included in the Company's model, Envoy's total costs would in total be $3.6 million less than comparator carriers.

According to the Union, the Company's artificial inflation of Envoy's relative costs based upon faulty seniority assumptions is not the only problem with its model. The Company made assumptions in its benchmarking model with respect to attrition rates and numerous other factors, skewing Envoy's total costs and making them appear more expensive than was the case. Additionally, the Company failed to consider factors such as productivity that would have made Envoy appear less expensive.

The cost of all the Union's proposals in total would be approximately $4.3 million. Mr. Akins' model concluded that the Company's annual labor costs for AMTs are $3.6 million less than the relevant comparators. Accordingly, the Union's proposals are fair and equitable. If accepted, they would take Envoy's total costs only marginally higher than the costs of its comparator carriers. The relatively slight increases proposed by the Union are reasonable and should be accepted.

The Company's Position

The Company notes at the outset that the parties agreed in LOA Y that the Board's authority in deciding whether or not to adjust the contract is limited to consideration of the benchmarking standard. Specifically, the Board may choose only from the following options: (1) if Envoy's total costs were higher than comparable carriers, the CBA could be amended to reduce wages and benefits; (2) if Envoy's total costs were lower than comparable carriers, the CBA could be amended to increase wages and benefits; or (3) if Envoy's total costs were in line with comparable carriers, then there would be no change in the CBA.

According to the Company, in interpreting the applicable benchmarking standard, the Panel must compare Envoy's total labor costs to a weighted average of its comparators' total labor costs. But to calculate the total labor costs of the comparators in any benchmarking model the average longevity of their mechanics must be considered. Ignoring that information would result in a comparison of Envoy's rates to the comparators' rates, not a comparison of total labor costs as mandated.

Director of Finance Air Operations Analysis Charles Clark prepared the benchmarking template for the 2016 negotiations. Consistent with the parties' understanding, he identified SkyWest and Republic Air Holdings ("Republic") as the industry comparators**.** As an initial matter Mr. Clark testified that the benchmarking model he prepared was based solely on costs for AMTs, both because there were no comparator data available for the other categories of employees in the AMT and Related groups and because AMTs constitute the majority of the working group. He thus set the comparators' employee populations to the same number of AMTs employed by Envoy (682).

Mr. Clark acknowledged that he was unable to obtain all underlying labor cost data from SkyWest and Republic, the later of which is a non-union operation. Specifically, he stated that he was able to obtain information only with respect to average seniority for both carriers, and that in place of missing data he used Envoy data in his calculations. Clark explained that this was the same methodology he had employed in the benchmarking analysis he did for purposes of the 1113 negotiations. Based on the information he received from SkyWest and Republic, Clark used 7 years of service ("YOS") as the appropriate benchmark for both of the comparator airlines, as compared to 15.5 YOS for Envoy AMTs. Envoy, accordingly, was calculated as having more than double the average seniority of its comparators.

At the hearing, Clark stated that his model demonstrated that the Company's annual AMT wage costs were $2.4 million higher than the IWA. However, he stated, even if the Union has correctly inputted SkyWest's longevity information into the model, and adjusting for supervisors and non-AMT employees, Envoy still sat $1.3 million higher than IWA at the time of Clark's calculations.

In explanation of the grounds on which it did its benchmarking, the Company insists that Letter Y, Section D. 2 clearly provides that the standard for resolving the issues submitted requires a comparison of "American Eagle's AMT and Related labor cost position" with "the average of "the *total* AMT and Related *labor costs"* at the comparator carriers," with longevity explicitly recited as a contract element to be considered. (Emphasis added). According to the Company, this standard requires that longevity of comparators' mechanics be used to calculate the comparators' total labor costs.

The Company rejects the Union's position that Envoy's total labor costs and the comparators' total labor costs should be calculated using the comparator's longevity for purposes of comparison. The clear and express language of Letter Y provides that longevity ("average…seniority") should be considered in any benchmarking standard. Application of the Union's proposed standard would result in a dramatic lowering of Envoy's total costs relative to the weighted average of comparator carriers, the Company asserts. By holding longevity constant in the manner the Union seeks, it fails to properly compare Envoy's labor costs to its comparators. According to the Company, if the Union had wished for the standard of LOA Y to involve only a strict comparison of rates between the airlines it should have negotiated language to that effect. For that reason, the Company insists that the Board should reject the Union's interpretation of LOA Y.

The Company emphasizes that during the Section 1113 process, Envoy compared its total labor costs to the weighted average of the labor costs of its comparator carriers. In doing so, it calculated the comparators' labor costs based upon the average longevity of their mechanics. Since the parties agreed that the amendment round benchmarking would be the same as the Section 1113 benchmarking, any contention that the process anticipated by LOA Y's benchmarking should somehow be different or distinct from the process in Section 1113 is unavailing.

