
Financial and Operational Restructuring Plan Update

City of Detroit, Michigan

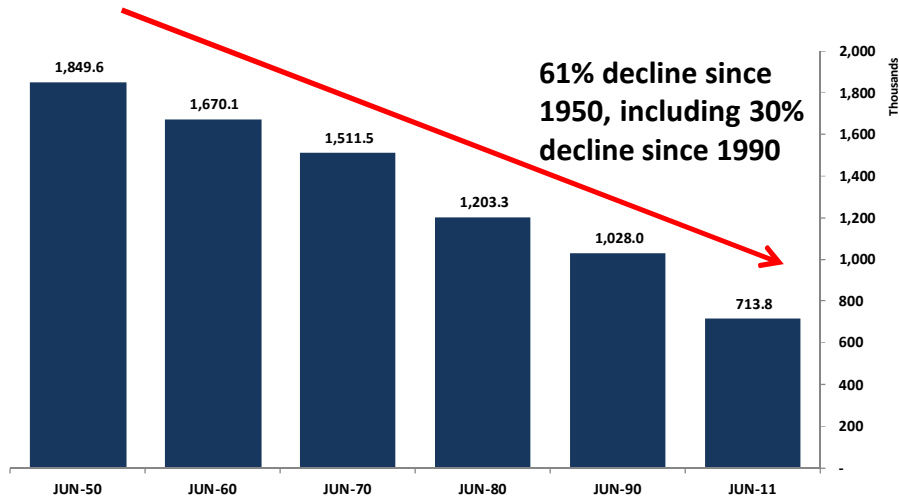
Presented to: City Council
January 5, 2012

Mayor Dave Bing
Kirk Lewis, Chief of Staff
Chris Brown, Chief Operating Officer
Cheryl Johnson, Group Executive – Finance Director

