

LABOR SUGGESTIONS FOR CITY DEFICIT

Dear City Council:

Below are some ideas that City Council may consider in reducing the City's budget deficit. The idea here is to provide the overall concepts of a pathway for financial stability. As will be seen, the City Administration has the data to reflect how much these ideas would generate in savings. Thus, the Administration's cooperation in providing that information is critical. Also, many of the ideas are structural adjustments that are more beneficial for the long term health of the City. While they may not result in substantial savings in the short term, the short term, quick fix solutions have been a major cause for the current problem, and such solutions will not avert an Emergency Manager.

I. REDUCING CONTRACTOR COSTS AND "OTHER EXPENSES"

A. Contracting Out

The City has untold hundreds of contractors that operate under currently active contracts. At last check, there was not one publically available database of all private contracts with the City, even though there should be under the Privatization Ordinance, Section 18-5-105(c). Nonetheless, the City's 2011-2012 Budget appropriates \$245,125,275 in "Professional & Contractual Services", \$137,151,657 in "Operating Supplies", \$44,219,905 in "Capital Equipment", Outlays & Major Repairs", \$264,276,174 for "Operating Services", and \$713,033,617 in "Other Expenses". These figures are for General Fund and Enterprise Funds. The figures for General Fund only are: \$153,932,787, \$80,392,280, \$25,926,465, \$130,901,341 and \$245,694,718 respectively. It is not known how much of these expenses are comprised with costs toward private contractors. Yet, the total General Fund appropriations in these five categories are: \$636,847,591.

City Council should subpoena specific information from the Administration concerning these budgetary figures. Pursuant to City Charter Section 4-110, the City Council may "subpoena witnesses, administer oaths, take testimony and require the production of evidence in any matter pending before it or any of its committees." City Council should ask for the following, from the Purchasing Division of the Finance Department, and from each department within the City, within 7 days from the date of request (if the request is made during the week of November 21st, it will permit the Administration employees time over the holidays to respond to the request):

- 1) A list of all contracts which are currently active where the contractor is providing a service or a good. This should include contracts or arrangements under which individual purchase orders are executed for individual services. The contractor can be an individual or an entity. The list should include the type of service being performed, the value of the contract, the duration of the contract, and whether the contract contains the ability to terminate without cause (and if so, the number of days notice required for termination).

2) A copy of all said contracts, brought to a designated room within City Council's control. Then, the City Council should solicit volunteers to review each contract, and prepare a grid containing such information. The volunteers would create a list of all contracts, including the information above.

Once this information is received, all contractors can be mailed a letter, asking them to reduce the total value of their contract by 15%. They would then be asked to respond to this request within 20 days from the date the letter was sent. The letter would warn that if the contractor neglects to respond, then the City would engage actions to seek savings on the good or service being offered by that contractor, which may involve seeking termination of the contract and rebidding the work, to the extent the law allows.

For those contractors who agree to the 15% reduction, the contract can be immediately redrafted. For those contractors who offer explanation as to why the reduction is not feasible, the Purchasing Department and Fiscal Analysis Division of City Council would review the reasoning and respond, by either terminating and rebidding the contract, or renegotiating a lower price.

City Council should also subpoena from the Budget Department a specific list of all expenditures in the categories: "Professional & Contractual Services", "Operating Supplies", "Capital Equipment", "Outlays & Major Repairs", "Operating Services", and "Other Expenses". There may be other items within such expenditures that can be reduced.

B. Attain Direct Relationship With Detroit-based healthcare providers

The City could agreements with the major Detroit-based hospital chains to offer the option of employees signing up to have their medical care performed by the doctors at that hospital chain (i.e., DMC or Henry Ford). If the employees agree to utilize the health care institution directly, then the rate will likely be cheaper to the City and its employees than the rate charged by Blue Cross Blue Shield. The administrative fees and stop loss fees that the City paid to BCBS, during the 2009-2010 contract year, estimated at more than \$14 million.

Also, the City could renegotiate its health care contract. For the last six months, the Administration has promised to seek bids from other health insurance companies, to see if the rates received from Blue Cross Blue Shield are competitive. This bid request has not been sent out, and therefore BCBSM continues to maintain its virtual monopoly.

C. Renegotiation of leases and other contracts

The City utilizes office space throughout the downtown and midtown area, and ends up wasting money in the process. As an example, the City has the North Central District police station, but much of the building sits empty. The City should consolidate some of its leases into unused floor space, and renegotiate the price of its leases.

