

City of Detroit

CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director
Legislative Policy Division 

DATE: August 27, 2018

RE: Report on Potential Revenue Sources to Increase the Salaries of Rank and File Detroit Police Officers

On July 12, 2018 Council President Pro Tempore Mary Sheffield through the Budget, Finance and Audit Committee Chairwoman, Janee L. Ayers, requested that the Legislative Policy Division (LPD) provide a report on potential revenue sources to increase the salaries of rank and file Detroit police department (DPD) officers. Specifically, the President Pro Tempore Sheffield requested that LPD provide a report that:

1. Outlines potential revenue sources to increase the starting pay and average pay for DPD's rank and file to the national average.
2. Outline the difference in pay for DPD and the national average.
3. Quantify the amount of funding needed based on current DPD employment levels.
4. Explore a requirement for developers to pay a portion of the tax abatements they receive, equal to the projected cost of City services for the development over the life of the abatement, into a fund dedicated to increasing the pay of rank and file DPD officers.

We express our thanks to the Police Agency CFO Lisa Jones and to Connie Keene of DOIT for their assistance in providing data that helped us to prepare this report.

Executive Summary

As President Pro Tempore Sheffield stated in her request, "the City of Detroit has known for some time, attrition among the rank and file at the Detroit Police Department far exceeds the national average due to the disparity in the pay for our officers from most other departments across the

nation.” **Detroit police officers are grossly underpaid in comparison to police officers in other cities in Michigan and the country.** Detroit police officers have one of the most hazardous jobs in America. They have a great responsibility for the public safety of Detroit citizens and to enforce the laws fairly.

Due to restrictions on local revenues in the State of Michigan, the City’s ability to generate revenue through taxes or other sources is limited. It would take a change in the State law to provide additional taxing authority to sufficiently fund an increase in Detroit police officer’s salaries to bring them to the national average. It is unlikely the State would approve any additional taxing authority for the City considering the republican majority in the State legislature and that the City has a high level of taxation especially for property taxes and income taxes. Absent any revenue increases to fund police salary increases, the City would have to look at reducing other City costs such as other city personnel salaries, blight removal, recreation and transportation services.

“Robbing Peter to pay Paul” is a standard operating procedure in a City with limited financial resources. Tough decisions have to be made and some may not be the wisest. During the recent restructuring of the Finance, Human Resources, Information Technology, and Planning and Development Departments, bankruptcy savings were used to increase salaries and wages for those departments to a level that enabled them to compete and bring in competent staff. For example, the top pay of a Detroit Accountant [Principal Accountant] in FY 2013 was \$53,700. In FY 2019 the top pay for a Detroit Accountant [Accountant IV] was \$98,804 or 84% higher than in 2013. Detroit police officers only received a net 8.9% increase in pay since 2013 (\$53,237 in 2013 to \$57,958 in 2019) and were among the lowest paid police officers in the State and country.

In comparison of basic annual salary levels at the highest end of the pay range for the 17 cities we reviewed¹ Detroit police officers were the second lowest at \$57,958. The highest was Baltimore at \$86,397 and Memphis was the lowest at \$57,828. The average was \$69,622 or 20.1% greater than Detroit’s \$57,958. Compared to the six Michigan cities we reviewed Detroit was the lowest with Flint at \$58,240 the next lowest and Sterling Heights was the highest at \$80,954.

The Memphis police officer CBA has expired and they are currently negotiating a new contract. We expect that they will have a higher salary than Detroit police officers when they approve the new contract. We also found that benefits for Detroit police officers were not on par with the other cities. As a result, the salary and benefits of Detroit’s police officers are not competitive with other similar cities in the country and in Michigan. Further, this results in high turnover and loss of officers to other cities, as has been reported by the local newspapers.

To bring the Detroit police officer to the average salary of \$69,622 for the 17 cities we reviewed nationally would cost approximately \$18.3 million annually just for salaries based on the latest DPOA payroll for all DPOA officers. This would be a 20.1% annual increase in police officer salaries alone. The City’s cost for pensions related to this increase would be \$2.2 million. Other benefits such as workers compensation and sick leave due to the increase would cost the City \$358,496. We did not calculate the increases for shift and premium pay nor the cost to increase the supervising and command officers such as sergeants and lieutenants. It is our opinion that, absent reducing other City costs such as salary and wages of other City employees to provide

¹ See page 14 for table comparing Detroit police officer salaries to 17 other cities.

sufficient funding to raise the rank and file Detroit police officer annual salaries to the national average would be cost prohibitive, as we estimate the costs would be well over \$20.9 million annually. The City does not have the revenue to fund such a large annual increase in Police salaries without a reduction of costs in other City services. There would also be an additional cost to maintain annual police pay increases to keep up with other cities.

We do not believe that tax abatements are a viable option to fund police officer salary increases. The State has the exclusive jurisdiction in prescribing the manner and prerequisites that must be followed regarding how the tax abatements are to be granted. Part of that statutory scheme in many cases is the consent of the local legislative body of the grant of the tax abatement. Unless indicated within the statute prescribing the abatement, the local legislative body cannot unilaterally assign additional requirements to proposed recipients of an abatement. The City cannot retroactively require that developers receiving tax abatements pay a portion of the abated taxes equal to the projected cost of City services for the development over the life of the abatement by ordinance or resolution. However, the City can enter into a contractual agreement with a developer that wishes to obtain a tax abatement from the City in which the terms of the agreement include a requirement that a developer pay into a fund dedicated to increasing the pay of rank and file DPD officers an amount equal to the projected cost of City services for the development over the life of the abatement. If the developer by way of contractual agreement finds a way to make the finances work with the inclusion of a portion of the abated taxes for the projected cost of City services to be paid into the DPD fund, there is no conflict with the State's exclusive jurisdiction with regard to taxation.

