

**ALASKA STATE LEGISLATURE  
HOUSE TRANSPORTATION STANDING COMMITTEE**

Anchorage, Alaska  
August 31, 2010  
9:13 a.m.

**MEMBERS PRESENT**

Representative Peggy Wilson, Chair  
Representative Craig Johnson, Vice Chair  
Representative Kyle Johansen  
Representative Cathy Engstrom Munoz  
Representative Tammie Wilson  
Representative Max Gruenberg  
Representative Pete Petersen

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Representative Bob Lynn  
Senator Bettye Davis

**COMMITTEE CALENDAR**

UNITED PARCEL SERVICE PILOT FURLOUGH

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

JOHN PARROTT, Manager  
Ted Stevens International Airport  
Anchorage, Alaska

**POSITION STATEMENT:** Testified on the topic of the United Parcel Service Pilot Furlough.

MARY SIROKY, Legislative Liaison  
Office of the Commissioner  
Department of Transportation & Public Facilities

Juneau, Alaska

**POSITION STATEMENT:** Provided feedback during the hearing on the United Parcel Service Pilot Furlough.

ROBERT THRUSH, President  
Collective Bargaining Unit  
Independent Pilots' Association (IPA)  
No address provided

**POSITION STATEMENT:** Testified on the topic of the United Parcel Service Pilot Furlough.

WILLIAM TRENT, General Counsel  
Independent Pilots' Association (IPA)  
No address provided

**POSITION STATEMENT:** Testified on the topic of the United Parcel Service Pilot Furlough.

RICK BARR, Vice President  
Flight Operations  
United Parcel Service (UPS)  
No Address Provided

**POSITION STATEMENT:** Testified on the topic of the United Parcel Service Pilot Furlough.

SCOTT CASEY, Vice President  
Public Affairs  
United Parcel Service (UPS)  
No address provided

**POSITION STATEMENT:** Testified on the topic of the United Parcel Service Pilot Furlough.

#### **ACTION NARRATIVE**

[9:13:24 AM](#)

**CHAIR PEGGY WILSON** called the House Transportation Standing Committee meeting to order at 9:13 a.m. Representatives Munoz and T. Wilson via teleconference, and Representatives Johnson, Johansen, Petersen, Gruenberg, and P. Wilson were present at the call to order. Also present were Representative Millett via teleconference and Representative Tuck and Senator Davis.

[9:15:42 AM](#)

#### **United Parcel Service Pilot Furlough**

CHAIR P. WILSON announced that the only order of business was the topic of the United Parcel Service Pilot Furlough.

CHAIR P. WILSON stated that the goal of the committee was to hear from all involved parties and determine if the state has any role in this labor issue. She said she knows this is an emotional issue for many, and she emphasized that the committee would remain neutral while hearing testimony.

[9:17:23 AM](#)

JOHN PARROTT, Manager, Ted Stevens International Airport, reported that the airport has 68 land leases, 14 terminal leases, 14 concession agreements, and 38 airline operating agreements and permits. The United Parcel Service (UPS) is one of the 38 air carriers; it is a signatory carrier with both an operating agreement and land leases. He said businesses at the airport pay appropriate rates and fees to conduct their operations; as long as each business is conducted in accordance with pertinent agreement, the airport does not insert itself into its affairs. Mr. Parrott said the airport is a state agency, which implements state policies and procedures as directed. It does not interpret law or set state labor policy.

MR. PARROTT related that UPS pays the same land rent and landing fees per thousand pounds of certified gross take-off weight as the airport's other airline customers. He offered his understanding that UPS has been treated the same as the airport's other customers. He said whenever possible, the airport attempts to work with its customers to facilitate their businesses, but within the guidelines of the rules and regulations, which include Federal Aviation Administration (FAA) grant assurances and the Alaska Administrative Code, Title 17.

[9:19:02 AM](#)

MR. PARROTT, in response to a question from Representative Gruenberg, said UPS has not, at this time, made applications for any more spaces. Furthermore, he related that UPS has made inquiries as to whether or not the airport would have parking spaces available, in case UPS has broken aircraft. He specified that such parking would not be designated for UPS.

[9:19:41 AM](#)

MR. PARROTT, in response to Representative Johnson, confirmed that as airport manager, his responsibility is to manage the

airport according to rules and regulations, without personal opinion about who may be right or wrong.

MR. PARROTT, in response to Representative Gruenberg, said he is fairly certain that the land leases held by UPS will not expire for a long time, because they range from 30 to 55 years, but the operating agreement with all the signatory air carriers expires 6/30/2013. In response to a follow-up question, he indicated that none of those agreements include language regarding furloughs.

[9:21:09 AM](#)

MR. PARROTT, in response to Chair P. Wilson, said UPS was not given any special incentive to operate through Anchorage.

[9:22:12 AM](#)

MARY SIROKY, Legislative Liaison, Office of the Commissioner, Department of Transportation & Public Facilities, in response to Representative Gruenberg, opined that Mr. Parrott did an excellent job of describing the position of both the department and the airport.

[9:23:27 AM](#)

ROBERT THRUSH, President, Collective Bargaining Unit, Independent Pilots' Association (IPA), told the committee that the collective bargaining unit serves the 2,800 people who fly 214 UPS large jet aircraft. He relayed that he has 21 years' experience flying a UPS A300 as an airbus captain.