II. ACCURATELY BUDGET FOR PREVIOUSLY SECURED CONCESSIONS

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More than one year ago, the Administration sought and attained the right to make changes in overtime policy for City employees. Previously, City employees received overtime pay for all hours worked beyond the regularly-scheduled 8 hour day, regardless of whether the employees worked 40 hours in that week. This is a benefit more generous than that granted under state and federal wage and hour laws. Since last fall, the City has had the right to adjust this practice, and pay employees only for overtime worked beyond 40 hours in a week. The City has neglected to implement this policy change in the last year. Thus, the savings attained when this policy kicks in should be credited to the union. Last year during fact finding, the City Budget Department estimated that the savings in the overtime changes was as high as \$3.7 million (in one of several formulations of the average work week).

Additionally, there are well over 1,000 employees within the City that are paid for 40 hours pay, while working a 35 hour work week. Last fall, the City attained the right to implement these changes. In the last year, the City has failed to make such changes. The City estimated that for AFSCME-membership alone, the savings to the City (in the value of productivity hours) was \$4.8 million. Adding the non-Union employees who work a 35 hour work week, the savings is likely closer to \$6 million.

III. DRUG PURCHASES

AFSCME Council 25 had spoken with AFL-CIO Employer Purchasing Coalition (AEP) about reducing prescription drug costs for the City of Detroit. The AEP conducted a study on 2006-2007 drug costs for the City of Detroit, and concluded that it could save the City \$19 million in prescription drug costs alone. The City has not responded to AFSCME's request for annual information concerning the more recent expenditures on drug costs (the City did provide partial information). City Council should request that information from the Administration, and seek AEP (or other organizations) to quote health insurance costs.

IV. CITY EMPLOYEE HEALTH CARE CONTRIBUTIONS PRE-TAX

The City should allow its employees to make their health contributions pre-tax. By doing so, the City itself will save \$.0765 for every dollar that the employee contributes pre-tax, since the FICA is not paid on that money. Based upon the 2009-2010 employee premium contributions, the projected savings to the City of this step is anywhere between \$1.6 million to \$2.7 million.

V. INCREASE IN REVENUE

A. Re-employ Revenue Collectors

The City should return revenue-generating employees from layoff. Such employees include employees responsible for code enforcement, parking tickets, water bills and tax collection. These employees in the past have more than paid for themselves in the revenue which they brought in. In the past 20 years, the City has tried it both ways - outsourcing the collection, and having the City employees fully staffed and working overtime to collect the

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debts. The most successful method of collection is to have the City employees performing the service, as opposed to having a company in Texas mailing impersonal letters to debtors.

The City could also allow the police officers be more aggressive in writing tickets. I understand that police officers are not directed to aggressively patrol the freeways for potential tickets, or look to write tickets in cities with common boundaries (to the extent permitted by law).

The City could seek volunteer assistance to enforce code and other violations, particularly property violations. The inspectors routinely write tickets for code violations to property owners, but such violations are not enforced at the rate they should be. Many neighborhoods associations and other organizations can be used to deploy volunteers to seek enforcement of such violations in court, on behalf of the City.

B. Increase corporate taxes

Corporate citizens should face a modest tax increase.

C. Tax Moratorium

The City could offer a moratorium on penalties and fees for overdue taxes, in exchange for debtors making their tax payments by a certain date. This worked successfully with the state of Michigan.

VI. STATE ASSISTANCE

The State of Michigan could enter into a contractual arrangement with the City of Detroit, to provide guaranteed discretionary revenue sharing in exchange for meeting one or more benchmarks within the state's revenue sharing incentive program. Given that the state failed to provide the \$220 million in revenue sharing, promised to the City more than a decade ago, the state's contractual arrangement is a reasonable request. Moreover, the City is unable to predict the amount of revenue sharing which it receives from the State, especially given these new conditions placed on state funding. Having the State contract with the City to offer a set amount of revenue sharing will assist the City with budgeting itself out of the red. Given that the City workforce has already given concessions much larger than those requested of the State, as conditions for revenue sharing, asking that the State guarantee a minimum level of revenue sharing is not unreasonable.

In addition, the state could commit to assist the City with securing more favorable rates for its outstanding debts. The market currently would likely offer a more favorable debt service rate to the City. But the City is unable to secure those rates on its own, so the State's assistance in this regard would help reduce the debt service charges to the City.