Having developers reduce their tax abatements to pay for police officer salary increases is counter to the purpose of the abatement which is to encourage developers, businesses, and new residents to build and reside in the City without having the prohibitive cost burden of City property taxes which are among the highest in the country. Generally developers would choose not to build in the City if they were not offered the tax abatement incentive. **In addition, singling out the developers and the tax abatements to fund increases in police salaries could be detrimental to the City's future budgets if development and tax abatements declined (e.g., recession) or ceased and other funding sources for the pay increases had to be found.**

Conclusion

The City's police officers' low salary levels in comparison to other cities in the country are another result of what happens to municipal services in an impoverished City. As a direct result of poverty for most citizens in the City of Detroit, the tax base and City revenues are insufficient to provide basic essential services such as education and public safety. Much less any pay increases for teachers and police officers. As the bankruptcy Judge Rhodes declared, the City was "service delivery insolvent"². In addition, the limited tax revenues generated in the City to provide

² "Service-Delivery Insolvency" is Changing Municipal Bankruptcy", PEW STATELINE ARTICLE, February 23, 2017. By: Stephen Fehr, "It is the city's [Detroit] service delivery insolvency that the court finds most strikingly disturbing in this case." federal bankruptcy judge Steven Rhodes said in his decision. "It is inhumane and intolerable, and it must be fixed."

In an interview, Rhodes said while Detroit officials had provided ample evidence of cash and budget insolvency, "the concept of service delivery insolvency put a more understanding face on what otherwise was just plain numbers." It then became clear, he said, that the only solution for Detroit—as well as any insolvent municipality—was "fresh money," including hundreds of millions of dollars contributed by the state, city and private foundations. "It is a rare insolvency situation—corporate or municipal—that can be fixed just by a change in management," Rhodes said.

education and public services are also stretched to meet legacy debt, blight removal, and pension costs which are also abnormally high in impoverished cities. In most impoverished cities the population declines and those remaining are usually among the poorest while the legacy debt, blight removal, and pension obligations left from past generations of a larger and more wealthy citizenship do not decline sucking the financial life blood out of the City leaving less revenue available for essential public safety and education services and driving the community into deeper poverty, which repeats generationally. Crime is a huge problem and many of the City's children don't get a decent education and can't compete for the good jobs with those in other cities that do get a better education. This is not just Detroit's problem but a State and national problem. Revenues are needed for impoverished cities to provide residents with basic public safety and education services whether they come from the City, State or Federal government. Without sufficient revenues for essential public safety and education services the cycle of poverty, crime and abysmal living standards will continue depriving the City's residents of the basic unalienable rights of life, liberty, and the pursuit of happiness.

Increasing City of Detroit police officers' salaries is a necessity, however, the low salaries are a symptom of the bigger problem of the widespread poverty in the City and the inability of the City to raise sufficient revenues to properly educate and nurture its children to give them the tools to successfully compete for jobs and break the cycle of poverty and crime that surrounds them. Until something is done to address the bigger issue of poverty in the City, Detroit police officers' salaries will remain among the lowest in the country and the recruitment and retention of good personnel will be a problem.

We recommend that the Detroit City Council strongly advocate to the Federal and State governments' to address the inequity in tax base, education, and public safety services for impoverished cities. The Federal and State governments need to find resources to ensure all its citizens are afforded the same educational opportunities and public safety services delivered in a fair and equitable manner. This would include providing revenues to ensure all police officers are paid a fair and equitable salary.

Scope

To prepare this report we compared the salaries and benefits of Police Officers in the Detroit Police Officer Association (DPOA) in Class Codes 331011(Police Officer) and 331012 (Police Officer – 2/20/95 [hired after February 20, 1995]) to police officers in 17 other cities including 6 in Michigan. The class codes 331011 and 331012 are the lowest level for police officers and we tried to compare the lowest level police officer salaries in the other cities. Not all cities classify officer salaries (compensation) in the same manner. There are other levels of police officers in the DPOA and other cities that have higher salaries to compensate for education attainment, hire rank such as corporal and specialties such as neighborhood police officer. Because of the time and level of detail needed and because not all police departments use the same compensation classifications we did not compare all the various levels.

We obtained salary data for the cities from the collective bargaining agreements (CBAs), recruitment data, city web pages, and newspaper articles found on the internet. Some cities have expired CBAs and were in the process of negotiating salary increases for their police officers. When we found through newspaper articles for certain cities with expired CBAs that wage

increases had been obtained and approved we applied those rate increases to the information we had.

The cities were chosen based on similar population and conditions such as high poverty that Detroit has. We tried to include mainly “rust-belt” cities. We also included 6 other Michigan cities such as Sterling Heights and Warren that are hiring Detroit police officers.

We only compared salary information for the report because of the difficulty in obtaining comparable data for all the various salary and benefit categories such as shift differentials, holiday premiums, retiree health benefits, health care premium payments, pension contributions, longevity pay, education premiums and other premium pay.

We used the July 27, 2018 salary data totaling \$90.9 million annually for the entire DPOA payroll which included all the DPOA classes including Neighborhood Police officer and police corporals-EDU at \$61,187 and \$60,596 annually, respectively. The total number of Police Officers on that payroll was 1,732. This included 125 Class Code 331011 police officers and 967 Class Code 331012 police officers. The budgeted number of DPOA officers was 1,845. We used the total DPOA payroll to determine what it would cost to bring all the DPOA officers to the average of the cities we reviewed. We assume all the DPOA officer class codes are understated as was class codes 331011 and 331012.