According to the Company, it was impossible for it to obtain confidential and proprietary data from its competitors in the regional carrier industry, including detailed longevity lists from each. The best the Company could do under the circumstances was to obtain information on comparator carriers' average longevity. Both parties knew and understood at the time they agreed to LOA Y that the comparators' average mechanic longevity would be used for benchmarking. It was understood that where exact information was missing the parties would use the best information available. As such, the Company insists the longevity information used in its benchmarking model was not only reasonable but was entirely justified. The Board should therefore apply LOA Y as the parties applied it during their earlier negotiations; i.e. as requiring a comparison of total labor costs based on each respective carrier's average longevity information.

The Company contends that the information the Union obtained regarding SkyWest seniority is suspect. It notes that the Union's documentation contains the names and start

dates of some 915 SkyWest "Maintenance" employees. This list, however, includes supervisory maintenance employees and non-mechanic employees at SkyWest. Information obtained by the Company shows that there are only 750 line maintenance mechanic employees at SkyWest. For that reason, the Company insists that the 7.1 years average seniority figure it used in its benchmarking model (and which it obtained directly from SkyWest) is more accurate that the 9.02 years average seniority the Union claims should have been used. According to the Company, the difference between its 7.1 years average and the Union's 9.02 years is based on the Union's improperly including non-mechanic employees in its calculation.

The Company further denies that its modeled distribution for Republic's longevity was improper. It notes that it was unable to obtain the actual longevity distribution of Republic's mechanics. Accordingly, it was forced to fill these gaps with estimated information to model Republic mechanics' average longevity. Information provided by Republic indicated that it had an average mechanic longevity of 7.1 years. In any event, the Company insists that the parties did not intend the benchmarking to only be performed if the "actual" longevity as opposed to the average longevity was obtained. According to the Company, the Union failed to offer a single, reasonable alternative to the longevity distribution used for Republic in the Company's model. For that reason, the Company believes the Board should utilize the Company's longevity distribution for Republic's mechanics.

The Company contends that if the Board were to accept the Union's proposed wage increases it would adversely impact Envoy's ability to remain competitive in what is an already hyper-competitive industry. Regional flying has always been and continues to be a cost driven commodity type business. If Envoy is unable to maintain its competitive cost structure it will not be able to retain its existing business or attract any new business. Either result would ultimately jeopardize the future of the Company. The Company argues that this type of cost increase is exactly what the benchmarking standard in LOA Y was designed to prevent.

Accepting the Union's wage proposal would increase Envoy's cost by $3.1 million per annum. Since Envoy's costs already exceed the industry weighted average of its comparator carriers the Board should not further increase that disparity by accepting the

Union's pay proposal.

B. <u>Proper Application of Standard for Award</u>

The Board's Findings, as set forth below, are grounded on the following predicates.

The controlling Standard is defined in part as "a combination of the appropriate application of such carriers' contract element or terms of employment," and "the application of [Envoy's] pay rates and contract element to the average of the comparative carriers AMT ad Related seniority." We approach the problem with the courage of the bewildered, but concur both with Envoy that no specific method is set forth for use in establishing such comparisons and with the Union's suggestion that the Board has broad latitude to determine how industry benchmarking should occur

Second, the record conclusively establishes that Envoy's methodology here in developing its benchmarking was (1) the same as employed in Section 1113 negotiations where the Union was represented by counsel and mutually acceptable results ensued and (2) again employed in the amendment round where an agreement was also concluded.

Third, the Union was afforded an opportunity to review the data and process utilized by the Company pursuant to the LOA Y requirement that it "share any studies, reports or the results of any benchmarking exercises" with the Union. At no time did it take exception to any of material shared.

Upon review of the record in its entirety, we find that Envoy developed a benchmarking standard that enabled it to properly compare its "total labor costs" based upon its employee distribution on the longevity ladder with those of the comparators, using the relative seniority of each to the extent known to generate figures for comparison, purposes.[3]

[3]As both parties recognize, determining "total annual costs" is both notoriously challenging and usually unnecessary. In conventional bargaining, "Airline A" is asked to match "Airline B's" pay levels, not its total costs. Applying Airline B's rates at each step of Airline A's longevity distribution solves for the unknown—what it would cost to match B. In that context total costs are irrelevant. Additionally, authentic total costs are a function of demographic data and other variables. So, while the 2080 annual work hour assumption here is a safe assumption, less certainty may surround pay elements such as payroll tax rates, amounts expended in overtime premiums, paid military leave, vacation pay, jury duty pay, funeral leave, union business, medical injury, unemployment comp assessments, and other benefit costs as well as such illusive factors as "productivity." Standing alone, each might be insignificant, but they impact cumulatively. That level of granulation in the competitive airline universe makes such data often accessible only though detailed accounting records, commonly off limits unless the seeker has a cousin in the competitor's cost accounting unit. Additionally, even if obtained, such gross costs are backwards-looking, with components in the total cost number constantly changing, requiring adjustments if they are to be relied