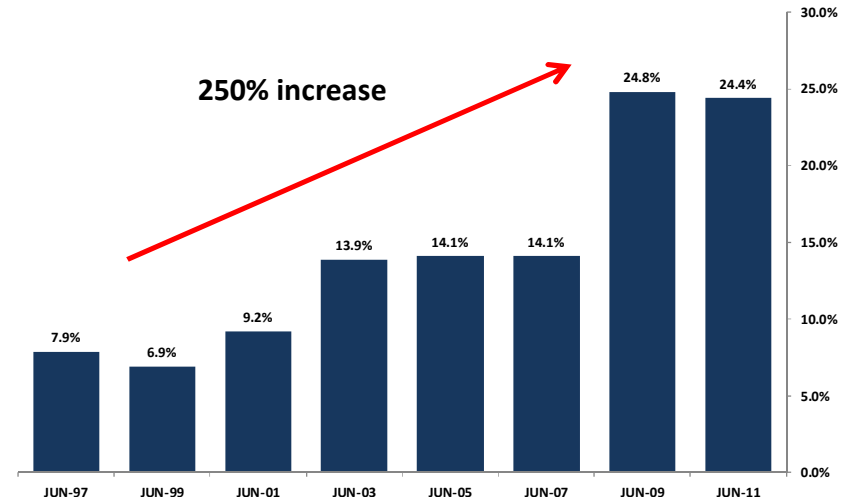


Over the last 20 years, Detroit has faced some strong economic headwinds

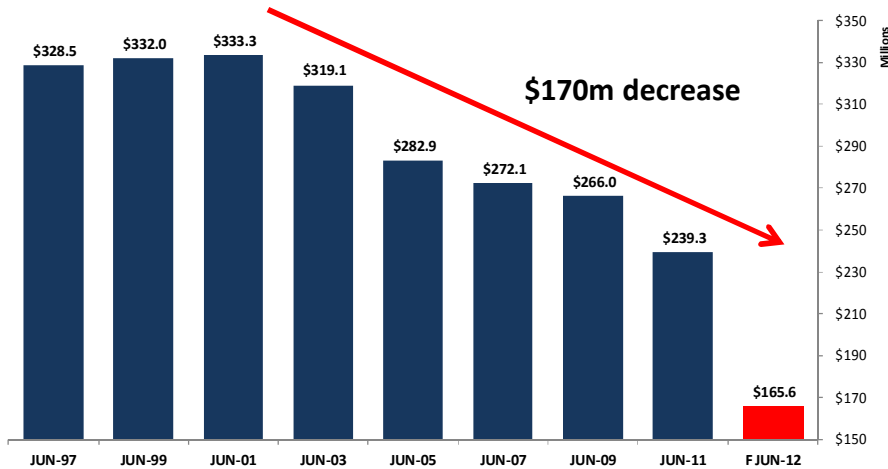
Population has declined 61% since 1950



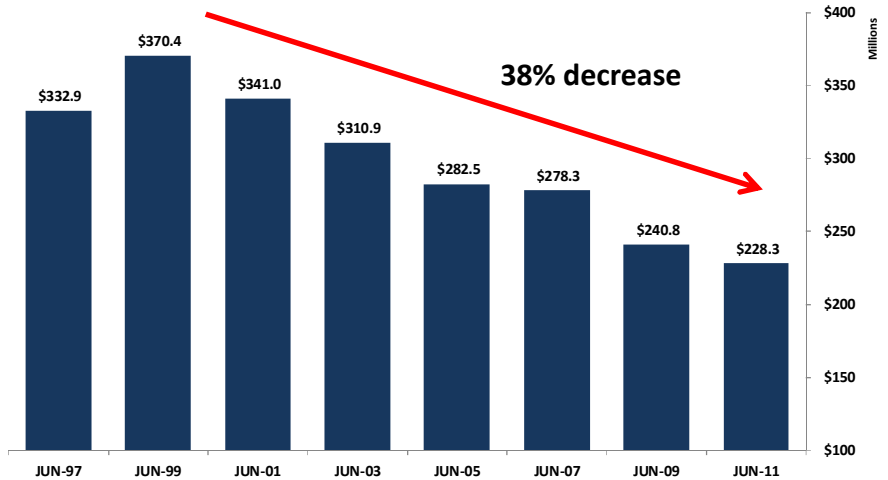
Unemployment rate has increased 250% since 2000