In reviewing the CBAs and benefit data for other cities we found that Detroit police officer benefits appeared to be lower in most cases. The City essentially eliminated retiree health care and longevity prior to exiting bankruptcy. Hospitalization premiums increased to 20%. Pension benefits were significantly reduced. As with salaries the Detroit police officers benefits rank low in comparison with other cities’ police officers.

While the City does contribute a small amount for retiree health care to a VEBA for police officers retiring after December 31, 2014, it does not compare to the same level of benefits of the plan that the City had prior to bankruptcy. Since police officers do not collect social security and Medicare and this was a huge loss. We found some other cities were increasing the police officer’s share of hospitalization premiums and reducing or even eliminating retiree health care for police officers. Those that have retiree health care have a recruitment advantage.

Also, any increase in pay for police officers will require increases for supervising and command officers. We did not estimate the potential salary and benefit increases that would be required for these supervising officers. However, they would also be significant.

Background

The Detroit rank and file police officer highest salary in 2013 prior to the bankruptcy was \$53,237 annually. In 2014 the City reduced the annual salary 10% to \$47,914. In October 2014 the City’s Collective Bargaining Agreement (CBA) with the Detroit Police Officer’s Association raised the pay by 8% with the ratification of the CBA. In addition, there were 2.5% wage increases each year from 2016 to 2019. In 2019 the rank and file police officer highest salary was \$57,958 which was an 8.9% increase from the pre-bankruptcy high of \$53,237 and a 20.96% raise from the 2014 high of \$47,914. The pay rates are detailed below.

DPOA Salaries FY 2013-2019	
Fiscal	
Year	High
2013	53,237
2014	47,914
2019	57,958

While police officer salaries have gone up 8.9% from the pre-bankruptcy levels in 2013, they have not kept up with police officer salaries in other cities.

The City eliminated retiree health care for its employees including police officers in 2014. Other benefits such as longevity and pensions (Cost of Living Allowances) were also cut or reduced. In 2014 police officers were required to contribute 20% of the premium for their health benefits.

The lower salary levels and benefits for Detroit police officers has created a disadvantage for the City in recruiting and retaining police officers.

The table below lists the various class codes and titles for the DPOA police officers and the current salaries.

Class Code	Class Title	Salary
331011	POLICE OFFICER	\$57,958.00
331012	POLICE OFCR-2/20/95	\$57,958.00
331211	COMM OFCR-POL OFCR	\$58,408.00
331005	POLICE OFFICER- EDU	\$59,118.00
331006	POL OFCR-2/20/95-EDU	\$59,118.00
331019	POLICE CORPORAL	\$59,407.00
331216	COMM OFC-POL OFC-EDU	\$59,577.00
331015	NEIGHBORHOOD POL OFF	\$59,987.00
331026	POLICE CORPORAL-EDU	\$60,596.00
331008	NEIGHB POL OFF - EDU	\$61,187.00

In a Memorandum to Mayor Duggan on the City’s issues on retaining police officers was detailed as follows:³

“The Detroit Police Department (DPD), in recent years, has faced significant challenges in retaining officers. In the past, approximately 70% of the officers leaving DPD left due to retirement. Today, that number has dropped to 39%. A full 40% of the officers separating from DPD now leave as a result of a voluntary resignation.

Turnover in DPD is particularly acute during the first five years in an officer’s career. That imposes significant real-world costs on the police force. It means that a higher percentage of the police force is relatively inexperienced. And the constant churn means that DPD must spend more to recruit and train newer officers.

³ Memorandum To: Mayor Duggan. From: Eli Savit, Senior Counsel to the Mayor. Date: August 20, 2018. Re: DROP Extension

These challenges are exacerbated by the fact that many of Detroit’s most senior officers can only continue working for five years after they choose to DROP (Deferred Retirement Option Program)⁴. That policy forces out the door some of Detroit’s most prized veteran officers. The problem will only grow in the coming years. Last year, the City conducted a retirement-forecast study to guide its planning processes for the coming years. Per that study, there are currently 248 officers who have already opted to DROP who will end their employment in the next five years. What is more, the number of officers who will have to leave employment because of the 5-year DROP requirement is scheduled to skyrocket in 2020, 2021, and 2022.”

**Full-time Law Enforcement Employees
by State by City, 2016 (FBI Uniform Crime Reporting Data)**

City	Population	Total law enforcement employees	Total officers	Total civilians	Officers/Population
Baltimore	618,385	2,908	2,512	396	246
Cleveland	386,227	1,678	1,444	234	267
Cincinnati	298,880	1,292	1,051	241	284
Detroit	669,673	2,855	2,350	505	285
Milwaukee	600,193	2,328	1,889	439	318
Memphis	656,434	2,385	1,978	407	332
Pittsburgh	302,443	976	908	68	333
Columbus	880,828		1,918		459
Toledo	278,366	652	592	60	470
Indianapolis	866,351	1,806	1,612	194	537
Oklahoma City	641,681	1,381	1,113	268	577
Louisville	765,352		1,261		607
Lansing	115,199	213	188	25	613
Warren	135,620	235	196	39	692
Grand Rapids	196,538	335	276	59	712
Sterling Heights	132,523	165	145	20	914
Ann Arbor	117,688	151	125	26	942
Flint	97,548	117	103	14	947

Detroit has a larger number of police officers per population than 14 of the 17 cities we reviewed. With high crime rates the City needs more police officers. If the City had less police officers it

⁴ The City of Detroit currently offers Police and Fire Retirement System (PFRS) members a DROP program. The DROP program allows members who are eligible to retire with a pension the option, instead, to (1) continue working, (2) “freeze” the amount of benefits that they are accruing, and (3) have 75% of the money that would have been paid as pension (had they retired) invested into an individual savings account. From members’ perspective, the DROP program allows them to continue working (and earning a salary), but realize some benefits from the pension they would have been eligible to receive had they retired. From the City’s perspective, the DROP program facilitates the retention of experienced officers, and allows it to avoid the costs associated with replacing such officers. Pursuant to the combined PFRS plan approved as part of the bankruptcy POA, however, members who elect the DROP program can generally work for only five years after making the DROP election.

could afford to pay higher salaries. However, public safety may be compromised with a lower number of police officers.