The Company's documentary evidence, buttressed by the testimony of its witnesses, is substantial. In sum, Envoy calculated its average base wage to be $22.00 per hour and the weighted hourly rates across SkyWest and Republic at $23.00 hourly. According to Company witnesses Charles Clark, Director Finance Air Operations and Analysis, who also served in that role for the Section 1113 negotiations, after adjusting solely for longevity, pay rates for Envoy mechanics fall below annual IWA costs. Mulching in costly license premiums, however, which it alone pays, drives those annual AMT hourly wages substantially higher to approximately $3.75 million above IWA on a five-year annual average. Thus, Envoy's average AMT base rates plus license premiums, adjusted for longevity and compared to IWA, similarly adjusted and including license premiums for all carriers to the extent received, is $3.75 million per year higher than IWA each year, averaged over five years. Those conclusions are economically captured in the following exhibits, distilled from among the 26 offered and explained by Mr. Clark:

Longevity Adjusted Base Wages by Labor Group			
Labor Group	Envoy Rates	IWA Rates	Enjoy Higher/Lower than IWA, 5 Year Average, $000
AMT Mechanic	$22	$23	($406)
AMT License Premium	$3	$0	$4,164
AMT Wage + License Premium	$25	$23	$3,758

In short, Envoy in benchmarking recognized that it was required to take account of "the average of the comparative carrier's AMT and Related Seniority," as well as hourly base rates and license premiums. When AMT wage costs are further adjusted to take account of both the average of the comparators' AMT and Related Seniority, base rates and hourly premiums as well all applicable premiums variously paid or not paid by Envoy and its comparators—license, longevity, crew chief/inspector and shift premiums—the forces move in both directions internally, but Envoy nets out above IWA. Envoy's conclusions are obviously the result of the fact that while it pays no longevity or

upon. In short, "total cost" data from other carriers can often be inexact. And when degraded further by the need for assumptions to fill data gaps, the children born of the analysis may be saturated with synthetic DNA.

tool premiums and pays lower shift premiums, overall it pays more in premiums in total than IWA:

AMT Premiums						
Premium Description	Envoy	Sky West	Republic	IWA	Envoy Premiums Higher/(Lower) than IWA	Envoy Higher / (Lower) than IWA 5 Year Average, $000
License Premium	$3.00	$0.00	$0.00	$0.00	$3.00	$4,164
Longevity Premium	$0.00	$1.88	$0.00	$1.09	($1.09)	($1,023)
Crew Chief & Inspector Premium	$1.50	$1.13	$1.50	$1.28	$0.22	$92
Shift Premium	$0.19	$0.35	$0.29	$0.32	($1.14)	($181)
Morning Premium	$0.00	$0.00	$0.00	$0.00	$0.00	
Afternoon Premium	$0.25	$0.25	$0.30	$0.27	($0.02)	
Overnight Premium	$0.45	$1.00	$0.75	$0.90	($0.45)	
Tool Premium	$0.00	$0.26	$0.00	$0.15	($0.15)	($364)
Total Premiums	$7.69	$5.87	$4.49	$5.40	$2.28	$2,780

At the end of the analysis, as charted below for benchmarking purposes and with consideration given to benefits levels in addition to pay and premiums, Envoy computed its AMT costs on a five-year annual average to be $2.78 million higher than the two airlines selected by the parties for comparison:

Current Cost Summary	**5 Yr Average, $000**
Current Salaries	33,120
Current Benefits	9.474
Total Current Expenses	45,594

Proposal Summary	**Envoy Higher/Lower Expense than IWA**
Base Wages	(406)
Tool Premium	(364)
Shift Premiums	(181)
License Premium	4,164
CC & Inspector Premium	92
Longevity	(1,023)
Base + Premiums	**2,282**
Holidays	(290)
Retirement	129
Vacation	1,477
Sick	(1,223)
Total Cost	2,377
% Envoy Higher / (Lower) than IWA	*5.6%*

It warrants emphasis that the above valuations reflect *current* AMT pay components. They do not capture the 2% wage hikes embodied in the tentative agreement voted down.

Said another way, in light of the parties' understanding regarding application of benchmarking, the Union achieved laudable results in securing *any* wage increases when, based on its benchmarking, Envoy appears to have been entitled to argue for reducing costs determined to be higher than IWA.