State shared revenue has declined \$170 million since peaking in 2001

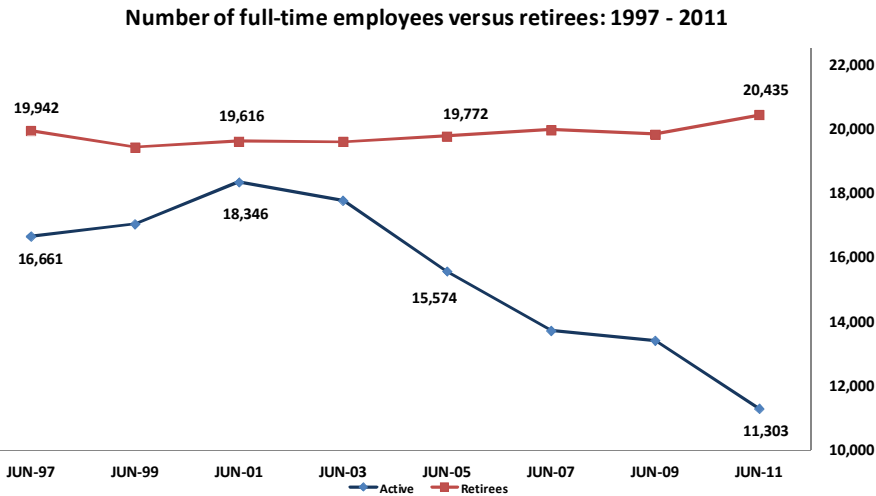


Income tax revenue has declined 38% since 2000

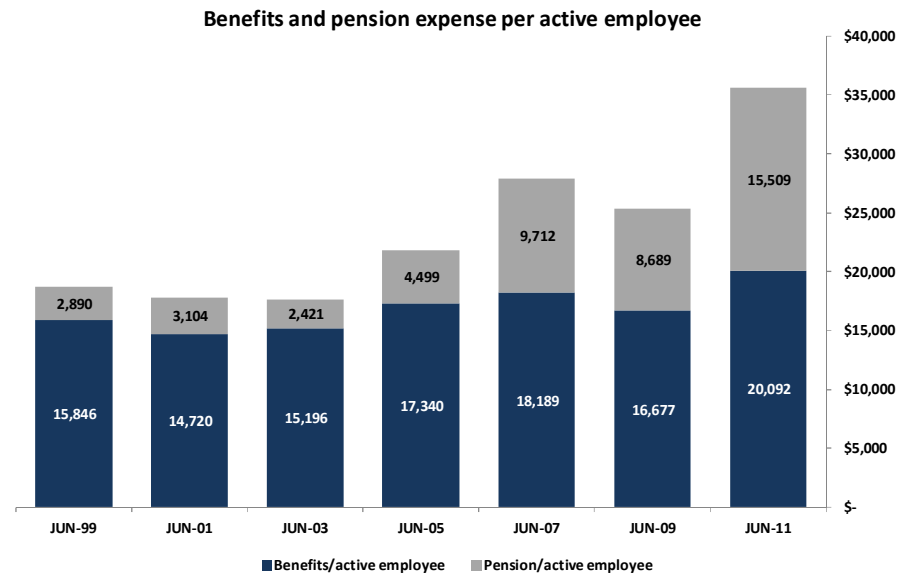


While overall City Government employee numbers have decreased, employee costs have remained constant

The gap between active and retiree headcount continues to widen, further emphasizing the need for structural reform



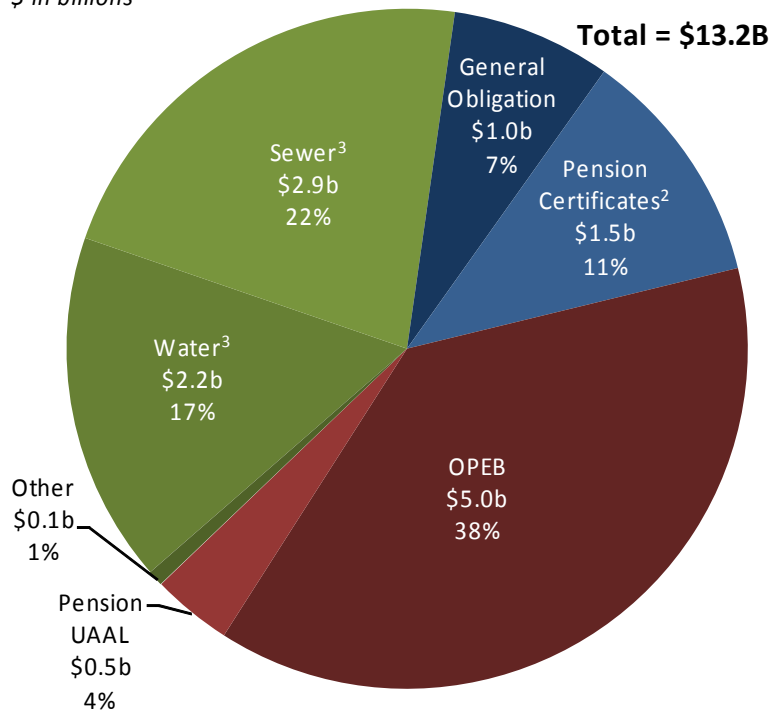
Although the number of active employees has reduced from 18,346 to 11,303 since 2001, benefits and pension costs per employee have grown from ~\$18,000 to ~\$35,500



Long term obligations are \$13.2 billion of which ~\$1.8 billion relates to the General Fund

1 FY 2011 Long-term obligations¹

\$ in billions



Notes:

1. Source: FY 2011 Comprehensive Annual Financial Report
2. "Pension Certificates" exclude swaps and represent both General Fund and enterprise fund portions
3. Water and Sewer figures exclude swaps
4. Assumes 713,000 residents based on latest census
5. Unlimited tax general obligation bonds are funded by property tax levies
6. Assumes 11% of pension certificates allocated to enterprise funds



	2	Per capita ⁴
Total long-term obligations	\$13.2B	\$18,500
Less: OPEB & UAAL	(\$5.5B)	3
Total debt	\$7.7B	\$10,800
Less: water/sewer debt	(\$5.1B)	
Less: UTGO debt ⁵	(\$0.5B)	
Less: non-general fund POC ⁶	(\$0.2B)	
Less: other debt	(\$0.1B)	
Total General Fund debt & POCs	\$1.8B	\$2,500

- **As of FY 2011, the City had long-term, publicly held debt of approximately \$7.7 billion**
 - **Only 23% of this debt (\$1.8 billion) directly impacts the General Fund; the remaining 77% is supported by tax levies and enterprise revenues**
- **Annual General Fund debt service totals \$145 million in FY 2012, which includes the General Fund portion of pension certificate payments**

Our Plan focuses on not only addressing the short-term challenges but also on making structural change for the longer term...