1. Potential Revenue Sources

Council President Pro Tempore Mary Sheffield requested that we outline potential revenue sources to increase the starting pay and average pay for DPD's rank and file to the national average.

Currently the revenue sources for Detroit police officers are the tax revenues which consist of property taxes, utility user taxes, State revenue sharing (sales taxes), wagering taxes, and income taxes.

Under current State of Michigan law, the City's ability to raise revenues is extremely limited. The Michigan State constitution limits increases in property taxes for municipalities. Municipalities located in Michigan are not allowed to charge sales taxes. The City's income tax rates are capped by State law. State revenue sharing of sales taxes it collects and remits back to communities are subject to be reduced and kept by the State if the State experiences an economic downturn. Municipality charges for services are limited to the cost of those services.

Even if Detroit saw a large increase in home sales it would be limited in the amount of property tax it could collect because of the "Headlee Rollback", which limits the increase in annual property tax revenue to the rate of inflation.⁵ The outlook for raising revenues is not good. State of Michigan municipalities are forced to be creative in cutting costs to maintain financial solvency.

Older communities, such as Detroit, who have lost population and tax base are left with huge legacy pension, retiree health care, deferred maintenance, blight removal and debt obligations incurred when they had much larger tax bases and populations. These legacy obligations cannot be cut and don't go away with the tax base that leaves. The fewer remaining residents, usually with lower income, are left to bear the brunt of these large and sustained obligations. The tax and other revenues of the municipality, as the tax base decreases, are increasingly shifted to pay for the legacy costs leaving less for essential services such as public safety and education. As public services decline and the municipality becomes service insolvent, as well as financially insolvent, the State steps in with an emergency manager in hopes of saving the municipality. If that doesn't work the State can allow the municipality to file for bankruptcy and hopefully eliminate or reduce its legacy pension, retiree health care, and debt costs sufficiently enough to restore solvency.

The State's passage of a law to allow withholding of Detroit income taxes by non-Detroit employers from residents' wages earned outside of the city would greatly improve tax revenue collections. The OCFO needs to be diligent in billing and collecting taxes, fees, fines, and other revenues to ensure they are maximized.

⁵ Headlee requires a local unit of government to reduce its millage rate when annual growth on existing property is greater than the rate of inflation. As a consequence, the local units' millage rate gets "rolled back" so that the resulting growth in property tax revenue, community-wide, is no more than the rate of inflation. A "Headlee override" is a vote by the electors to return the millage rate to the amount originally authorized via charter, state statute, or a vote of the people, and is necessary to counteract the effects of the "Headlee Rollback". Source: Fact Sheet: Michigan Municipal League, October 2016.

We encourage the State to change its municipal revenue laws, especially the Headlee and Proposal A restrictions through constitutional amendment. State revenue policies and laws have to be more fair and generous to communities with large amounts of residents who have income below the poverty line. The current State revenue structure contributes to isolating those in poverty and limiting their access to better education and other public services. This contributes to the recurring generational cycle of poverty and distress of residents in communities such as Detroit and Flint.

Municipal revenues in the State of Michigan are based primarily on: (1) taxing property value and economic activity (e.g., property and income taxes)⁶; (2) receiving money from the state and federal governments (intergovernmental revenue sharing and grant revenue); (3) charging for services and goods; and (4) borrowing (financing and investment activities). As the economic and tax base of the City of Detroit deteriorated prior to the bankruptcy in 2013, the city government's ability to raise revenues was reduced, and the city's finances become more precarious⁷. Since exiting bankruptcy in December 2014 the City's financial condition has improved mainly due to the shedding of some of its debt and the elimination of retiree health care obligations. However, the City's economic and tax base still has not sufficiently recovered to provide revenues to support all of its service and infrastructure needs and pay its legacy pension and debt obligations, as evidenced by the \$1.2 billion unrestricted deficit for the primary government as of June 30, 2017⁸.

Increasing City of Detroit revenues depends on: (1) a growing economic/tax base and/or increasing tax rates or broadening taxable bases (e.g., population growth of wealthier taxpayers); (2) increasing revenues from the state and federal governments; (3) increasing fees, fines, charges for service, or penalties; or (4) selling assets. In the current political and economic environment, tax rate and intergovernmental revenue sharing increases are highly unlikely, nor is it likely that the legal base of existing taxes will be broadened. Improved collection of accounts receivable and of existing taxes, especially improved collection of taxes on Detroit residents' wages earned outside of the city is possible and would be helpful.

Michigan City governments have a variety of revenue sources, but property taxes and state shared revenues are the major sources of their revenues for general operations. A large percentage of Detroit residents' annual income are below the federal poverty level, but the city government imposes more taxes and higher rates of taxes, and receives considerably more in local tax revenues and state shared taxes than other Michigan cities of over 50,000 in population on a per capita basis.⁹

The Detroit city government uses revenue from local taxes, state shared taxes, operations, grants, borrowing, and other sources to support a variety of direct and indirect services to residents. In general, as revenues increase, the City is able to provide additional services; as revenues decrease,

⁶ Tax abatements present a dilemma for a municipality like Detroit. The City's tax rates are too high and discourage investment and residential developments. Tax abatements provide incentives for development which will increase the number of businesses, residents and overall tax base, which is greatly needed. However, the loss of revenue from the tax abatements are great and continue over a number of years. The loss of revenue from tax abatements are hopefully more than offset by the increased economic activity generating other revenues such as income and casino taxes.

