

CITY OF DETROIT

MAYOR'S BUDGET ADDRESS

FY 2011-2012



Dave Bing, Mayor

Good morning Honorable City Council. My budget presentation today marks the next step on the City of Detroit's path back to financial stability. We face challenges unlike any the city has ever seen, challenges that demand bold action and a business approach that this administration is prepared to take. We do not have the luxury of waiting for someone else to solve our problems.

- We must find savings of \$200 million in this fiscal year to present a balanced budget.
- If we do nothing, our deficit which today stands at \$155 million will grow to approximately \$1.2 billion by Fiscal Year 2015.
- Pension and medical costs are rising at an uncontrollable and unsustainable rate. From 2008 through 2011, the City of Detroit cut \$40 million from service delivery to offset the rising cost of benefits.
- Without action, benefit costs will consume a larger and larger portion of our operating funds, potentially growing to 50% by 2015.
- Since 2000, revenue is down from \$1.1 billion to \$753 million. Our population is down more than 200,000 according to the recent U.S. Census report.

The evidence is clear. The same old budget gimmicks and the same old budget battles are not the solution. It's a different ballgame and the stakes have never been higher. Governor Snyder signed legislation into law this year that gives the state an unprecedented ability to intervene in financially distressed cities like Detroit. The state has made it clear that any city that fails to address its financial issues on its own will have an emergency financial manager appointed.

The budget I am presenting today includes a five year plan to eliminate our deficit and more importantly sets a course to prevent a state takeover. It reflects the necessary balance of reducing government spending with our responsibility to provide services at a level our residents need and deserve. We are taking on tough issues like pension and medical costs while continuing to make city government run more efficiently.

We have outlined this plan to the Snyder Administration. I am encouraged that we have their support. We have also offered to share our plan with every member of this Council in advance of today's presentation. I want to thank those Council members who took us up on that offer. I made that decision because the City and its residents cannot afford another budget process defined by political posturing. There is no time for a back and forth debate about pennies on the dollar when million and billion dollar issues need to be resolved.

After an exhaustive analysis of our expenses, revenues and the efficiency of our operations, this budget represents what must be done this fiscal year, and more importantly; it lays the steps we must take to eliminate our deficit over the next five years. If we are unable or unwilling to make these changes, an emergency financial manager will be appointed by the state to make them for us. It's that simple.

I believe we can prevent that from happening. We can do it by showing a unified sense of purpose and urgency. This Council, our unions and our pension boards must step up and work with us by adopting this budget, opening contracts and negotiating the savings we need. Some on this Council argue that the City has no choice but to enter into a consent agreement with the state. While that is another option at our disposal, it would still require our unions and pension boards to willingly open contracts and accept substantial concessions. If they refuse, the outcome will be the same. We will lose control of our destiny to an emergency financial manager.

That means existing contracts will be voided, legislative powers will be stripped and decisions will be made without the input of elected officials or residents.

This boils down to a simple question of political will. There is no roadblock preventing us from working together and doing what is best for Detroit. State intervention of any kind isn't a prerequisite to solving our problems. I'm not saying it will be easy but if our goal is to govern ourselves without the oversight of an EFM, every stakeholder has a reason to come to the table with an open mind.

The most important items on our fiscal agenda are pension and medical spending. If we do not get those costs under control, a state takeover is inevitable. I understand that current and former city employees are sensitive to this discussion. Over the years, administration after administration avoided this conversation but we no longer have that option. The data is overwhelming.

The City's benefit costs are 108% of payroll. To put that in perspective, that means for every dollar we are spending to put a police officer on the street, to send a DPW worker to pick up your trash or pay an engineer to keep the streetlights on, we are spending an additional dollar and eight cents on healthcare, pension and other benefit costs. If we do nothing, by 2015 fringe benefits are on pace to consume half of our entire general fund revenue. That is not sustainable. We can't afford benefit packages so rich, nor can we continue to protect the interests of 30,000 people at the expense of 700,000.

Healthcare alone for our employees and retirees cost \$191 million this fiscal year. The average business would have paid \$128 million less and the average municipality would have paid \$75 million less according to figures published by the Bureau of Labor Statistics. I am proposing that we reduce our contribution to medical plans by 20%.

By 2015 that would save \$75 million, which is roughly the amount of money required to get us the rest of the way to our goal of demolishing 10,000 dangerous and vacant homes.

I know that agreeing to open up contracts and give concessions will be a difficult pill to swallow for our employees and retirees, but the numbers speak for themselves. We're not asking for anything more than what the average Detroiter pays for healthcare at their job. Everyone must accept that times have changed. The old days when getting a good city job meant that you put in your 20 years with the expectation that city government could take care of you for the next 40 is no longer a realistic or viable option.