According to the testimony of Mr. Clark, the Company's finance unit collected benchmarking data and sent all information gathered to the Union Local for review on January 4, 2016. On June 30, 2016, the model based upon that data was given to Mr. Akins. On July 6 or 7, 2016, according to Mr. Clark, he and Akins spoke by phone. Clark states that Akins conceded that the LOA Y governed the process, although,

> "…[H]e didn't like that…he's not used to doing modeling around specific language like this, and he would do it a different way, he understood we were trying to do it based on the language. So what you would typically do in that situation as a financial analyst…is the items that he disagreed with, he would go off, model the difference that he would make, and come back and say here's what you should do. Here's what I would do. Here's what the model would look like. You would go through quite a few passes back and forth to try to get to the answer…a lot of those items could have been fixed in advance…the expectation then from management's side, from finance's side, would be that if there were real issues with the model, then we would be passed back a model with the best information that Mr. Akins had and how he would model that information, and say why don't we do it this way, here is the outcome. That is the typical back-and-forth that you have between two parties…In four weeks he didn't pass any information. He said he had no need to look at it because a TA had been passed."

Three considerations dampen our enthusiasm for TWU's benchmarking techniques. First, the Union is incorrect in maintaining that the Board is charged with "interpreting a standard that has never been tested." As indicated, the standard utilized by Envoy had already been utilized in Section 1113 bargaining and in negotiating the parties' tentative agreement. Conversely, there is no record evidence suggesting the parties ever agreed to the standard now urged by the Union. Secondly, what is untested is Mr. Akins' broad challenge to the model utilized, never before raised during the amendment round when agreement on 2% increases was reached. So, in reality, the Board is asked to now examine untested and never agreed to benchmarking theories for the first time. Third, beyond its late arrival, the Union's proposed methodology strikes a majority of the Board as inherently murky. Despite our general familiarity with such issues, the Union never

explains how the exercise of overlaying comparators' terms on Envoy's AMT population brings any relevant learning to the table. Whether or not commanded by the controlling language, it is in reality a false nose and glasses, introducing unnecessary complexity and defocusing the analysis.

Stripped to basics, the Company reads the governing Standard to require first nailing down both Envoy's and its comparators' costs to the extent possible. This involves application of comparator data to Envoy's contract elements then projects the impact upon Envoy if required to match IWA. Both the Union's Board Member and its primary witness on the issues, Mr. Akins, have vigorously and professionally expressed the full measure of their disagreement with that approach. But while the Board has been happy to pursue the implications of their arguments, it is dealt a tough hand to play in attempting to square the circle presented by the two elements in the standard of LOA Y D.2.a. When it is all sorted, hypothesizing a comparator's operating costs using Envoy's operations and employee distribution yields no useful insight in making necessary judgments about Envoy's pay levels. Neither party offers the Board a key to decode what is on its face pointless verbiage, throwing off a faint whiff of having been appropriated from another context. The exact purpose to be served by "appropriate application" of comparators' elements to Envoy's "schedule of flying and population" is far from apparent. Accordingly, it is the view of the Board that the "appropriate" weight to be ascribed from such an exercise is no weight whatsoever.

The comparisons that are appropriate and required under the Standard are those made by Envoy to ascertain its cost position relative to IWA consistent with the manifest intent of LOA Y. In the absence of timely objections from the Union, Envoy's methodology may reasonably be assumed to have been previously acceptable and its continued use helpful in ensuring that the restructuring undertaken in bankruptcy is not undermined.

Appropriate Assumptions

The Union raises a second question, overlapping construction of the model. Although it accepts the basic premise that assumptions may be required in analysis when data cannot be obtained, beyond broadly disagreeing with Envoy's modeling approach it very specifically challenges the assumptions Envoy incorporated in its benchmarking model in the absence of reliable data from either comparator. The Union asserts that the model

used by the Company to compare Envoy's costs with the industry comparators included improper assumptions, guaranteeing that its model would produce artificially high total costs for Envoy relative to its competitors. Most importantly, the Company used unsubstantiated average seniority data for SkyWest and Republic in its benchmark model. According to the Union, this approach was entirely improper and unsupported by any language in LOA Y, which requires an application of the comparators' pay to Envoy seniority, and vice-versa.

The Union's witness on the point was again Mr. Akins. [4] As graphed below, he lands in a markedly different zone than Envoy in assessing costs for benchmarking purposes:

TWU Arbitration Proposal (Longevity Adjusted)

TWU Proposal Items	Description	Additional Expense, $000
Base Wage	Increase base wages by 3% in 2017, 2018, 2019, and 2020	**($3,003)**
AMT Mechanic		($2,585)
GSE Mechanic		($315)
Stock Clerk		($332)
Aircraft Cleaner		($71)
PDO	Increase PDO by 24 additional hours at each year of service	**($624)**
AMT Mechanic		($481)
GSE Mechanic		($61)
Stock Clerk		($67)
Aircraft Cleaner		($15)
Holiday	Increase holidays worked from 1.5x multiplier to 2x multiplier Increase holiday off from 0.5x multiplier to 1.0x multiplier	**($366)**
AMT Mechanic		($285)
GSE Mechanic		($35)
Stock Clerk		($38)
Aircraft Cleaner		($8)
Longevity Pay	5-10 YOS: $0.05 per hour 11-15 YOS: $0.10 per hour 16-20 YOS: $0.15 per hour 20+ YOS: $0.25 per hour	**($309)**
AMT Mechanic		($2,48)
GSE Mechanic		($22)
Stock Clerk		($35)
Aircraft Cleaner		($4)
Daily OT	Pay Daily OT instead of Weekly OT	($503)
Total Additional Expense for TWU Proposal vs. Current Book		**($5,105)**