⁷ Citizen's Research Council of Michigan, "Detroit City Government Revenues, dated April 2013, page V.

⁸ City of Detroit FY 2017 Comprehensive Annual Financial Report (CAFR), page 19.

⁹ Citizen's Research Council of Michigan, "Detroit City Government Revenues, dated April 2013, pages V-VIII.

services must be cut back.¹⁰ The City, even after bankruptcy, still has substantial legacy pension, blight removal, and debt obligations, which drain revenues that otherwise could be used to improve and provide more services such as police protection. Also, some revenues are restricted, and may be used only for specific purposes such as building code enforcement (e.g., BSEED permit, license and inspection revenue) or debt service (Debt service property tax millage revenue).

Detroit generates significantly more revenue on a per capita basis than any other large city in Michigan. Detroit's tax rates are high compared to other cities in Michigan and other cities across the U.S. The combination of these factors means that the ability of the City to generate additional revenues will be extremely limited.

The limitations on municipal powers to raise revenue are the result of legal, political, and practical restrictions. Municipalities are granted their powers of taxation from the State. Tax revenues are restricted due to State law (e.g., property taxes per Proposal A and the Headlee amendment). These limitations on the power of municipalities can create deep dysfunction, because, ultimately, it is the municipality that must fill the gaps¹¹.

State of Michigan law and restrictions on municipality revenues has an adverse financial impact on its municipalities and schools. This is true especially for older communities that have lost population and tax base but still retained legacy pension and retiree health care costs and debt from a time when they had a much larger population and tax base. When debt, blight removal, and retiree health care and pensions, to some extent, are paid out on a "pay-as-you-go"¹² basis the struggling older communities are forced to divert current revenues to meet these obligations leaving less funding for essential services such as public safety. This is also true for the Detroit Public Schools where less tax dollars are spent on students and more go toward retiree health care, pensions and debt service. When services deteriorate to the point that citizens feel their children cannot get a good education and are not safe, they move. When taxpayers leave a City that has incurred debt for necessary infrastructure such as streets and schools, the remaining taxpayers have a greater share of that debt to pay in addition to a greater share of the amount of legacy pension and retiree health care obligations. If significant amounts of Oakland County taxpayers decided Detroit was more attractive to live in and moved, the County's communities would struggle financially much like Detroit because their tax base and revenues would shrink, but their legacy pension, retiree health care and debt obligations would remain.

The State needs to address this problem of older communities like Detroit with shrinking tax bases, whether it is from additional revenue sharing or finding new revenues to compensate them for their pension, blight removal, and retiree health care obligations. Bankruptcy should not be an option

¹⁰ Citizen's Research Council of Michigan, "Detroit City Government Revenues, dated April 2013, page 2.

¹¹ Local Progress, The National Municipal Policy Network, "Progressive Policies for Raising Municipal Revenue", dated April 2015, page 7

¹² "Pay-as-you-go" means that these obligations are largely unfunded and they are paid from current revenues as they come due. Prior to bankruptcy, Detroit's pension plans were fairly well funded but its' retire health care obligations were not funded. Also, debt is not funded and is paid out of current tax revenues. Detroit had a large amount of Limited Tax General Obligation (LTGO) bond debt that had to be paid out of the General Fund instead of from a dedicated property tax millage that Unlimited Tax General Obligation (UTGO) bonds are paid from further straining its source revenues.

to cut debt and legacy obligations, which will be the case if the State's restrictive municipal revenue laws and policies are not changed.

The final nail in Detroit's financial demise was the State's reduction in State revenue sharing to the City. In an agreement between the City and State in 1998, Detroit's combined constitutional and statutory revenue sharing payments were to be frozen at \$333.9 million for fiscal years 1999 through 2006¹³. The State was unable to uphold the agreement and revenue sharing payments fell to \$279.5 million in FY 2006 and to \$182.5 million in FY 2013. In 1998, at the time of the State revenue sharing agreement between the City and State, the City received a greater share of revenue sharing than other communities. If the revenue sharing allocation would have been based on population alone then Detroit would have received much less. A case had been made that Detroit and other older municipalities in the State did need a larger share of revenue sharing to compensate them for the large amount of legacy and debt obligations they were left holding after losing population and tax base to other cities in the State.

State of Michigan municipalities currently are searching hard to find revenues to fund necessary services. The State has reduced intergovernmental revenue (e.g., revenue sharing), especially when it has had budget shortfalls that it needed to fund.

Prior to the bankruptcy the City tried to reduce costs to balance its budget mainly through staff reductions (e.g., layoffs and "DOWOP" (days off with-out pay)). Staff reductions led to the deterioration of basic services such as police protection (e.g., longer response times) and public transportation. As a result of the poor services, more taxpayers left the City. This caused an acceleration of the downward spiral of revenue collections. The City was caught in a dilemma where revenue reductions exceeded cost reductions which worsened the City's financial condition.

Some municipalities including Detroit have resorted to privatization of some services, and new taxes and fees in order to save money and generate more revenue. As a result, residents are being forced to pay more for services like sewage disposal and parking meter fines. **These revenue policies are regressive because they hit low income people the hardest.**¹⁴

In many places like Washington, D.C., Oakland, and Chicago, local governments seek to increase revenue by attracting businesses and higher-income residents. When governments do this, they employ a wide variety of methods (e.g., tax abatements), which cause gentrification, a phenomenon that harms and pushes out low income residents.¹⁵ The invisible hand or self-interest of capitalism has influenced the economics of this Country and now has become entrenched in government, especially in taxation (e.g., low taxes), and has resulted in an ever widening gap between rich and poor, whereby the poor receive substandard governmental services such as

¹³ Citizens Research Council of Michigan, "Reforming Statutory State Revenue Sharing", dated February 2015, page 22.