Pensions are another example of a structural issue that we have no choice but to address. This fiscal year, our pension costs are approximately \$200 million. That is more than three times what we spend on public lighting in a year. It is \$25 million more than last year's entire budget for the Fire Department and EMS. We cannot afford to ignore it any longer. Businesses and governments across the country are struggling with pension reform, but few, if any face the challenges of our system. According to their annual reports, our two retirement systems lost approximately \$2 billion in assets from June 2008 to June 2009. To compensate for that loss, the city makes an annual loss recovery payment. That payment for this fiscal year totals \$65 million. We have a responsibility to fully fund our pension system and I intend to do so. However, I am asking that our unions agree to allow the city to suspend that payment one year to ease the City's fiscal burden.

The discussion about pension reform is not new, but our sense of urgency has never been stronger. We cannot continue to offer guaranteed returns beyond what even the best financial markets can deliver. Annuity agreements that promise more than 7% when treasury notes issued by the federal government are earning 2% are not just expensive, they are irresponsible.

Going forward, we will also seek to implement a defined contribution plan, for at a minimum all new hires, so that contribution rates will not be subject to the volatility of the financial market.

The current pension plans have also allowed abuse of something known as the 13th check. The City is required to make twelve pension payments on an annual basis. However, going back more than a decade, the pension systems have issued an additional check, regardless of the year's annual

return. From 1998-2008, those payments including interest totaled one billion dollars and depleted the amount of available assets to invest by \$900 million. We are in serious discussions with the state to create legislation banning this irresponsible practice.

Finally, we are also proposing a reduction in our pension multiplier. That is a fancy way of saying that going forward current employees will receive lower pension when they retire, which will result in lower contributions being needed by the city so we can use that difference to offer better services to our citizens. A recent LSA agreement on pensions resulted in approximately a savings of \$8 million annually through 2015. It is something Governor Snyder has made a priority in his budget and failure to meet his targets could result in further cuts to our state revenue sharing.

We project revenue sharing for this fiscal year to decrease potentially \$85 million. I have made my position on this clear to Governor Snyder. I think it's too deep of a cut but we're kidding ourselves if we think that the state is in a position to solve our fiscal issues. In 2002, Detroit received \$332 million in state revenue sharing. This year, we are looking something in the neighborhood of just less than half of that. Compare that to our pension and medical costs which rose from \$206 million to \$411 million over the same time period and you can begin to see how we arrived in this position and why we need these common-sense reforms.

In fact, we are already in discussions with the Governor to look at a number of state legislative issues with the potential to recover some of our lost revenue. We are proposing a one-year increase of less than 3% to the City's portion of the gaming tax. The gaming industry in Detroit already has a tax rate that is approximately 10% lower than Ohio casinos and 13% below the average tax rate for Indiana casinos. Detroit's casinos were also insulated from much of the economic struggle that other area businesses have experienced. For instance, MGM Grand Detroit had a net operating income of more than \$88 million through the third quarter of last year, making it the second most profitable of MGM's 12 casinos nationwide. Motor City's revenue in February of this year was up 6% from last year at the same time and Greektown ended 2011 with an 11% month over month gain.

Do we expect the gaming lobbyists and special interests to be happy about this increase? No, but everyone recognizes that Detroit's survival is important not just for residents, but for businesses and for our surrounding communities. I am confident that our regional and state partners will join us in pushing for this temporary but necessary initiative to generate \$20 million in additional revenue.

We are seeking additional legislation to help generate revenue this fiscal year. For example, we are looking to join forces with the state to help the city collect more of what we're owed from parking fines. House Bill 4308 would prevent anyone with more than three unpaid parking tickets from renewing their license. Lowering that threshold from the current state law of six down to three would generate \$10 million in new revenue without raising taxes. I ask that this Council do its part by amending city ordinance to mirror this change by reducing the booting threshold from six to three outstanding parking tickets.

Looking ahead at long-term legislative initiatives we're working on, our first priority is dealing with those that were tied to Detroit maintaining a population of 750,000, specifically the city income tax and user utility tax. These two revenue sources generated approximately \$215 million and \$50 million respectively last year. We cannot afford to lose them and I am confident that Lansing will do the right thing not just for Detroit, but for Southeast Michigan and the State by amending the legislation immediately.

The census results are another indication of the need for structural change. While I do believe our final count will be revised, we must deal with the reality of a smaller population. The more than 200,000 people who left took their income and property tax dollars with them. We also stand to lose approximately \$15 million in state revenue sharing and potentially \$2.4 billion in federal program dollars over the next decade.