MR. THRUSH opined that although UPS's announcement last week that it was reducing the number of furloughed pilots from 300 to 230 is good news for those 70 pilots and their families, it does little to reduce the economic impact of the furlough on Anchorage, Alaska, and nothing to restore UPS's broken commitment to the city or to "our pilot group" - particularly given that the furlough never had to happen. Mr. Thrush said the economic impact of the UPS furlough on Anchorage is still severe, with more than \$39.5 million in lost payroll and unemployment benefits through the year 2014. He said it is important to know that since 1988, when UPS was established, all pilots were told on their first day of new hire training that they could tear up their resumes because this would be the last job they would ever need. He explained that it was this commitment from UPS that lead 155 UPS pilots and their families

to move to Alaska after the Anchorage domicile was opened in the fall of 2006. Those pilots relied on UPS's commitment to take care of its employees who worked hard and made sacrifices for the company. He said unfortunately for those Anchorage pilots who took UPS at its word, their relocation to Alaska was a one-way ticket.

MR. THRUSH posited that UPS has not only failed to keep its commitment to its pilots, but has also failed to keep its commitment to the State of Alaska. He explained that instead of creating a pilot base in Anchorage, UPS has created a commuter domicile, which currently has 541 pilots, but only 140 resident pilots. He said that is about 26 percent of the pilots assigned to the Anchorage domicile, which is down from 33 percent in February before the start of the furlough, when the domicile's commuter to resident ratio was 505:167.

MR. THRUSH said the 2,800 UPS pilots had, since April 2009, preserved all the jobs through voluntary cost-cutting measures. The pilot group took it upon themselves to give up pay and benefits to produce more than \$117 million in guaranteed savings for UPS, which is enough to keep 300 pilots employed well into the year 2011. Under the voluntary job protection program, UPS pilots were able to generate cost-savings for UPS by: taking reductions in flight-pay guarantee; taking unpaid leaves of absence; participating in job sharing; taking military leave; contributing their unused sick leave/sick bank time; or taking early retirement.

MR. THRUSH stated that on January 11, 2010, UPS "pulled a bait 'n' switch." He said UPS now told the pilots that the company needed \$245 million in savings through the year 2015, and that the preference was for compulsory savings: furloughs. He said the pilot group was willing to step up to cover the demands of UPS in order to keep the 300 pilots employed. However, on February 8, just days after UPS's CEO Scott Davis said it looked like the recession was finally over, UPS told the pilot group that it was unwilling to continue with voluntary savings programs and it would not consider other programs. The company issued a press release and began the furlough process.

MR. THRUSH noted that last Saturday, UPS celebrated its one hundred and third birthday with the theme, "103 years of promises." He said one of UPS's founders once gave credit to the employees of companies as being significantly responsible for the success of that company. Mr. Thrush opined that that belief is no longer held.

MR. THRUSH said although at times IPA and UPS are on different sides of the fence, every member of the IPA is proud to be called a UPS pilot. The pilots believe in professionalism and ensuring packages and letters are delivered on time around the world. He said the pilots have proven their dedication, loyalty, and commitment to UPS customers for 20 years, without fail. He read the UPS founders' day message as follows:

Our success is not measured by industry accolades or milestones; it's measured by the achievements of our customers and the accomplishments of our employees. It's their success that we celebrate during founders' day.

MR. THRUSH said if this were true, he would not be testifying today. He stated that there are 58 Alaskan pilots and their families that feel betrayed by an employer whom they trusted with their future. On behalf of those pilots and their families, Mr. Thrush thanked the committee for bringing this issue forward.

[9:31:27 AM](#)

MR. THRUSH, in response to Representative Lynn, said in addition to the pilots being furloughed, there are also about 120 mechanics; however, he said he does not know if they are in Alaska. In response to questions from Representative T. Wilson, Mr. Thrush said the 58 targeted pilot jobs will be filled by other pilots in the Lower 48 who have seniority, and he offered his belief that very few of them will move to Alaska. He stated his belief that the reason the senior pilots would not likely move to Alaska is based on the uncertainty of the situation and the history of 58 pilots having made the commitment and now finding themselves stuck in Alaska "with no way to get back to the Lower 48." He said he hopes that the legislature can look into ways in which the pilots can reach some type of agreement with UPS to prevent [the furloughs].

[9:34:33 AM](#)

MR. THRUSH, in response to Representative Lynn, said it is possible for pilots to get temporary assignments with other carriers while on furlough; however, currently most industry employers are reluctant to hire UPS furloughed pilots because they think this is political and they may lose the money spent to train new pilots when they leave. In response to

Representative Johansen, he explained that that is what has been reported to him by UPS pilots trying to get jobs with other companies.

REPRESENTATIVE JOHANSEN asked, "Who are they trying to leverage ...?"

MR. THRUSH answered, "Well, I believe they're trying to leverage us."

9:36:42 AM

MR. THRUSH, in response to Chair P. Wilson, said "they" have not [broken] any specific language in the collective bargaining agreement.

9:37:05 AM

REPRESENTATIVE PETERSEN questioned whether some of the furloughed pilots will have trouble maintaining their current flight status and capability.

MR. THRUSH said the pilots must make three takeoffs and landings every 90 days in order to maintain "currency and proficiency" in the aircraft they are currently operating. If a pilot begins work with another airline, that airline company would train him/her.

9:38:06 AM

REPRESENTATIVE GRUENBERG directed attention to the second paragraph of a one-page document in the committee packet entitled, "Executive Board Response to UPS Furlough Announcement," which read as follows [original punctuation provided]:

Your current and past EB spent thousands of man-hours in efforts to find cost savings that would provide a viable alternative to the Company Furlough Plan. The membership stepped up and voluntarily provided cost savings of \$136 million. The Company continued to imply they were looking for contract concessions to which your Executive Board was unwilling to agree.

REPRESENTATIVE GRUENBERG asked Mr. Thrush to clarify what the contract concessions were that the company was looking for, and why the executive board was unwilling to agree.

