

November 1, 2022

Legislative Policy Division's (LPD) Statement on Proposed DPOA and DPLSA Pay
Raises on Proposed Budget Amendment and Labor Contracts

Introduction

Before your Honorable Body for consideration are the following:

- A resolution from the Human Resources Department/Labor Relations Division for the implementation of the 2022-2027 Labor Agreement between the City of Detroit Police Department and the employees represented by the Detroit Police Officers Association (DPOA) and the Detroit Police Lieutenants Sergeants Association (DPLSA) (proposed labor contracts).
- A FY 2023 budget amendment from the Office of the Chief Financial Officer (OCFO) /Office of Budget for Police Department to provide supplemental appropriations to the Police Department totaling \$22.6 million to help fund the first-year cost of the proposed labor contracts.
- Included with the budget amendment is a Fiscal Impact Statement of the proposed labor contracts, which also serves as a basis for the proposed budget amendment.

LPD's statement on Proposed Labor Contracts, Proposed Budget Amendment, and Fiscal Impact Statement

This report represents LPD's statement on the proposed labor contracts, proposed budget amendment, and fiscal impact statement.

LPD would like to thank the OCFO/Office of Budget, Police Department, and Labor Relations for their responses to our 36 questions on these documents.

LPD's statement, along with the responses, will be posted on LPD's website, which is under City Council's website.

Starting Point: Mayor's Press Release on Police Pay Raises

- A Mayor Duggan Press Release on September 30, 2022, reflected a \$25 million proposal to support Police Officer pay increases to make base pay competitive with communities surrounding Detroit.
- The proposed five-year labor agreements include a \$10,000 bump in starting pay (from \$43,000 to \$53,000) for police officers coming straight out of the academy and 4% annual raises through year four. The increase in starting pay represents a 23.8% market adjustment.
- A projected increase in the City of Detroit's income tax revenue would fund these pay increases.

Fiscal Impact Statement Concern

- Upon review of the Fiscal Impact Statement, LPD discovered that the estimated cost of the proposed labor contracts to the City's general fund ranged from \$40 million (FY 2023) to \$87 million (FY 2027), the fifth and final year of the proposed labor contracts.

- A proposal by the Administration to bring Police Officer salaries in line with other communities outside the City of Detroit is commendable. However, this proposal represents a huge cost to the general fund. As a result, LPD's fiscal team became concerned about the financial stability of the general fund over the next five years ending in FY 2027.
- The Fiscal Impact Statement shows that an original wage pattern (a 3% pay raise for Police salaries) budgeted in the FY 2023-2026 four-year financial plan, plus the September 2022 Revenue Conference increase estimate, plus the conservative estimate of overtime savings from filling vacant Detroit Police Department (DPD) positions, plus the elimination of the special pay sub-classification fully cover the incremental \$40 million to \$87 million cost of the proposed labor contracts to the general fund.
- As a result, LPD's fiscal team thoroughly reviewed the assumptions made in the Fiscal Impact Statement. We were concerned that the cost of these proposed Police labor contracts could significantly reduce the general fund's flexibility or "wiggle room" over the next five years to address other future cost increases, such as other labor contract renewals, and the \$142 million pension obligation cliff starting in FY 2024, next fiscal year.
- Therefore, LPD's fiscal team asked 36 questions regarding this proposal because some questions relate to the proposed budget amendment for the Police Department, to the proposed labor contracts, and to the Fiscal Impact Statement.

LPD's Conclusion After Review of the Responses, Assumptions, and other Documents

- LPD concludes that the City's general fund should reasonably cover the incremental \$40 million to \$87 million cost of these proposed labor contracts, if approved by your Honorable Body, due to the following:
 1. The budgeted wage pattern (3% annual increase in Police salaries) assumption is reasonable and helps to cover the incremental cost of the proposal.
 2. The September 2022 Revenue Conference increase estimate is based on conservative assumptions and helps to cover the incremental cost of the proposal. Income tax revenue growth is the primary source of the revenue increase. Fortunately, 70% of income tax revenue come from withholdings, a stable and growing component of income tax revenue based on current economic development projects, such as the GM and Stellantis automotive plant expansion projects and the Gordie Howe Bridge construction project. However, it is not a normal practice to budget revenue growth based on the September 2022 Revenue Conference estimates. In addition, LPD remains concerned about income tax refunds based on remote workers and income tax revenue generated from the State's tax compliance/offset program, and these components of income tax revenue require continual monitoring. The September and February revenue conferences will provide this monitoring.