[4] Mr. Akins is a highly regarded professional economist serving as consultant in the air transport industry, holding a postgraduate degree from the London School of Economics. The record indicates he has substantial prior experience, with retention primarily by unions, but also by airlines, airports and others in the industry. He did not, however, participate with the TWU during the 1113 negotiations/

Inconveniently for the Union, the witness conceded that he had limited time in which to prepare his testimony. Perhaps in consequence, his substantially dissimilar conclusions regarding relative costs, plainly grounded in distrust of Envoy's modeling methods, is unsupported by any hard, objective evidence establishing error in Envoy's modeling. Thus, he raises questions concerning a number of details in Envoys' assumed data, including numbers of mechanics receiving inspector/lead inspector pay and senior technician pay, SkyWest's four title groups and other matters, expressing his distrust with Envoy's modeling methods. He offers opinion testimony suggesting that various "tweaks" with Envoy's assumptions and assignments of "proxy values' to unknowns, may have substantially affected bottom line results.[5] Beyond suggesting a minor adjustment for what he contends was Carrier's slight miscalculation of Envoy AMT's without A&P licenses, as suggested above, his chief area of disagreement focused on Envoy's use of seniority in establishing its relative cost position.

The witness offered approximately 70 slides in support of his opinion that Envoy has significantly lower AMT costs than IWA. One graph, purporting to depict "Envoy Being $3.6 Less Expensive than Comparators," encapsulates our central concern with the consultant's analysis.[6] It is footnoted as follows:

> "Note: Results from different Seniority Assumptions: Company uses estimated Skywest/Republic seniority for Costing comparator wages and contract factors and Envoy seniority for costing Envoy wages. Union uses Envoy seniority to cost both." (Emphasis supplied.)

By a technique the witness describes as "adjusting Envoy's demographics where they affect longevity," the witness characterizes his analysis as "costing comparator wages." It disregards Envoy's utilization of 7.1 years seniority for the two comparators, notwithstanding that Mr. Clark stated without contradiction that he received that input from both carriers. According to Clark, "…we got the longevity information directly from SkyWest and Republic." Clark further indicated that Mr. Akins had previously been given that information, "Dan (Akins) had access to it and would have seen the distribution of Sky West and Republic." Union Counsel argues that in assuming other

[5] The witness appears to have been influenced by at least one of his own assumptions. According to Akins, "We're now 2.4 ahead of the competition, at a bankruptcy-level contract. That's hard for me to believe that that's a fair analysis."
[6] Union Exhibit #6 at 71.

seniority distributions its witness was guided by the applicable Standard, but concedes that, "…the reality is that the language was not perfect." And the witness himself agreed, prefacing his analysis with his observation that even the purpose for making the comparisons has changed: "[T]he language is a little bit out of sync between the cost competition that was relevant back then…to now [being] more about a place that is an attractive place to work." And in another context, "But the language of it is so inelegant to describe for me what I should do…I'm just trying to make the best of a bad situation."

As indicated, a majority of this Board concludes that Envoy is correct in arguing that an analytic approach assuming comparators' seniority to calculate Envoy's costs has a through-the-looking-glass quality, presenting with the same faint pulse in the context of assumptions as indicated above with respect to modeling benchmarks in general. Modifying Envoy's actual seniority to align with that of the competitors is interesting but not helpful in constructing a reasonable basis for establishing either Envoy's labor costs or its cost position relative to comparators.

With respect to other assumptions, in preparing its model Envoy has assumed an 8% payroll tax; assumed that the average annual paid hours for a full-time AMT were 2,080; adjusted comparator AMT populations to its workforce of 682; and projected a probable distribution along a 30-year longevity scale while ensuring the distribution averaged seven years for the group.

Mr. Akins sponsored multiple exhibits demonstrating that the inputting of different assumptions along the longevity scale could have produced significantly different costs. The Board does not in the least question that proposition. But, as in Boston politics, you can't beat something with nothing. The Company correctly points out that in addition to not carrying its burden of proof to establish by commonly accepted standards that Envoy's AMT costs are below those of the comparators, the credibility of Union's criteria in support of that position is drawn down by its several changes of position during this proceeding. Thus, on the first day of this proceeding, employing what was described as an "industrial reset," the Union proposed computing a baseline for Envoy's total labor costs using Envoy's longevity distribution through the calculations. Under that process, Envoy projected at $3.6 million below IWA. But by the final day of hearing it appeared to be endorsing application of the comparators' "contracts, pay, benefits, work rules"

including longevity throughout all calculations, resulting in Envoy being $2.5 million lower than the IWA. The Board is persuaded that using Envoy's longevity distribution throughout all three carriers would produce different results, but beyond this and other anecdotal demonstrations of that basic truth, no hard evidence is offered to establish that either the Union's assumptions are in any way more reliable than those offered by Envoy.