MR. THRUSH replied that essentially the company handed IPA a list of "fixed, permanent things" that would directly affect the contract, including: hourly rates; guarantees for each month of pay; and retirement pay. He recollected there were nine items on the list, and he said they would affect "100 percent of all the pilots here moving forward approximately a year prior to our next contract negotiation." He said those were things that IPA would have to renegotiate to get back. He continued as follows:

Our position was: If we could generate the cost savings required with voluntary programs that weren't permanent in affecting 100 percent of all our members, why would we need to give contracting sessions? The company told us from the very beginning they didn't want a furlough, and they just were looking for a certain amount of cost savings. We felt very positive that we could provide those cost savings through voluntary means and there was no reason to do a contracting session.

MR. THRUSH said the company was trying to force IPA into [a contracting session] and IPA would not agree to it. In response to a follow-up question from Representative Gruenberg, he clarified that the company essentially told IPA that if it was unwilling to agree with the fixed cost-saving measures that involved contracting sessions, then the company would furlough employees.

[9:41:25 AM](#)

REPRESENTATIVE GRUENBERG directed attention to the first sentence of a copy of a business wire in the committee packet, dated February 8, 2010, entitled, "UPS Starts Pilot Furlough Process," which read as follows [original punctuation provided]:

UPS (NYSE:UPS) today announced plans to furlough at least 300 of its airline pilots, but at the same time continued its effort to find a solution with the pilots' union that would avert or mitigate the layoffs before they take effect.

REPRESENTATIVE GRUENBERG asked if the company made efforts beyond those described by Mr. Thrush, which would involve renegotiating nine issues in the contract.

MR. THRUSH offered his understanding that UPS never presented IPA "with anything other than those original nine." He said IPA has come up with several plans to present to UPS, but the company has emphatically told IPA it is not interested.

REPRESENTATIVE GRUENBERG recollected that Mr. Thrush had indicated that the legislature could help [IPA and UPS] reach an agreement. He asked Mr. Thrush to expound upon that.

MR. THRUSH suggested that the State of Alaska could view this issue from the perspective of what it will cost the state and perhaps influence UPS to come back to the table with IPA to figure out other ways to resolve the issue without continuing the furlough. In response to a follow-up question, he said IPA has not had mediation, and he does not know whether or not it would help. He indicated he thinks that based on the effect to Alaska's economy that the furlough may have, the state might be able to have some influence in speaking to UPS.

[9:45:01 AM](#)

WILLIAM TRENT, General Counsel, Independent Pilots' Association (IPA), in response to Representative Gruenberg's question as to whether mediation would be useful, said he thinks IPA is open to any ideas that would stop the furloughs.

REPRESENTATIVE GRUENBERG observed that the legislature is more reactive than proactive.

MR. TRENT emphasized that the most important thing the legislature is doing is fact finding. He explained that the efforts of both the committee and other lawmakers in the state are helping to bring the issue to the forefront.

[9:46:29 AM](#)

REPRESENTATIVE JOHANSEN stated for the record that he is highly uncomfortable with the conversation going on in the committee room - discussions about contract negotiations and what the state can do to make one side feel a little better. He said the legislature does not get in the middle of discussions related to contracts with state employees. He said he does not intend to interfere with the process, but will do no more than sit back and listen.

[9:48:06 AM](#)

REPRESENTATIVE JOHNSON said although he may have been one of the driving forces behind this meeting, he, too, is uncomfortable with labor negotiations. However, he said he was frustrated hearing "the dueling numbers" bandied about by both parties, and he opined that the main purpose of the meeting is that it serves as a fact-finding mission. He said if the facts can be put down on the table, the meeting will have been a success. He said he does not think it is the legislature's role to step into negotiations. He said this is an opportunity for information to come forth in neutral territory.

[9:49:52 AM](#)

REPRESENTATIVE P. WILSON said she is holding this meeting as a courtesy to the Vice Chair. She reiterated her opening remark that the purpose of the meeting is for fact finding.

[9:50:13 AM](#)

REPRESENTATIVE TUCK expressed appreciation for the opportunity to hear today's testimony. He said that although the state might not have anything to do with these labor negotiations, he thinks this issue does impact the community of Anchorage. He indicated that he shares the panic felt by those who have testified when he hears that 155 families moved to Alaska and showed loyalty, only to have it not returned. He indicated disappointment regarding the furloughs. He opined that this is a good group of employees. He asked all those in the room to raise their hands if they would be affected by the furlough [the result was not stated for the record].

[9:51:47 AM](#)

REPRESENTATIVE T. WILSON concurred with Representative Johansen that the committee is setting a precedent that it should not set. She questioned whether pilots know, before entering into a job, that they could lose it.

[9:52:16 AM](#)

MR. THRUSH answered absolutely; however, he said the difference in this situation is that UPS told the pilots to tear up their resumes because this would be the last job they would ever need. He opined that leaving extended family behind in the Lower 48 to come up and work in Alaska, only to have that job taken away is "pretty significant."

REPRESENTATIVE T. WILSON asked Mr. Thrush if he believes that UPS was sincere when it told the pilots this would be the last job they would ever need.

MR. THRUSH answered yes. However, he emphasized that it was the pilots who stepped forward to take cost-saving measures. He said UPS announced plans to furlough at least 300 for at least six years through the year 2015, and it has been a little over six months since this began and the company has already reduced the furlough number by 23 percent. In response to Chair P. Wilson, he said IPA is happy about that.

REPRESENTATIVE T. WILSON asked, "Don't you believe that it's UPS's right as a business to do what they feel is best for their bottom dollar?"

MR. THRUSH said IPA does believe that.

[9:54:50 AM](#)

REPRESENTATIVE GRUENBERG said it sounds like IPA had a strong trust in the company before the furloughs. He asked how the furloughs have affected the union members' confidence in the company's worth and how they might affect IPA's bargaining position in the future.

MR. THRUSH confirmed that what Representative Gruenberg said is correct. He relayed that the "bottom" 300-400 employees are probably the most loyal in the company, but that they would no longer go out of their way to do any favors for UPS because they feel betrayed.