¹⁴ Local Progress, The National Municipal Policy Network, "Progressive Policies for Raising Municipal Revenue", dated April 2015, page 5.

¹⁵ To the Detroit City Council's credit, the Council is working steadfastly with the Administration to ensure projects seeking tax abatements result in a positive net benefit (i.e., projected new revenues such as income taxes exceed the cost of tax incentives) to the City of Detroit. Likewise, the Council continues to insist that gentrification is minimized with the implementation of "affordable housing" initiatives created jointly between the Council and the Administration.

education and public safety. In the article, *Progressive Policies for Raising Municipal Revenue*, the authors stated,

“Business Improvement Districts (BIDs) and Tax Increment Financing (TIF) schemes draw artificial lines within a municipality – typically in high-value commercial areas or new luxury developments – and aim to build up walls around themselves so the benefits of that revenue are not shared across the municipality. White flight has similarly been fueled by wealthier individuals who want to send their children to richer schools, and to support only those schools that directly benefit their own families with their tax dollars. The explosive sprawl of the last half of the 20th century is largely a story of white families leaving the boundaries of the city core to create municipalities whose effect is to build up walls so revenue from the high tax base does not escape to benefit poorer, typically minority communities. **These artificial boundaries create low tax-base areas and high tax-base areas that result in inequitable collection and distribution of resources despite the interconnectedness of those who live and work in and around the city core [emphasis added].”**

High wealth individuals and institutions inevitably threaten to leave jurisdictions with progressive taxes for lower tax jurisdictions. These threats happen at the national and state levels, but elected officials are especially wary of these threats at the municipal level where residents can much more easily reduce their tax bills by relocating just a few miles away.”¹⁶

Generally, municipalities have the most flexibility for raising revenue independent of State of Michigan action in the levying of fees. Fees are attractive to municipalities because they are revenue measures that can generally be passed by city councils and do not require approval by state legislatures or referenda. However, state law often requires that fees raise no more revenue than the actual cost burden that is placed on the city’s infrastructure. Where these restrictions apply, fees cannot be used to subsidize other city services.¹⁷ Fees would not be an option to fund police salary increases.

Utility Users’ Tax

Detroit is the only city in Michigan allowed to impose a five percent utility users’ excise tax under authority granted by PA 100 of 1990. Revenues from this tax on the privilege of consuming telephone (i.e., wireline – not cell phone), electric, steam, or gas services are affected by energy efficiency measures as well as changes in the number and type of households and businesses in the city. Under the original state authorization, revenues from the utility users’ excise tax were required to be used to hire or retain police officers. New legislation, PA 392 of 2012, provides that up to \$12.5 million of utility users’ excise tax revenues may be used annually to retire debt issued by a public lighting authority. Utility companies include the utility users’ excise tax in routine bills, and remit the amount collected to the city.¹⁸ An additional utility user fee such as a tax on

¹⁶ Local Progress, The National Municipal Policy Network, “Progressive Policies for Raising Municipal Revenue”, dated April 2015, pages 9-10.

¹⁷ Local Progress, The National Municipal Policy Network, “Progressive Policies for Raising Municipal Revenue”, dated April 2015, page 22.

¹⁸ Citizen’s Research Council of Michigan, “Detroit City Government Revenues”, dated April 2013, page 24.

cell phone usage could be a potential source of revenue for the City. However, the State legislature would have to pass a law to allow the City to collect the fee.

2. Difference in Pay – Detroit Police Vs Other Cities

Council President Pro Tempore Mary Sheffield requested that we outline the difference in pay for DPD and the national average. We compared the salaries and benefits of Police Officers in the Detroit Police Officer Association (DPOA) in Class Codes 331011(Police Officer) and 331012 (Police Officer – 2/20/95 [hired after February 20, 1995]) to police officers in 17 other cities including 6 in Michigan. The class codes 331011 and 331012 are the lowest level for police officers and we tried to compare the lowest level police officer salaries in the other cities. Not all cities classify officer salaries (compensation) in the same manner. There are other levels of police officers in the DPOA and other cities that have higher salaries to compensate for education attainment, hire rank such as corporal and specialties such as neighborhood police officer. Because of the time and level of detail needed and because not all police departments use the same compensation classifications we did not compare all the various levels.

We obtained salary data for the cities from the collective bargaining agreements (CBAs), recruitment data, city web pages, and newspaper articles found on the internet. Some cities have expired CBAs and were in the process of negotiating salary increases for their police officers. When we found through newspaper articles for certain cities with expired CBAs that wage increases had been obtained and approved we applied those rate increases to the information we had.

The cities were chosen based on similar population and conditions such as high poverty that Detroit has. We tried to include mainly “rust-belt” cities. We also included 6 other Michigan cities such as Sterling Heights and Warren that were hiring Detroit police officers.

We only compared salary information for the report because of the difficulty in obtaining comparable data for all the various salary and benefit categories such as shift differentials, holiday premiums, retiree health benefits, health care premium payments, pension contributions, longevity pay, education premiums and other premium pay.

Listed below is a table that compares the City of Detroit police officer salaries with the 17 other cities ranked from the smallest high salary to the largest high salary.