In summary, the Board has three concerns with the Union's challenge to Envoy's assumptions, none of them trivial. First, it uses an unpersuasive and defocused analytic technique, superimposing Envoy's longevity on comparators demographics, which does nothing to assist with evaluating Envoy's relative pay position.[7] Second, it offers no evidence in support of its assumptions, merely hypothetical examples of how various other assumptions of its choosing might affect the benchmarking. It fails to point to anything suggesting its assumptions are more reliable than Envoy's assumptions.[8] And lastly, further compounding the Union's difficulty in this area, although it takes the employer to task for not aggressively seeking out additional seniority detail from SkyWest and Republic, the Union concedes in this proceeding that it had itself obtained a copy of SkyWest's seniority list in August, 2016, but never shared it with Envoy. So while asserting that Envoy's seniority assumptions do not represent a 'statistically normalized curve," it never pulls from its brief bag the documentation that might undercut Envoy's assumptions on one comparator's seniority. That evidence may have gone some distance in assisting the parties to adopt mutually acceptable seniority distributions.

VI. FINDINGS & CONCLUSIONS

A. Rates of Pay

Pay rates are by far the most consequential of the several issues before this Panel, with wages the primary driver of labor costs. So unquestionably, pay is the place to start.

As confirmed by the extensive testimony of Jay Murray, Envoy's VP Maintenance; Charles Clark, Director Finance Operations; and Jerry Glass, President Ford & Harrison

[7] To reach its conclusion that Envoy is $5 million below its competitors, Mr. Akins openly testified that, "I'm. just driving the cost of the comparators with Envoy's seniority…I don't' think there is anything that says this is exactly what you're supposed to do either…"

[8] Upon rolling in the late arriving seniority data on SkyWest following its receipt during this hearing, Envoy updated its industry weighted average to increase SkyWest seniority from 7 to 9.1 years, bringing IWA up to 8.2 years. With that correction, Envoy's model still showed it $1.3 million annually more expensive than IWA.

Solutions Group, the modifications the parties made to the pre-bankruptcy contract were those absolutely required for Envoy's restructuring. The record, however, paints a vivid picture of a Company emerged from Chapter 11 but now faced with the imperative need to keep its costs low to remain competitive with other regional carriers, and that includes competing for American's flying.

Company witness Jerry Glass, recognized as an expert in labor relations, states that he has done extensive labor and HR consulting for various industries, with heavy emphasis on RLA airlines and railroads. Mr. Glass states he is Envoy's principal labor advisor, and has represented it and other airline managements in over 200 collective bargaining relationships.

Supplementing the testimony of other Company witnesses, Mr. Glass testified that all regional air carriers win flying from mainline carriers through a cost-based bidding process. Carriers with the lowest costs are awarded the purchase agreements. In support, Mr. Glass cited anecdotally Air Wisconsin's loss of Delta's flying based upon that regional's high cost structure. A similar fate befell Comair, a wholly owned subsidiary of Delta which ceased flying after losing all mainline carrier flying in late 2010. Sky West, on the other hand, is highly competitive because of its low costs. It has flown for American since 2012 and in 2016 was awarded additional flying. In sum, according to Glass, the fact that a regional is wholly-owned by a mainline in no way assures it will get it parent's business, and history has shown it has absolutely no competitive advantages solely on that account. Glass says the regional airlines that are growing due to their low costs are Compass, CummutAir, Mesa Airlines, PSA, SkyWest and Trans States. Those which are stagnant or shrinking include Envoy and Piedmont, both owned by American. Thus, in 2011 Envoy had 304 aircraft; today it has 152, its fleet size reduced due to stiff competition from other regional carriers who fly for American, while SkyWest has grown from 294 to 358.

Emphasizing the substantially different pay structures between the mainline and regional carriers, Mr. Glass recalled how in August 2016 he assisted in American's joint bargaining with the IAM and TWU representing 35,000 mechanic and related, fleet service, maintenance technicians, stock clerks and others. That settlement, according to Glass, was "astonishingly huge," and, unfortunately, was announced simultaneously with

Envoy's TWU tentative agreement containing modest pay increases. According to Glass, American's President and others stated their preference for placing all regional flying with the three wholly owned carriers, "but it's all predicated on costs." "Envoy has a very bright future if it can keep its costs in line."