[9:56:44 AM](#)

CHAIR P. WILSON, regarding the nation's overall economy, remarked that more than 1 million have lost their jobs. She asked if IPA met its deadline in relation to an agreement made with UPS.

[9:57:49 AM](#)

MR. TRENT began his testimony. He stated that the pilot furlough initiated by UPS was 100 percent avoidable. He said the furlough will affect the state by removing millions of dollars from the local economy. He told the committee that he has been directly involved with all negotiations between IPA and UPS. He relayed that the pilots of UPS have negotiated three

milestone contracts in 1991, 1998, and 2006. Additionally, IPA has negotiated hundreds of supplemental agreements over the course of those years. He said the company has grown during that time, from a handful of pilots flying primarily in the Lower 48 to a robust national operation of more than 2,800 pilots flying worldwide. Not only Anchorage, but the entire state of Alaska has benefited from this growth. He credited the overall good relationship between UPS and its pilots for the growth of the company. He said the pilots understand that their success is linked to the success of the company. He said UPS also understands that the strength of the airline is linked to the professionalism and skill of the company's pilots.

MR. TRENT said there have been sharp differences. He relayed that in the last round of negotiations, UPS formally proposed outsourcing the majority of international flying to cheaper foreign competitors who base their pilots abroad. If that had happened, he said, there would likely not have been a base of pilots in Anchorage. He reported that UPS was the first major airline to use win-win bargaining; the National Mediation Board has held the 2006 negotiations up to the industry as a model. He said this cooperative approach was severely tested by the recession that started in late 2008.

MR. TRENT related that in February 2009, UPS approached IPA with a request that the pilots provide the company with \$131 million in total cost savings to the end of 2011. Even though UPS remained highly profitable and maintains one of the strongest balance sheets of any large corporation in America, all employee groups were told they should make sacrifices in order to control costs. He said even though pilots did not like all the details of what the contribution should be that they decided that it was a reasonable "belt-tightening" exercise to ensure the success of the company. He said UPS had suggested that its employees raise the money by agreeing to a combination of wage and pension cuts. He emphasized that UPS told IPA in early 2009 that it did not want to furlough pilots, because the company wanted to have all hands on deck; however, the company told IPS that if the pilots could not generate the \$131 million, then UPS could forcibly generate that savings by laying-off 300 pilots through the end of 2011. Many of those pilots would be the junior pilots who were just hired in 2007 and moved to Anchorage for the job.

[10:05:58 AM](#)

MR. TRENT said at the end of that 2009 meeting, UPS and IPA agreed on two things: a furlough was not in the interest of

either UPS or its pilots; and discussions would be commenced on March 11, 2009, to attempt to find an accessible approach to reaching that \$131 savings and to avoid pilot furloughs. The pilots proposed a series of voluntary income reduction programs to include: short and long nonpaid leave, job sharing, reduced work schedules for reduced pay, early retirement, and the option to allow pilots to donate some or all of their accumulated sick leave directly to the company. The approach was arrived at jointly and named, "The Voluntary Jobs Protection Program." On April 29, 2009, UPS and IPA reached a formal agreement on offering the program to the pilots. Mr. Trent stated that against incredible odds, the program worked; following the first sign-up period that ended in May, the pilots generated \$88.5 million in voluntary savings as a down payment on the \$131 million goal, and the effort was praised by UPS's president. The remaining \$30 million was added by January 2010, and leaders were confident that the remaining amount would be saved by the end of 2011.

[10:10:41 AM](#)

MR. TRENT stated that in December [2010], UPS suddenly raised the ante to \$245 million, and the company said it could extend the hypothetical furlough to the end of 2015. He stated that by this time, the pilots felt betrayed. To make matters worse, he said, UPS said it wanted to keep the money that had been generated by the pilots, but conduct a "partial" furlough. Mr. Trent said UPS did not tell IPA how many pilots would be affected by a partial furlough. He relayed that IPA emphatically said no to this plan, because it had already talked three-fourths of its pilots into voluntarily reducing their salaries to ensure that there would be no furloughs. Instead, IPA held another round of signups in late 2010 to complete its end of the bargain.

[10:14:54 AM](#)

MR. TRENT said IPA also offered to extend the Voluntary Jobs Protection Program through 2015, and it would, for the first time, give pilots the opportunity to volunteer for unpaid time off in 2012-2015 in order to boost the increased savings that UPS said it required, but UPS said no. He said IPA made other proposals that were refused by UPS, such as extending and enhancing early retirement opportunities that could have saved millions of dollars. As a last-ditch effort, IPA told UPS to keep the savings, but postpone the furlough decision to 2012. If the company decided at the end of that time that it still

needed to furlough, it could take the guaranteed volunteer savings through 2011 and then, if necessary, combine that with the furloughs starting the end of 2012 through the end of 2015. Mr. Trent said the money that IPA's pilots generated voluntarily through the end of 2011, added to the pot of money that could have been generated through furloughs from 2012-2015, would roughly equal the near quarter million dollars being asked for by UPS. He stated that UPS was not interested in this plan; it had decided on the immediate furlough option. He related that IPA was informed on February 8, 2010, that UPS was withdrawing from the Voluntary Jobs Preservation Program and opting instead for forced pilot layoffs.

MR. TRENT stated that now, "under the microscope of public scrutiny" in Alaska, "the story is changing." The furlough of 300 pilots, which UPS had been so confident would last through 2015, has been revised to 230. Mr. Trent said the reduction is good. However, he added, "But when we heard spin coming from some UPS officials, we know better." Mr. Trent said the committee is right to hold this hearing, and he expressed appreciation for the support that IPA has received from the Alaska public and lawmakers.

[10:18:24 AM](#)

SENATOR DAVIS asked what Mr. Trent means by "spin."