The Employers within the City of Detroit could be required to submit to the City of Detroit income tax payments, via electronic funds transfer. Also, Employers outside of the City could be required to withhold and submit City income taxes for those employees who are City of

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Detroit residents, via electronic funds transfer. These changes could be attained with an amendment of state law, the City Income Tax Act, MCLA sec. 141.501 et seq.

VII. EMPLOYEE DEPLOYMENT

The City could also adjust the employee-manager ratio, to correct the City from being so top heavy. Just yesterday in the Detroit News, the paper ran a graphic reflecting that the City had 95 appointees, almost two times that of the Governor of the state of Michigan. In the City's Fire Department, one graphic reflects a ratio of 5 managers to 16 employees. In the Department of Health and Welfare budget for 2011-2012, the budget recommends 2 manager positions and 3 line staff (page 25-51 - 250020-Health Finance).

The City could deploy police officers and fire fighters more wisely. For instance, crossing guards could be used to direct traffic as opposed to police officers. More clerical employees could be used for clerical work within the police stations (i.e., taking reports). In the fire department, mechanics could be used to make repairs on the vehicles, as opposed to the fire fighters and other classifications who also perform mechanical service.

VIII. EMPLOYEE PERKS

The Mayor has indicated that he has ended the \$500-\$600 monthly car allowance given to appointees. This fact should be confirmed. However, there are still a number of employees who are allowed to drive City vehicles for personal use, and are given free maintenance, gas and insurance for the vehicles. As of two years ago, November 2009, the City permitted 40 vehicles in the Fire department alone to be taken home by employees and used for personal use. Testimony offered at last year's fact finding surmised that each employee saves about \$8,000 in not having to pay for gas, insurance or maintenance - much of that cost being borne by the City.

Thus, City Council should subpoena from each Department a list of all vehicles that the City owns, and whether each vehicle is allowed to be taken home by a City employee. In fact, the City should offer to sell those vehicles to the employees (assuming it is legal to do so).

Further, many of the perks now offered to non-Union employees could be ended immediately. City Council should request a breakdown of all benefits and other compensation given to all non-union management employees. Given the recent flap in the news concerning Turkia Mullin at Wayne County, it is possible that the City Council is unaware of all benefits which management-level employees are receiving.

IX. INSOURCING

The Unions contend that the City loses money by outsourcing as a general principle. AFSCME has provided this Council with numerous examples where the private contractors charge several times more, per hour, than the City employees receive for the same work. The Unions suggest that there be a joint labor-union committee on outsourcing, which contains representatives from multiple unions and department representatives. This joint committee

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would review contracts to assess whether the work could be done more cost effectively in-house. In the event there is no agreement, the contract will be sent to an arbitrator, who will determine the most cost effective method to have the service performed. Of course, this provision would mandate the compliance with the Privatization Ordinance, and such provision would not waive the rights of the City work force to enforce the Privatization Ordinance.

In addition, the Administration would be bound to provide all information requested concerning the cost of having the contractor perform the service, and the cost of having the work performed in-house.

X. PAY AS YOU GO

The Departments routinely will not adhere to their annual budgets. This causes deficit spending problems. Every quarter, all Departments shall present their actual spending totals, and compare actual spending to the fiscal budget.

XI. EMPLOYEE PURCHASE OF SERVICE TIME

There are a number of employees who may elect to purchase service time, in order to qualify for retirement eligibility. The City could provide how much the employees would be charged to pay for 5 years of service time, at actual costs. The design of this program would be to make it cost neutral to the City, but offering the employees an option to leave employment.

XII. PROPERTY / SERVICES THE CITY CAN SELL

The City currently has an estimated 60,000 parcels of vacant land that it owns. The City should attempt to sell (at very low prices) those homes to families who will move in and pay taxes. In exchange for the low price of purchasing the land/home, the buyer could contract with the City to have the property taxes submitted to the City (or a trustee) directly through payroll deduction. The City would have nearly-guaranteed tax payments, which it is not receiving for those properties now.

The City offers a number of services that are of benefit to the general citizenship. For instance, the City offers safe driver training, CDL training, etc. The City can sell these services to the general public.

XIII. SCHEDULE CHANGES RESULTING IN SAVINGS

Certain departments may be able to make schedule changes that would result in cost savings to the City. For instance, certain departments may be able to operate on 10 hours days, at 4 days per week. Each department would do an assessment to determine if schedule changes would result in savings to that department's bottom line.

For questions contact:

Richard G. Mack, Jr.
313-964-4454