The record reveals that all Envoy employees accepted significant concessions related to bankruptcy, and no group has had everything restored. Additionally, no represented group has received more than a 2% pay increase, with pilot adjustments centered on recruiting and retaining, having no application to base rates, no application to all pilots and expiring in 2018. According to Envoy, the current pilot agreement provides for annual wage increases of 1% for years 2018 to 2024.

With those atmospherics on the property, the Board concludes it would be a mistake to adopt a wholly new standard for application in this amendment round with no discussion of that template. We further put a significant premium on the stability of labor relations urged by Envoy and would consider it a disservice to both Envoy and other bargaining units on the property to put in motion a pattern that could encourage future, reflexive rejection of negotiated agreements. Acceptance of the Union's five (5) proposals would be out of line with the types of increases that have been negotiated with Envoy's other bargaining groups and would unjustifiably disrupt the balance of equitable increases that currently exists among Envoy's unions. We see nothing on this record that would justify such a deviation from other workgroups. Lastly, while we have serious misgivings about the assumptions the Union relied upon to calculate Envoy's AMT costs, even if we were to rely on those flawed conclusion it is apparent that Envoy's AMT costs exceed IWA by $1.3 million.

For the reasons stated above, the Board concludes that our inability to address both elements of the LOY A standard, which the Union has attempted to do, taken together with the overarching broad best interests of both sides, suggest solutions that lie somewhere between the extreme two ends of the continuum. The Board will accordingly reject the Carrier's proposal to hold wage rates unchanged and adopt the 2% across the board wage increases effective annually from January 1, 2017 through January 1, 2020, accepted by the Union and sent out for ratification in September, 2016. Those increases better comport with the governing standards of LOA Y, are supported by more reliable

benchmarking than employed by the TWU, and are better aligned with other important considerations than the 3% increase now urged by TWU, inconsistently with the controlling Standard.

B. The Parties' Remaining Proposals

Against the above background, the Board makes the following determinations with respect to the parties' remaining proposals:

Union Proposals

1. Daily Overtime

The Union seeks restoration of its memberships' daily overtime premium pay forfeited in bankruptcy proceedings. Estimating a total cost of $700,000-$770,000 annually for the change, it identifies this issue as its top priority after base rates of pay among the five issues it selected for interest arbitration.

According to the TWU, with rates of pay for mechanics increasing in the industry, and based upon what Mr. Akins describes as a looming shortage of maintenance personnel, attractive wage and benefit terms are imperative. With the Union's model suggesting that Envoy is $3.626 million less expensive that the comparators for AMTs, it argues that restoration of overtime would be easily doable under the Standard. Additionally, overtime is important to the members because they often work "grueling schedules."

Whether the cost is taken to be $700,000 annually as projected by Envoy or $300,000 as the Union calculates, this is a costly and poorly timed change. Reinstatement of daily overtime in the context the parties find themselves should properly await further progress as Envoy captures additional work and returns to a solid financial footing.

2. Holiday Pay

TWU International Representative Jose Galarza testified that among the terms agreed upon in the tentative agreement that failed to ratify was an understanding that Envoy would restore prior contract terms applying to holiday pay. The proposal provides for double-time pay for employees required to work holidays and a day's pay at straight time for those scheduled off on holidays. Mr. Galarza credibly stated that "holidays are usually paid at a premium rate." The Union estimates the cost of reinstating holiday pay to be $410,000 annually, slightly above the Company's estimate of $366,000.

Although expensive, the Board concludes the Union has made a persuasive case for restoring this pay element, widely recognized in the industry. The Union's proposal for reinstating holiday pay on the same basis as offered in the failed tentative is accepted.

3. Personal Days Off

Current Agreement ARTICLE 5 – *PERSONAL DAYS OFF* prior to bankruptcy concessions allowed employees to accumulate up to a maximum of 224 hours for use in a calendar year for personal reasons. In Section 1113 proceedings that number was reduced by 24 hours. The Union here proposes restoring those 24 hours of "PDO" time. The failed tentative agreement proposed restoration of 8 hours of PDO annually. The Union estimates the cost of recovering 24 hours of PDO at $400,000 annually. Envoy costs out that proposal at $624,000 annually.

The Board is not informed of the cost of the 8 hours previously offered in the failed tentative, but accepts the cost of that change as modest and offset in whole or in part by savings flowing from acceptance of both Company proposals below.

4. Longevity Pay

The Union proposes introduction of Longevity Pay for all covered employees as follows:

5-10 YOS - $0.05/hr.
11-15 YOS - $0.10/hr.
16-20 YOS - $0.15/hr.
20+ YOS - $0.25/hr.

The Union estimates the cost of the additional premium pay to be $200,000 annually. The Company costs longevity pay at $309,000 annually.

For the same reasons as cited in declining to accept the Union's Overtime proposal, we find no justification under the governing standard for the addition of costly longevity premiums.