MR. TRENT explained that IPA has heard second and third hand that the pilots were not willing to avoid the furlough, and that they could have accepted a partial furlough. He said he thinks he has explained why that is unacceptable to IPA. He said, "If you just hear the sound bite, it makes us sound very unreasonable; I think if you hear the whole story, you can make your own decisions."

[10:19:29 AM](#)

REPRESENTATIVE GRUENBERG asked if UPS management has reduced its own salaries.

MR. TRENT answered that in 2009, management did take such measures, for example, by deferring some of its 401K contributions, which is why the pilots cooperated when asked to take cost-saving measures. Since then, however, UPS's business has bounced back a bit and the company has reinstated its 401K contribution, but it is asking its pilots to sacrifice even more for the company.

MR. THRUSH offered a correction to Mr. Trent's statement. He offered his understanding that to date UPS management has not reinstated its 401K, but it has reinstated its incentive pay, bonuses, and pay raises.

MR. TRENT apologized for possibly having misstated information.

REPRESENTATIVE GRUENBERG said he would like UPS to follow up on that point by supplying the committee with facts and figures. He said he wants to know whether or not UPS [management] has maintained some of its benefits while asking its employs to give up theirs.

[10:23:04 AM](#)

MR. TRENT, in response to Chair P. Wilson, said the nature of a furlough is that it has a bell curve, in that pilots would be furloughed gradually and brought back gradually; the resulting savings to the company would also be stretched out over that period of time. He said IPA pointed out to UPS that the voluntary savings methods agreed to by the pilots would actually save more money up front for the company than the furlough plan. In response to a follow-up question, he confirmed that there were two periods of voluntary sign-ups to save the company money, and by the end of the second period, which was December 31, 2009, the pilots had raised 93 percent of what UPS said it wanted. He said both sides were elated by the results. However, IPA was told that the pilots needed to contribute double the original amount. In response to Chair Wilson, he reiterated that he has gleaned this information from being present during all the talks.

[10:28:11 AM](#)

REPRESENTATIVE GRUENBERG questioned whether the issue was not about completing the remaining 7 percent, but rather was about UPS wanting a lot more.

MR. TRENT responded that a point of interest is that before the December 2009 sign-up period ended and before IPA knew that the pilots were 93 percent towards the goal, UPS was beginning to comment that the number was going to be raised.

REPRESENTATIVE GRUENBERG offered his understanding that UPS at that time said the number would be raised significantly, but it did not specify a number.

MR. TRENT explained that in December of 2009, when UPS told IPA that the number would be raised to \$245 million, IPA asked why. He said UPS said that it could save a lot more money by stretching out a furlough through 2015; therefore, to prevent that from happening, UPS said the pilots would have to save the higher amount of \$245 million. Mr. Trent said IPA argued that UPS did not need to be increasing the amount; it pointed out that UPS has many valuable pilots with a lot of training, and a mutual agreement was already made for no furloughs in exchange for voluntary savings. He said IPA told UPS that if it was going to insist on [the \$245 million], then it is only fair that the company give the pilots the opportunity to meet that goal - to generate that money.

[10:30:45 AM](#)

CHAIR P. WILSON reviewed what happened again. She said she can understand why more money would be involved if the time to produce it was extended.

MR. TRENT said UPS could pocket the 93 percent savings already manifested by the pilots and then wait until 2012 to see if furloughs are still necessary. He said IPA gave UPS very detailed charts and graphs to show that the company could "get there."

[10:32:53 AM](#)

MR. TRENT, in response to Representative Tuck, clarified his previous statement about more money saved upfront with the sign-ups then with furloughs. He related that IPA had agreed to an "out" clause, so that UPS could protect itself against the possibility of the economy tanking.

[10:34:03 AM](#)

MR. THRUSH relayed that in nine months, the company generated savings that exceeded \$57 million, \$48 million of which was in 2009, and \$8-\$9 million in the first few months of 2010. He said UPS would have had to furlough all 300 pilots for almost 15 months to generate that same amount of savings. He said UPS got that money up front but furloughed anyway, which he said IPA sees as problematic. In response to Chair P. Wilson, he said the only benefit that the pilots got from this was that the pilots that would potentially be furloughed were kept on the property for 10-11 more months. He said they started the

furloughs in May and have only 109 out the door currently and will not get to 230 until well into 2011. He stated, "We didn't see the equal return for the amount of money that we gave."

[10:36:47 AM](#)

MR. THRUSH, in response to a question from Representative Johansen, said airlines are regulated under the Railway Labor Act, under which employee groups can engage in collective bargaining. The IPA was selected by the UPS pilots to be their selective bargaining organization in 1990. He said that is the only group that IPA represents. The entity is a union and dues are determined by vote of the membership, he said.

[10:38:21 AM](#)

REPRESENTATIVE GRUENBERG suggested that a breach had occurred between UPS and IPA.

MR. TRENT concurred that the pilots, through IPA, had agreed to do one thing in order to receive protection from furloughs, but agreed to an "out" for UPS. However, he said he does not think it was an illusory contract; the pilots did receive 9-10 months protection from furloughs that they would not otherwise have had. He said the pilots were engaged in the process of raising \$131 million. In response to a follow-up question from Representative Gruenberg as to whether there were any expressed or implied conditions to the "out" clause, he said the clause was linked to deterioration in the economy.

REPRESENTATIVE GRUENBERG offered his understanding that UPS had said that the recession was no longer at the level that required "it."

MR. TRENT explained, "We were hearing ... a CEO talking to shareholders, ... trying to pump up the share price, and we were hearing the people ... on the local level saying something different; so, we were hearing two different things."

The committee took an at-ease from [10:42:15 AM](#) to [10:53:49 AM](#).