City	Trainee/ Recruit	Salary Range	
		Low	High
Memphis, TN	40,195	43,008	57,828
Detroit, MI	38,769	38,769	57,958
Flint, MI	36,982	36,982	58,240
Louisville, KY	34,921	39,186	61,972
Cleveland, OH	31,200	51,691	63,719
Toledo, OH	49,906	53,026	65,631
Oklahoma City, OK	47,068	57,465	65,732
Lansing, MI	45,673	45,673	65,767
Pittsburgh, PA	31,117	44,710	66,741
Indianapolis, IN	41,442	41,442	68,764
Warren, MI	48,379	48,379	69,926
Cincinnati, OH	35,108	60,295	72,115
Grand Rapids, MI	45,369	47,597	74,296
Milwaukee, WI	42,968	57,291	76,380
Ann Arbor, MI	50,846	50,846	78,196
Sterling Heights, MI	46,968	46,968	80,954
Columbus, OH	53,934	53,934	82,576
Baltimore, MD	50,440	50,440	86,397

Detroit police officers' salaries at the high end of the range were the second lowest at \$57,958 annually. The highest was Baltimore at \$86,397 and Memphis was the lowest at \$57,828. The average for the 17 cities and Detroit was \$69,622 (Total 1,253,194/18 = 69,622). Detroit police officers' salaries at the low end of the range were the second lowest after Flint. Detroit recruits (Trainees) received a higher salary than five of the other cities.

Detroit police officers' salaries at the high end were the lowest among the Michigan cities we reviewed, as detailed below. Sterling Heights police officer salaries at \$80,954 annually were the highest for the Michigan cities we reviewed.

City	Trainee/ Recruit	Salary Range	
		Low	High
Detroit, MI	38,769	38,769	57,958
Flint, MI	36,982	36,982	58,240
Lansing, MI	45,673	45,673	65,767
Warren, MI	48,379	48,379	69,926
Grand Rapids, MI	45,369	47,597	74,296
Ann Arbor, MI	50,846	50,846	78,196
Sterling Heights, MI	46,968	46,968	80,954

3. Amount of Annual Funding Needed to Bring Detroit Average Salaries to Mean

Council President Pro Tempore Mary Sheffield requested that we quantify the amount of funding needed based on current DPD employment levels.

There are many different methodologies we could have used to quantify the amount of funding needed to raise Detroit police officer salaries to the national average. To determine a fairly representable amount would take more resources and time than we had available. Our approach was to use the data we collected for the 17 cities and Detroit and take the average salary and apply the percentage increase to raise Detroit police officers to the average to the latest payroll (July 27, 2018) for the DPOA officers. While this may not be the best methodology we believe it gives us a fairly reasonable idea of the magnitude of the annual cost to raise Detroit police officer salaries to the average for the 17 City's police officer salaries that we reviewed.

We estimated that to bring the basic Detroit police officer annual salary of \$57,958 to the \$69,622 national average of the cities we reviewed would cost \$18,299,943 a year in just salaries. This is based on the July 27, 2018 salary payroll for the DPOA police officers which totaled \$90,931,759 annually for 1,732 officers.

The national police annual salary average of the 17 cities we reviewed and Detroit was \$69,622 based on the average between Memphis at \$57,828 on the low end and Baltimore at \$86,397 on the high end (Total of 18 cities = \$1,253,194; $1,253,194/18 = 69,622$). To raise Detroit police officers at \$57,958 to the average of \$69,622 would be an increase of \$11,664 or 20.1%. Increasing the Detroit DPOA payroll of \$90,931,759 by 20.1% would raise it \$18,299,942 to \$109,231,701.

Adding in the 12.25% pension contribution by the City for police officers would add \$2,241,743 to the annual cost. In addition, other fringes would add \$358,496. The total cost of raising the DPOA officers to the average salary would be \$20,900,181. This does not include increases for supervisor and command officers that would have to be raised. Nor would it include shift and premium pay increases.

Other factors such as retiree health care benefits, longevity and other pay to make the City comparable to other cities would have to be considered. The actual annual cost to bring the Detroit police officers' salaries and benefits to the average in the country would be significantly higher than the \$20.9 million we calculated here. A detailed study would be necessary to consider all the relevant payroll and benefit data for all the cities to determine an average rate. We took a simplistic approach which still evidenced that bringing DPOA officers to a fair and decent wage would be costly and unaffordable to the City with its current revenue limitations.

The table below details our calculations to bring the Detroit police officers annual salary at the highest level to the average annual salary of the 17 cities we reviewed.

	<u>National</u>
Mean all 18 Cities	69,622
Detroit PO Highest	<u>57,958</u>
Detroit Diff from Mean	11,664
% Difference	20.1%
DPOA latest Salary	90,931,759
Adjust to mean	<u>109,231,701</u>
Increase to City	18,299,942
Increase	18,299,942
City Pension Contribution 12.25%	2,241,743
Other Fringes 1.959%	<u>358,496</u>
Total Annual Increase DPOA	20,900,181
Increase supervisor & Command Office	?
Shift & other Premium Pay	?
Education and other Contract pay	?
OPEB, Longevity, Hosp	?

The table below estimates the annual cost to bring Detroit police officers to the average of the six other Michigan Cities we reviewed. Detroit had the lowest annual salary at \$57,958 and Sterling Heights had the highest annual salary at \$80,954. The average of the six cities and Detroit was \$69,334 (Total \$485,337/7 = \$69,334). To raise the Detroit police officers to this average would require a 19.6% raise. We estimated that it would cost \$17,848,092 in salaries alone to raise Detroit police officers to the average. Adding benefits and pension contributions would add another \$2,536,035 bringing the total to \$20,384,128.

Again this doesn't include raises for supervisors and commanders. Nor does it include shift and other premium pay increases.

Other factors such as retiree health care benefits, longevity and other pay to make the City comparable to the other cities would have to be considered. The actual annual cost to bring the Detroit police officers' salaries and benefits to the average in the State per the cities we reviewed would be significantly higher than the \$20.4 million we calculated here. A detailed study would be necessary to consider all the relevant payroll and benefit data for all the cities to determine an average rate. We took a simplistic approach which still evidenced that bringing DPOA officers to a fair and decent wage would be costly and unaffordable to the City with its current revenue limitations.