- **The Mayor's Restructuring Plan requires both financial and operational changes**
- **The Plan requires concessions from all sides, including not only unions and employees but also retirees, citizens, vendors and corporations**
- **One of the Mayor's key principles is ensuring financial sustainability and integrity, while building consensus on the key components of the Plan**
- **The Mayor is willing to face economic challenges and is committed to make structural changes to provide cash flow stability for the City**



Our Plan seeks to achieve \$102m of cost savings in FY 2012 and \$258m in FY 2013

	FY 2012 savings	FY 2013 savings	Ask	Example/Impact	Timing
Income tax revenue	\$2m	\$6m	<ul style="list-style-type: none"> C-corporations 1.0% to 2.0%; does not include partnerships, professional and limited liability corporations 	<ul style="list-style-type: none"> \$7m corp. taxes x 90% increase = \$6m 	1/1/2012
DPS collection	\$15m	zero	<ul style="list-style-type: none"> Collect outstanding past due receivables 		12/1, 1/1, 2/1
Payroll (10% cut)	\$13m	\$26m	<ul style="list-style-type: none"> Eliminate furlough days and implement 10% pay reduction 	<ul style="list-style-type: none"> Uniform: \$57k avg. salary x 4,497 FTE x 10% cut = \$26m savings Non-uniform: no impact 	1/1/2012
Medical	\$7m	\$27m	<ul style="list-style-type: none"> Change cost share to 70/30, implement plan changes, phase out more expensive plans (BCBS Traditional, BCBS MM and US Health) 	<ul style="list-style-type: none"> \$3k savings x 10k participants = \$27m savings 	4/1/2012
Pension (GRS)	zero	\$15m	<ul style="list-style-type: none"> Pension changes not expected to result in cash savings in FY 2012 		7/1/2012
Work rules	\$20m	\$40m	<ul style="list-style-type: none"> Allowed to work out of class at current rates and 50% reduction in overtime 	<ul style="list-style-type: none"> \$80m total overtime x 50% cut = \$40m savings 	1/1/2012
Retirees	\$8m	\$43m	<ul style="list-style-type: none"> Medical (\$33m annual) – accept same medical changes as active employees Pension (\$10m starting in FY 2013) – eliminate excess earnings distributions 	<ul style="list-style-type: none"> \$3k savings per retiree x 10k eligible retirees = \$33m \$20m earnings distribution x 50% split = \$10m 	4/1/2012
DDOT	\$10m	\$31m	<ul style="list-style-type: none"> Outsource management 	<ul style="list-style-type: none"> \$206m cost x 15% = \$31m savings 	4/1/2012
Vendors (10% cut)	\$13m	\$25m	<ul style="list-style-type: none"> Cut A/P vendor disbursements by 10% 	<ul style="list-style-type: none"> \$250m spend x 10% = \$25m reduction 	1/1/2012
Sub total	\$88m	\$213m			
Layoffs (1,000)	\$14m	\$45m	<ul style="list-style-type: none"> FY 2012 savings net of \$9m accrued comp. payout FY 2013 includes \$9m unemployment comp. payout 	<ul style="list-style-type: none"> \$54k savings per FTE x 1,000 FTE = \$54m savings \$54m savings - \$9m unemploy. = \$45m savings 	2/1/2012
Total	\$102m	\$258m			



Medical and pension savings

	FY 2012 savings	FY 2013 savings	Key Issues	Plan Objectives	Update & Next Steps
Medical (actives) (retirees)	\$7m \$8m	\$27m \$33m	<ul style="list-style-type: none"> ~\$100m in cost per year for ~11k actives and \$160m in cost per year for ~22k retirees Benefits provided are unaffordable for the City 	<ul style="list-style-type: none"> Streamline benefits for employees and retirees by negotiating concessions from insurance providers and unions Align medical and Rx co-pays 	<ul style="list-style-type: none"> Comparative analysis ongoing of all plan options to maximize savings and minimize loss of coverage and burden on participants Obtain union ratification of new plan(s) Implementation of new plan(s) may be effective earlier than proposed timeline
Pension GRS (actives) (retirees)	Zero Zero	\$15m \$10m	<ul style="list-style-type: none"> ~\$66m in required contributions per year Significant number of retirees covered in defined benefit plan that is subject to market volatility Liabilities exceed value of plan assets 	<ul style="list-style-type: none"> Implement concessions similar to uniformed employees Eliminate excess earnings provision along with multiplier and escalator changes Work with unions on assumption changes that will reduce unfunded status of the plan 	<ul style="list-style-type: none"> Ongoing review of actuarial analysis to maximize savings and minimize loss of benefits Obtain union ratification of changes Potential for early retirement incentive plan