[10:53:54 AM](#)

RICK BARR, Vice President, Flight Operations, United Parcel Service (UPS), said he has worked in his current position since 1977 and, thus, has been present for the aforementioned discussions between UPS and IPA. He thanked the legislature,

the Department of Transportation & Public Facilities and the Department of Labor & Workforce Development. He recognized those pilots and their families present at the meeting. Mr. Barr said he would cover three topics: UPS in Alaska, the reasons behind the pilot furlough, and misleading public claims made recently about the UPS furlough.

MR. BARR stated that UPS is good for Alaska, because it is one of the state's largest employers, with over 1,000 employees in Alaska and an annual payroll of \$108 million. Additionally, UPS spends \$220 million annually to run its operation. That money is spent on fuel, maintenance, and housekeeping services. All told, he reported, UPS spends almost \$328 million each year in Alaska, and that figure does not include the additional millions on one-time capital expenditures. He specified that UPS has invested nearly \$50 million on the infrastructure of the Anchorage facility in recent years. In 2008, he reported, UPS opened a multi-million dollar training facility in Anchorage, and hundreds of its pilots train there. Those pilots spend money in hotels and restaurants in Anchorage. He said UPS has operated in Anchorage for almost 20 years, and over the last three years has generated an average of \$4.4 million annually in landing fees. The company has increased its Anchorage-based pilots from 55 in 2007 to 500 in 2010. He said by the end of 2010, UPS will transfer another 50 pilots from other locations to handle reemergent growth. Furthermore, it will add 75 new jobs for package handlers. He stated that UPS pays \$2.2 million to Alaska annually in property, fuel, unemployment, and hotel taxes.

MR. BARR announced that this year the corporation exceeded \$1 billion in donations to United Way. He said UPS Foundation annually donates more than \$40 million to charitable organizations and its employees volunteer hundreds of thousands of hours to worthy causes. When Anchorage suffered a jet fuel shortage earlier this year, UPS headed a committee to help solve that crisis - a solution that will ultimately result in more jet fuel supplying operations in Alaska. Furthermore, through the Capstone Project, UPS has helped pioneer next-generation aviation safety technology now broadly used in Alaska. He said the planes flown by UPS pilots operate within the strictest noise standards.

[11:00:50 AM](#)

MR. BARR stated that economically and socially, UPS is good for Alaska; the company has been here many years and plans to stay

many more. He recognized the importance of job growth and living in the state in which one works. He said although not contractually obligated to do so, UPS provided incentives for pilots to move to Alaska.

[11:01:11 AM](#)

MR. BARR spoke to the issue of the pilot furloughs. He related that this is the first time in UPS's history that it has had to furlough pilots. He said in the airline industry, a furlough is a temporary layoff; there is full expectation of rehiring all the furloughed pilots in the future. He said because Anchorage pilots are the newest, they will be the first to be furloughed; however, Anchorage will not lose jobs, because every pilot being furloughed will be replaced by a senior pilot, and those pilots are being offered relocation packages at the cost of \$32,000 each. Mr. Barr reemphasized the temporary nature of the furloughs.

[11:04:11 AM](#)

MR. BARR said the furlough is not happening in a vacuum. He explained that virtually every UPS employee group has been impacted by the recession over the last two years; a pilot furlough was just one of many cost-cutting measures. He listed other measures that have been taken: reducing aging aircraft; significantly reducing capital expenditures; freezing management pay for one year; suspending the 401K matching program for management - a cut-back that is still ongoing; reorganizing ground package organizations from 46 to 20 operating units; and eliminating 1,100 management jobs. He said as the recession abates, the company is in recovery mode. For example, he said, in its recent second quarter review, UPS noted a 46 percent increase in its Asia export business, which is one of the reasons the company was able to add jobs in Anchorage. He stated, "At UPS, the equation is simple: packages equal jobs." He said that is the reason the company has been able to reduce the furlough from 300 to 230 crew members, effective in 2011. He expressed appreciation and pride for the pilots of UPS. He said the company remains hopeful that conditions will continue to improve so that the furlough number can be reduced even further, but at the same time, it remains cautious because economic indicators continue to provide mixed signals. He stated that regardless of the economy, the conditions that are driving the furloughs still exist: 48 fewer aircraft are being flown than were flown in 2003; the company has formally retired three-person aircraft in favor of more efficient two-person

aircraft; the FAA's 2007 "age 65 ruling" has kept 200 pilots on the payroll who otherwise would no longer be working; and there are fewer flying hours than before the recession.

[11:07:32 AM](#)

MR. BARR said he would like to set the record straight regarding the events that brought UPS to where it is today. He emphasized that UPS never wanted the furlough, because the company understands the effect of furloughs on its employees. He stated that union leaders were not interested in contractual cost reductions to avoid a furlough, such as foregoing wage increases. However, the union agreed to work with UPS on a voluntary savings program that would allow: part-time work, long- or short-term leave of absences, and military leave. He said UPS also offered an early retirement option, as well as an option to donate sick leave. It was necessary for the pilots to save a total of \$131 million from 2009 through 2011. He related that the union opened up a volunteer period in 2009, and initial attempts fell short. At that point UPS could have furloughed the pilots, but did not, instead agreeing to delay the furlough until January 2010. The union fell short again, but UPS still did not furlough, instead entering into agreements with Mr. Thrush. In January 2010, UPS received an updated business plan, which showed that the recession had become more severe, and which indicated that the pilot overstaffing situation would extend beyond the previously anticipated 2009-2011 period. He said UPS believed that the union needed to be aware of these facts, but that this has been referred to as a "bait and switch."