3. Estimated overtime savings from filling vacant Detroit Police Department (DPD) positions assumption is reasonable and should help to cover the incremental cost of the proposal.
 4. Estimated savings from the elimination of the special pay sub-classification assumption is reasonable and should help to cover the incremental cost of the proposal.
- In addition, LPD feels the City's general fund should have a reasonable amount of "wiggle room" over the next five years to address other future cost increases, such as other labor contract renewals, and the \$142 million pension obligation cliff starting in FY 2024, due to the following (some information below is based on responses to additional LPD questions on the "wiggle room" concern):
 1. The FY 2023-2026 four-year financial plan includes budgeted wage pattern dollars to help offset increases in the City's general fund due to labor contract renewals. According to the Office of Budget, the FY 2023-2026 four-year financial plan assumes base wage increases in line with current collective bargaining agreements. It varies by union, but Fire Fighters and EMTs (DFFA) are 3% per year, bus drivers are 2.5% per year, and other groups are generally 2% to 2.5% per year. The DFFA contract expires 6/30/26. The bus driver contract expires 6/30/25. Most of the civilian contracts expire either 6/30/23 or 6/30/24. It helps that the bus driver contract expires three years from now and the DFFA expires four years from now, making it easier for the City's general fund to absorb increases in cost from these contract renewals toward the end of the next five-year period.
 2. According to the Office of Budget, the City will negotiate each collective bargaining agreement renewal as they come. None are tied to the proposed police contracts. And as has always been the case, the City will ensure there are sufficient resources to support any future proposed labor contracts.
 3. Chronic departmental vacancies will most likely continue given the City's difficulty of filling positions, thereby creating some savings in the City's general fund. However, these savings could be significantly reduced from overtime costs generated by existing employees.
 4. Pre-COVID-19 pandemic, the City's general fund revenues grew annually between 1 to 2%. Fortunately, the City's general fund revenues have recovered from pandemic related revenue losses. In fact, even based on conservative assumptions, general fund revenues are expected to grow a little over 3% over the FY 2023-2027 period. If general fund revenue grows conservatively at 1 to 2% over the next five years, that should reasonably help to cover future general fund cost increases, especially with the help of the built-in base wage increases in the FY 2023-2026 four-year plan discussed in number 1 above.
 5. However, future general fund revenue increases could be significantly reduced based on a severe downturn in the national and local economy. Fortunately, the City of Detroit will have \$138 million in its general fund budget reserve ("Rainy Day Fund") by the end of FY 2023. The FY 2023-2026 four-year financial plan forecasts an additional \$15 million in FY 2024 and \$7 million in FY 2025 to reach 12% of

projected expenditures (best practices suggest a 15% balance in the “Rainy Day Fund”). The Administration is considering depositing more into the “Rainy Day Fund”, if approved by City Council, based on the audited general fund surplus amount as of June 30, 2022, which should be known in December 2022. Currently, the OCFO estimates a \$200 million general fund surplus as of June 30, 2022. The City’s “Rainy Day Fund” will help the City withstand any substantial revenue losses due to an economic downturn.

6. It should be noted that the Police Department’s budget represents about 30% of the City’s general fund budget. If a reasonable amount of revenue growth does not materialize, over the next five years due to a severe economic downturn, drastic measures to maintain a balanced general fund budget, in accordance with the Uniform Budgeting and Accounting Act, and the City’s Charter, could include layoffs, pay cuts, service cuts, etc. If Council approves the five-year proposed labor contracts, it would be more difficult to cut the Police Department budget to maintain an overall general fund balanced budget.
7. The City anticipates a balance of \$460 million in its Retiree Protection Fund by the end of FY 2023. The Administration is considering depositing more into the Retiree Protection Fund, if approved by City Council, based on the audited general fund surplus amount as of June 30, 2022. A growing and sizable balance in the Retiree Protection Fund further helps to mitigate future pension obligation cost increases.
8. Regarding the anticipated FY 2022 general fund surplus, the opportunity to utilize (hopefully a substantial amount of) the surplus for the Retiree Trust Fund and the Rainy Day Fund will help the city maintain services if budget shortfalls occur (from recession, unexpected traumatic events, climate, etc.).

Monitoring of Proposed Labor Contracts, if approved by City Council

Whether or not City Council approves the proposed five-year Police labor contracts, LPD is committed to producing an overtime report on all general fund agencies. Hopefully over a period, this report would show reductions in Police overtime based on a much lower level of vacancies in the Police Department if more police officers are recruited and retained based on pay raises in the proposed labor contracts, if approved by your Honorable Body.

Lastly, LPD feels future monitoring of Police recruitment and retention efforts is necessary to ensure that we are maintaining financial integrity of DPD. Council should request periodic reports (at least annually, but preferably quarterly) to track the status of this activity. Council should know the number of new hires, retirements, leaves, terminations, etc., as part of monitoring the vacancy levels in the Police department.

Please let us know if we can be of any more assistance.