Payroll-related savings

	FY 2012 savings	FY 2013 savings	Key issues	Plan Objectives	Update & Next Steps
10% reduction in pay	\$13m	\$26m	<ul style="list-style-type: none"> Over a year ago, non-uniform employees accepted furlough days that effectuated a 10% pay reduction Uniform employees were not impacted by furlough days 	<ul style="list-style-type: none"> Achieve pay concessions to realize required savings from uniform employees Eliminate furlough days for non-uniform employees 	<ul style="list-style-type: none"> Ongoing negotiations
Work rules	\$20m	\$40m	<ul style="list-style-type: none"> Current rules result in inefficiencies and a significant amount of overtime pay Rules have an adverse impact of finding the right people for the right job 	<ul style="list-style-type: none"> Work in conjunction with unions to implement work rule changes that will eliminate some of the inefficiencies, minimize opportunities for abuse, and save money 	<ul style="list-style-type: none"> Implement new rules ASAP
Layoffs	\$14m	\$45m	<ul style="list-style-type: none"> Payroll and payroll-related costs are more than 2/3rds of City expenditures City is performing services that should be potentially outsourced 	<ul style="list-style-type: none"> Achieve required savings by implementing 1,000 layoffs Rationalize departments that are not critical 	<ul style="list-style-type: none"> Bargaining units have been notified; prepare separation packages and send layoff notifications Determine impact of bumping rules More if necessary



Other savings and revenue initiatives

	FY 2012 savings	FY 2013 savings	Key issues	Plan Objectives	Update & Next Steps
DDOT	\$10m	\$31m	<ul style="list-style-type: none"> ▪ Significant subsidy from General Fund ▪ Unreliable service and inefficient maintenance 	<ul style="list-style-type: none"> ▪ Reduce General Fund subsidy ▪ Improve services for citizens by implementing best practices 	<ul style="list-style-type: none"> ▪ Potentially, transfer responsibility to management company
Vendor cuts (10%)	\$13m	\$25m	<ul style="list-style-type: none"> ▪ Mayor's plan is asking for concessions from all parties, which includes vendor base 	<ul style="list-style-type: none"> ▪ Reduction of discretionary spending 	<ul style="list-style-type: none"> ▪ Sent letters to vendors requesting 10% reduction in cost ▪ Committee to assess vendor savings opportunities
Income tax revenue	\$2m	\$6m	<ul style="list-style-type: none"> ▪ Corporate income tax is 1.0%, but legislation allows for up to 2.0% 	<ul style="list-style-type: none"> ▪ Increase in corporate tax effective 2/1/2012 	<ul style="list-style-type: none"> ▪ Ordinance being drafted ▪ Implement tax increase
DPS collection	\$15m	Zero	<ul style="list-style-type: none"> ▪ Due to financial distress, DPS had become significantly delinquent in payments to the City for electricity provided 	<ul style="list-style-type: none"> ▪ DPS agreed to pay \$15m of past due amounts to the City at \$5m per month in November, December and January 	<ul style="list-style-type: none"> ▪ \$10m received to date ▪ Collect final \$5m in January 2012



In summary, our Plan addresses the structural cost imbalance

Economic fundamentals and structural costs

- Over the past 20 years, the City has faced declining population and rising unemployment
- At the same time increasing healthcare and pension costs and decreasing revenues have resulted in structural cost imbalance
- This has also resulted in almost ~\$1.8 billion of General Fund debt

Our Plan is focused on addressing structural costs and cash flow stability

- Medical and pension reform are the cornerstones of the Plan
- Payroll-related savings need to be implemented to provide liquidity and operating flexibility; improved performance in the future should provide the opportunity to reduce concessions
- Best practices in DDOT operations are critical for our citizens
- Maximizing revenue initiatives is of critical emphasis
- The Plan will continue to be reassessed and evolve over the long term