[11:11:02 AM](#)

MR. BARR stated, "There was never a new number associated with avoiding furloughs through 2011; the number remained \$131 million that they had to achieve." He said if the union could have reached the original agreed upon numbers, then there would not have been a furlough through 2011. He also pointed out that on multiple occasions the union agreed UPS was overstaffed, having more than 400 extra crew members. He emphasized that UPS never pursued a furlough of more than 300, and, in fact, reduced that to 230. He said union leaders only started publicly attacking the underlying need for the furlough after failing to achieve the agreed upon savings target. He emphasized that in attempts to save as many jobs as possible, UPS repeatedly offered to accept the savings generated from the voluntary efforts of its crew members to mitigate the number of crew

members who would have been furloughed. However, union leaders took an "all-or-nothing" stance to the savings program, refusing to allow UPS to accept the smaller savings amount and in turn conduct a much smaller furlough. Mr. Barr relayed that in January 2010, UPS found itself at a crossroads, with a worsening economic forecast, excess crew members for an extended period of time, and a memorandum of understanding (MOU) process that failed to produce the savings required to avoid a furlough through 2011. Furthermore, he related that UPS was still holding assignments for 240 pilots for a DC8 airplane that was retired, which means those pilots were drawing full pay and benefits although there was no airplane for them to fly. The company needed to realize the required savings, he said, and with union leaders unwilling to consider wage and benefit changes, unable to meet the voluntary savings goals, and unwilling to accept partial savings, UPS had no choice but to proceed with the furlough in May 2010 in order to maintain the health of the company. To date, he reported, 109 pilots have been furloughed.

[11:14:08 AM](#)

MR. BARR next offered a breakdown of the furlough numbers. He said UPS expects a furlough of 230 pilots, 197 of which are assigned to Anchorage. He said according to company records, 71 of the 197 chose to become Alaska residents, and 28 of UPS's newly reassigned Anchorage pilots are in the process of moving to Alaska. By the end of 2010, he reiterated, UPS will transfer another 50 pilots from other locations to Anchorage to handle reemerging growth in the company's Asian export market, and 75 jobs for package handlers will be added, as well. He said from an economic impact perspective, there may be some loss as a result of the furloughs, which is regrettable; however, any attempt to assess this number is purely speculative.

MR. BARR expressed appreciation for the efforts of the Department of Labor & Workforce Development in helping the furloughed employees to obtain other gainful employment. He said it is important to keep the numbers in economic perspective. He reiterated that UPS spends \$328 million annually in Alaska to run its operations. In the final analysis, he said, both UPS and Alaska have benefited from this partnership. Looking to future, he concluded, UPS remains focused on ensuring the long-term strength of the company and seizing growth opportunities in Alaska and worldwide.

[11:17:33 AM](#)

MR. BARR, in response to Representative Lynn, said UPS is paying to move pilots to Anchorage to replace the pilots being furloughed, but it has not looked into the possibility of having those pilots buy the homes of the pilots being furloughed who may be leaving the state. He said that is a good idea that UPS would be willing to pursue. He said that over and above the requirements of the contract, UPS is paying out sick leave to those pilots being furloughed, which in most cases equals approximately \$20,000. In response to a follow-up question, he said the contract does not provide for relocation expenses to be paid to the furloughed pilots by the company. He said the decision regarding furloughs is a corroborative one; however, he said he and the president of the airline are the ultimate decision makers. He confirmed that the top man at UPS is Scott Davis.

REPRESENTATIVE LYNN asked why Mr. Davis was not present today.

CHAIR P. WILSON interjected that she gave each group leeway to bring forward whom they chose to testify, and the testifiers did not need to be questioned about their choices.

MR. BARR, in response to Chair P. Wilson, said Anchorage pilots were not targeted in this furlough. He clarified that the decisions are based on the collective bargaining agreement and seniority. He confirmed that each of the pilots were aware of that information when they moved to Alaska.

[11:23:00 AM](#)

REPRESENTATIVE T. WILSON asked if UPS received any incentive to move its operations to Alaska.

MR. BARR said he does not know the answer to that question. In response to a follow-up question, he expressed a willingness to find out that answer.

[11:24:02 AM](#)

REPRESENTATIVE TUCK asked for a comparison of UPS's revenues in 2008 versus current revenues.

MR. BARR said UPS has not seen a major rebound, with the exception of the aforementioned Asian market. He said UPS is cautious in terms of how freight costs will impact the company in the future. In response to a follow-up question, he said

revenue levels have still not risen to the level that they were at pre-recession.

[11:25:38 AM](#)

SCOTT CASEY, Vice President, Public Affairs, United Parcel Service (UPS), underscored that there were several primary drivers that led UPS "down this road," and a couple of them had no direct connection to the recession. For example, the aforementioned increase by the FAA of the mandatory retirement age from 60 to 65 led to approximately 200 excess crew members on UPS's payroll. Another example was the retiring of the 3-pilot aircraft in favor of the more environmentally friendly 2-pilot aircraft.

REPRESENTATIVE TUCK concluded, then, that UPS has more pilots than it currently needs.

MR. CASEY responded that that is an accurate statement.

[11:28:12 AM](#)

SENATOR DAVIS asked if the pilots' decision to come up with \$131 million in savings was isolated to Alaska.

MR. BARR answered that it was a system-wide pilots' decision; the association, through an agreement with UPS, looked to all 2,800 pilots to come up with savings. In response to a follow-up question, he confirmed that UPS knew that there was going to be a significant impact on the pilots in Anchorage, because of the lack of seniority in that area. He mentioned again the pilots who, as a result of the company's retiring its DC8 fleet, had been drawing salary for a year without having worked. In response to Chair Wilson, he said UPS made a decision not to train those pilots on another airplane, because there are a completely different set of rules outlined in the contract depending on whether pilots are furloughed or whether the MOU between IPA and UPS was successful.

[11:33:13 AM](#)

REPRESENTATIVE TUCK asked if UPS is open to third-party negotiations in order to come up with concessions and keep pilots employed.

MR. BARR responded that the challenge there is that the airline is under the umbrella of the National Mediation Board, under the

Railway Labor Act. So, if there was an opportunity for mediation, then that would be the group that UPS would approach. He said he thinks UPS is open to "other opportunities out there."