That revenue which we need to provide services and maintain our infrastructure is now gone but the costs associated with maintaining our roads, lighting and water system have not decreased a dollar. The bottom line is that those of us who are here are now paying more and receiving less. That is why the Detroit Works Project is so important. Even as we deal with the short-term pain of our fiscal reality, we must consider how every action we take impacts our ability to retain and attract residents.

Detroit has cut department and service budgets for years to compensate for rising structural costs like pensions and medical. The decline in services had a direct effect on the exodus of people in the last decade. The loss of population brought a corresponding loss in revenue and housing values. It contributed to the thousands of abandoned homes that we must now pay to either demolish or rehab. It will be a never-ending cycle if we continue down the same road.

Yet, some argue that the answer to our declining population is to make unprecedented cuts to city services and lay-off hundreds of employees immediately. Fundamentally, that is just the wrong

approach. As all of you well know, civil service rules limit the effectiveness of issuing massive layoffs of that nature. Most employees have the option of bumping down to the next highest position, not to mention that we are at or near bare-bones staffing in most departments already. I would also remind you that this administration has already reduced the City's workforce by 1,800 in less than two years. We have implemented a 10% pay reduction through furlough days but the position we find ourselves in requires more.

At the end of the day, our legacy must be that we truly made Detroit a city that works and that means more than just saving money. It means improving services to make Detroit safer, make it a destination for jobs and investment, and create neighborhoods with a high quality of life for residents. Later this month, we will complete a draft neighborhood analysis, which will provide short-term interventions and help guide how we invest resources in the future. Can Detroit be a great city at a population of 700,000 or 750,000? The answer is yes and no. Yes we can be a great city, no matter our population, but not operating the same way we have for 50 years.

I have made it clear that I expect city government to run efficiently and effectively and to that end, we are looking at every dollar we're spending and every service we provide. This year, we will be moving toward additional consolidations, eliminations and shared services. If it is not essential, we need to eliminate it. If we are not providing it competitively, we need to look for alternatives. Will the budget I'm proposing result in additional workforce reductions? Yes, but those reductions will be based on better management, not just arbitrary numbers.

In fact, last week, we had serious discussions with Wayne County to take the city out of the jailing business. I want to thank County Executive Bob Ficano for working with us on this critical agreement. It will reduce our costs significantly, help us continue moving toward compliance with the consent decree, and most importantly allow us to add 50 additional officers to the street.

Public safety is my top budgetary priority. In a perfect world, I could sit here today and tell you that we're increasing DPD and DFD's budgets and giving them all the staffing and technology they could possibly want. We all know that is not the reality. But by managing smarter, we are making Detroit a safer city. Through redeployment, cutting down on false alarm runs and beginning to transition civilians into administrative jobs, Chief Godbee has already added the equivalent of 200 officers back to the beat at no added cost to the city. Through our labor negotiations, we are approaching the union about transitioning administrative positions to civilian employees to further enhance our street presence.

In DFD, we will generate an additional \$7 million in revenue through our enhanced efforts to collect from insurance companies for the transport of emergency patients. Through more effective oversight and increased accountability, we have already seen a 30% revenue increase since January which will help us purchase 19 new emergency transport vehicles this year. The delays in EMS response time are unacceptable and this is one of many steps we will take in the short-term to transform that department and provide better service.

In spite of the challenges, our progress in the City of Detroit is getting noticed. Businesses are investing, expanding and adding jobs. According to DEGC, 2010 saw business recommit to Detroit to the tune of more than 7,000 jobs and \$120 million in investment including GM, Blue Cross Blue Shield, Quicken Loans, Strategic Staffing Solutions and GalaxE, an out-of-state technology company that moved here because they believe in our future. Our medical institutions are investing more than a billion and half dollars in the city.

All of these businesses see the opportunity we have right now in Detroit. They see the progress this administration is making on things many thought could never get done, things like the consolidated public safety headquarters, the demolition of 3,000 dangerous and vacant homes which we will complete this month and the approved demolition of Ford Auditorium. We are making real progress toward Light Rail down Woodward Avenue thanks in part to a stronger relationship than ever before with President Obama. It is time for us to start telling that part of our story to residents even as we continue battling for our fiscal survival.

I know that the fiscal reality we face today is sobering. I also know there is a reason why the structural issues I've outlined have not been addressed for decades. Fixing them requires the political courage to risk being unpopular for the sake of doing what's right. I have always said that I didn't enter this office as a politician and I won't leave as one. This budget will bring criticism and I am prepared to fight for what must be done. I have faith in the residents of Detroit. I believe that they will look at our options and see that this administration has charted a path to fiscal stability that will bring a better quality of life to all Detroiters. It can be done, but only with this Council's support and the cooperation of all with a stake in our future.

Thank you.