Company Proposals

1. Geographic Premium

Although maintaining that its costs are already higher than the IWA, Envoy does not ask for concessions in wages or benefits but seeks adjustments to help offset what may be any additional costs incurred in this arbitration.

First, it identifies a proposal it argues could help reduce costs without in any way negatively impacting employees. It asserts that it currently struggles to recruit and retain

mechanics at various points, including particularly Chicago O'Hare (ORD) as it transfers more maintenance to that location while coming off the bankruptcy-related hiring freeze. That situation, it asserts, is aggravated by high turnover rates as mechanics leave for work with other carriers, forcing overtime and stimulating yet further, unsustainable attrition. The implementation of a Geographic Premium, it contends, would reduce attrition, improve station performance, lighten burdens on senior mechanics and improve morale. It emphasizes that both SkyWest and Republic as well as other carriers pay such premiums. The specific language sought gives Envoy discretion to determine which if any of its rates are not competitive with prevailing local markets and adjust location by location and among classifications and by such amounts as it deems appropriate.

The Union does not directly oppose this specific change, with Union Representative Galarza himself admitting at hearing that the Union "was not really opposed to a geographic premium," although disfavoring its limited application to AMT's and not having application across the board to all classifications at the location.

Neither Envoy nor the Union has attempted to calculate estimated costs or savings projected to result from application of a geographic premium. The record establishes that geographic premiums are a tool used throughout the regional industry to better manage attrition. The Board finds compelling evidence that at locations such as Chicago, LaGuardia and Miami, where median home prices and rentals are high, Envoy's ability to utilize a geographic pay premium, as do other regionals, rather than raise base rates, would produce important cost savings. The Company's geographic premium proposal is adopted.

2. Personal Days Off (PDO)

Current Agreement ARTICLE 5.G. 1. identifies four "Special Days" each year which employees may request to use as PDO's provided approval is sought at least seven (7) but nor more than fourteen (14) days in advance. The days considered "Special" are New Year's Eve, Super Bowl Sunday, The Day after Thanksgiving Day and Christmas Eve.

Envoy seeks consideration of amendments to those terms to expand the list of Special Days requiring seven (7) days advance notice to include, (1) The Saturday and Sunday before Memorial Day, (2) the Saturday and Sunday before Labor Day, and (3) the holidays listed in Article, *viz.*, New Years Day, Labor Day, Memorial Day, Thanksgiving

Day, Independence Day, and Christmas Day. In support, it argues that the changes proposed will both reduce costs presently incurred in the form of overtime hours when employees mark off on short notice, and additionally reduce operational disruptions related to absences on those days, often busy travel days. The Company does not assign any specific cost savings projected to result from adopting the changes proposed.

The Union opposes the amendments sought on grounds it falls outside of the permissible adjustments under the applicable Standard since Envoy has produced no evidence tying this change to any parallel provisions in place the comparator carriers' properties. Instead, the Union argues, the change relates solely to its unique operational concerns and it is therefore improperly raised at this juncture.

The Board finds compelling argument for any reasonable tools that might assist in the widespread problem of absence management in this and many other industries. Paying overtime to replace individuals marking off on short notice is costly and disruptive of operations. The Company's proposal on this subject is reasonably comprehended within the governing standard, common in the industry and therefore is accepted.

VII. AWARD

In accordance with the above FINDINGS & CONCLUSIONS, the Board adopts the following proposals of the parties for inclusion in the remaining duration of the CBA which became effective in 2013:

1. **Rates of pay**: The two percent (2%) across the board increases on same effective dates as reflected in tentative agreement are accepted.
2. **Daily Overtime:** The Union's proposal for restoration of daily overtime pay is rejected.
3. **Holiday Pay:** The Union's proposal for reinstating holiday pay, as reflected in tentative agreement, is accepted.
3. **Personal Days Off:** The Union's proposal to reinstate twenty-four (24) hours of paid days off is partially accepted. Eight (8) hours of paid days off will be reinstated as reflected in tentative agreement.
4. **Longevity Pay:** The Union's proposal for introducing longevity premiums is rejected.
5. **Geographic Premium:** The Company's proposal for introducing a geographic premium as reflected in this amendment round is accepted.

6. **Personal Days Off (PDO):** The Company's proposal to expand the list of Special Days requiring advance notice as reflected in this amendment round is accepted.

_____ Date: _____
Joshua M. Javits, Esq., Chairman
I Agree/I Dissent

_____ Date: _____
James E. Conway, Esq., Company Appointed Neutral Arbitrator
I Agree/I Dissent

_____ Date: _____
William L. McKee, Ph.D., Union Appointed Neutral Arbitrator
I Agree/I Dissent

_____ Date: _____
Ramon E. Hernandez, Company Board Member
I Agree/I Dissent

_____ Date: _____
Gary Shults, Union Board Member
I Agree/I Dissent