REPRESENTATIVE TUCK said what conditions would satisfy UPS to the point that no pilots would have to be furloughed.

CHAIR P. WILSON interjected that while it is important for the committee to know that the parties involved are willing to negotiate, the actual terms of negotiations should remain between the parties.

[11:35:43 AM](#)

MR. CASEY, in response to a question from Representative Petersen, reiterated that although the recession has been an exacerbating factor that has influenced UPS's long-term view of the cost savings required through the year 2015, there are a number of factors he previously named that led to the need to furlough that don't directly relate to the recession.

[11:37:34 AM](#)

MR. CASEY, in response to Representative Gruenberg, clarified that all airlines fall under the Railway Labor Act.

REPRESENTATIVE GRUENBERG noted that there is a federal mediation board with which UPS and IPA could work to find solutions to the conflicts they face, and he asked each party if it would be willing to do so.

CHAIR P. WILSON said she does not want either party to have to answer that question.

MR. CASEY said he would take Representative Gruenberg's comments and suggestions under advisement.

MR. BARR, in response to Representative Gruenberg, offered his understanding that UPS continues to match its employees' donations to United Way.

REPRESENTATIVE GRUENBERG observed that since most of the furloughed pilots in the Anchorage area have already given up sick leave as part of the voluntary savings program, the fact that UPS is allowing them to cash out their sick time is not particularly significant.

MR. BARR replied that the contract does not require pilots to be paid their sick leave when they are furloughed; however, UPS went above and beyond the contract and offered that to the furloughed pilots.

[11:43:20 AM](#)

REPRESENTATIVE GRUENBERG offered his understanding that the furloughs could last five years, and he asked Mr. Barr if he thinks five years is temporary.

MR. BARR opined that five years is temporary but lengthy.

[11:44:07 AM](#)

REPRESENTATIVE JOHNSON opined that this issue is about local hire and affects Alaskans. He emphasized that it is important that companies from the Lower 48 that do business in Alaska hire Alaskans, and he said he wants the company to consider local hire. He said if companies do not, then they should expect the legislature to take notice.

[11:46:52 AM](#)

REPRESENTATIVE LYNN opined that outsourcing should be kept to a bare necessity.

[11:47:50 AM](#)

MR. BARR, in response to Representative Gruenberg, said UPS is looking for opportunities overseas, but it is not outsourcing jobs to foreign entities.

[11:49:19 AM](#)

REPRESENTATIVE TUCK observed that there were pilots present wearing their uniforms. He expressed gratitude for the opportunity to hear the testimony from IPA and UPS, and he said he harbors hope that a solution can be found.

[11:51:07 AM](#)

MR. BARR, in response to a question from Representative T. Wilson, said he does not know how many of the pilots working in Anchorage were Alaska residents to begin with, but he said he could find out.

[11:51:56 AM](#)

MR. THRUSH proffered that the number is between 17 and 20. Regarding the previous remarks made about sick leave, he said many pilots only had about half of their sick leave left because they had given the rest to the voluntary savings program. He said the ones most affected by this issue are the ones who gave the most during the voluntary time period. In response to Representative Tuck's previous query, he said the company reported that its second-quarter profits were up over 70 percent; it made \$1.3 billion operating profit last quarter. He stated, "They may be at pre-recession numbers, but they're pretty close to going past those numbers, if not already, [then] in the very near future."

[11:54:31 AM](#)

MR. TRENT offered a brief summary. He clarified that UPS agreed to a second sign-up period, which could have generated 100 percent of the money needed, but before IPA ever knew what the results of the that second signup were, UPS came to IPA and increased the amount it said it needed. He said IPA asked for the opportunity for the pilots to meet that second number, but the company said no to that. Mr. Trent then acknowledged the aforementioned change made by the FAA, but said when that change was made in 2007, UPS did not approach IPA about a need to furlough. Furthermore, he said the retiring of aging aircraft has been occurring for years. He said the first time UPS approached IPA was in 2009, and even then it said it did not want to furlough its pilots. He emphasized that IPA took a cooperative approach, rather than an adversarial one. He expressed appreciation for the scrutiny of the committee of this issue, and he said he thinks [the pilots] will benefit from that scrutiny.

[11:56:45 AM](#)

CHAIR P. WILSON thanked the testifiers. She acknowledged that the committee heard differing points of view, and she posited that the facts had been "skirted around a little bit." She proffered that there is not much the legislature can do, except to make changes to statute and regulation regarding companies from Outside working in Alaska. She said she understands the limitations sometimes imposed by contracts. She said she thinks UPS is making choices geared toward the health of the company in the long run. She expressed her hope that both sides can return

to the table and "allow some more flexibility." She remarked on the change in the world in the last five years resulting from the shift in economy.

12:01:09 PM

SENATOR DAVIS opined that the legislature has a role in knowing what is going on without sitting at the bargaining table.

12:02:12 PM

REPRESENTATIVE LYNN noted that he is the chair of the House State Affairs Standing Committee, and the issue at hand is a state affair because it affects the state's economy. Regarding sick leave, he said he thinks pilots are sometimes forced to take sick leave because of issues with the Eustachian tubes and sinuses that are unique to that occupation. He expressed appreciation to those who testified.

12:03:47 PM

MR. CASEY, in response to a question from Senator Davis, said the \$244 million figure she referenced is a cost savings figure through 2015. He reiterated a couple points about that number as previously made by Mr. Barr. First, he said the savings required in order to avoid a furlough through 2011 never changed; it remained \$131 million. As the economy worsened, UPS realized that the total savings needed to maintain the health of the company extended out to 2015. However, in many ways that did not impact the decision that was made at the conclusion of UPS's discussions with IPA, because IPA never produced the savings required to avoid a furlough through 2011.

12:05:33 PM

#### **ADJOURNMENT**

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 12:06 p.m.