	<u>Michigan</u>
Mean all 7 Cities	69,334
Detroit PO Highest	<u>57,958</u>
Detroit Diff from Mean	11,376
% Difference	19.6%
DPOA latest Salary	90,931,759
Adjust to mean	<u>108,779,851</u>
Increase to City	17,848,092
Increase	17,848,092
City Pension Contribution 12.25%	2,186,391
Other Fringes 1.959%	<u>349,644</u>
Total Annual Increase DPOA	20,384,128
Increase supervisor & Command Officers	?
Shift & other Premium Pay	?
Education and other Contract pay	?
OPEB, Longevity, Hosp	?

The table below shows the class code, title and current salaries of DPOA officers and the amounts to bring the various police titles to the national and state averages per the cities we reviewed.

DPOA		Increase to Average		
Class Code	Class Title	Current Salary	<u>National</u> 20.1%	<u>State</u> 19.6%
331011	POLICE OFFICER	\$ 57,958	\$ 69,622	\$ 69,334
331012	POLICE OFCR-2/20/95	57,958	69,622	69,334
331211	COMM OFCR-POL OFCR	58,408	70,163	69,872
331005	POLICE OFFICER- EDU	59,118	71,015	70,722
331006	POL OFCR-2/20/95-EDU	59,118	71,015	70,722
331019	POLICE CORPORAL	59,407	71,363	71,067
331216	COMM OFC-POL OFC-EDU	59,577	71,567	71,271
331015	NEIGHBORHOOD POL OFF	59,987	72,059	71,761
331026	POLICE CORPORAL-EDU	60,596	72,791	72,490
331008	NEIGHB POL OFF - EDU	61,187	73,501	73,197

4. Tax Abatement Funding for Pay Increase

Council President Pro Tempore Mary Sheffield requested that we explore a requirement for developers to pay a portion of the tax abatements they receive, equal to the projected cost of City services for the development over the life of the abatement, into a fund dedicated to increasing the pay of rank and file DPD officers.

The State of Michigan has designed a particular statutory scheme for the abatement of taxes¹⁹. The State has the exclusive jurisdiction in prescribing the manner and prerequisites that must be followed regarding how the tax abatements are to be granted. Part of that statutory scheme in many cases is the consent of the local legislative body of the grant of the tax abatement. Unless indicated within the statute prescribing the abatement, the local legislative body cannot unilaterally assign additional requirements to proposed recipients of an abatement. That being the case, the City cannot retroactively require that developers receiving tax abatements pay a portion of the abated taxes equal to the projected cost of City services for the development over the life of the abatement by ordinance or resolution.

However, the City can enter into a contractual agreement with a developer that wishes to obtain a tax abatement from the City in which the terms of the agreement include a requirement that a developer pay into a fund dedicated to increasing the pay of rank and file DPD officers an amount equal to the projected cost of City services for the development over the life of the abatement. LPD notes that the application and request for particular tax abatements are closely vetted in determining whether the amount of the requested abatement is necessary for the project to be viable. LPD reviews the financial documentation gathered by the Administration and the Detroit Economic Growth Corporation (DEGC) who present on behalf of the developer a “but for” analysis indicating that the requested tax abatement is necessary for the project to proceed forward. In addition to the “but for” analysis, LPD presents information that shows the assumed “net benefit” to the City even with the abatement. In many instances, the projected cost of City services over the life of the tax abatement could be as high as 30% of the projected taxes abated. Should the developer be required to pay the projected cost of City Services that are projected over the life of the abatement, the financial and underwriting projections that have gone into the determination for the tax abatement would be skewed and/or no longer feasible.

However, if the developer by way of contractual agreement finds a way to make the finances work with the inclusion of a portion of the abated taxes for the projected cost of City services

¹⁹ Bendix Safety Restraints Group, a Div. of Allied Signal, Inc. v. City of Troy, 215 Mich. App. 289, 544 N.W.2d 481 (1996) [q]uestions of tax policy are committed by the text of the Michigan Constitution to the Legislature. First, Const. 1963, art. 4, § 1 vests the legislative power of the State of Michigan in a Senate and a House of Representatives. Const. 1963, art. 4, § 32 specifies the manner in which the Legislature shall enact laws imposing, continuing, or reviving taxes. Const. 1963, art. 9, § 2 bars the Legislature from surrendering, suspending, or contracting away the power of taxation. Id at 294.

The State Constitution vest the power to enact laws composing, continuing or reviving taxes. Included within those powers is the power to allow for a scheme in which taxes that are prescribed to be collected can be abated. In *People v. Llewellyn*, 401 Mich. 314, 257 N.W.2d 902 (1977) the Court held:

A municipality is precluded from enacting an ordinance if 1) the ordinance is in direct conflict with the state statutory scheme, 4 or 2) if the state statutory scheme preempts the ordinance by occupying the field of regulation which the municipality seeks to enter, to the exclusion of the ordinance, even where there is no direct conflict between the two schemes of regulation. Id at 322

to be paid into the DPD fund, there is no conflict with the State's exclusive jurisdiction with regard to taxation.

We do not believe that tax abatements are a viable option to fund police officer salary increases. Having developers reduce their tax abatements to pay for police officer salary increases is counter to the purpose of the abatement which is to encourage developers, businesses, and new residents to build and reside in the City without having the prohibitive cost burden of City property taxes which are among the highest in the country. Generally developers would choose not to build in the City if they were not offered the tax abatement incentive. **In addition, singling out the developers and the tax abatements to fund increases in police salaries could be detrimental to the City's future budgets if development and tax abatements declined (e.g., recession) or ceased and other funding sources for the pay increases had to be found.**

