

Frequently Asked Questions:

# City of Detroit City Employment Terms

Nicolette N. Bateson, visiting specialist

Eric Scorsone, Michigan State University Extension Specialist, State and Local Government

## Contents

**Michigan Public Sector Labor Law 101.....2**

Public Employment Relations Act (PERA) ..... 2

Compulsory Arbitration Act (Act 312) ..... 2

**PA 4: Labor Law Exceptions for Financially Stressed Cities ... 4**

**Suspension of PA 4: What Laws Do We Follow Now? .....5**

**City of Detroit Employee Union Representation ..... 6**

- Table 1 – Average Salary of Unionized Employees ..... 6

**Key Events .....7**

**City Employment Terms (CET) ...8**

Wages ..... 8

Health Care..... 8

- Table 2 – Medical and Rx Plan Analysis ..... 9

Pension ..... 9

Work Rules .....10

**Next Steps .....11**

**Resources ..... 12**

## Introduction

The City of Detroit is in the midst of a significant restructuring after years of declining financial stability. As a result, the budget adopted for FY 2013 reduces costs by \$250 million, which equates to 16 percent of the prior year’s budget. Cost reductions were needed to bring spending levels in line with available revenues, address an accumulated general fund deficit of \$265 million, and ensure that sufficient cash reserves are available to cover the most basic needs such as payroll.

Cities are essentially service organizations. Massive cuts to balance the budget inherently mean that both personnel and wage and benefit levels will be affected. Detroit’s FY 2013 budget is no exception. First, city staffing is budgeted to decrease by 2,500 or 20 percent. Second, on July 18, 2012, the city imposed changes collectively known as the City Employment Terms (CET) to further reduce personnel costs.

In addition to the unprecedented fiscal stress and the related range of actions that must be considered, the legal environment surrounding these decisions is in flux. This has broad implications for the city, its employees, the public and the effort to achieve financial stability in the City of Detroit. This FAQ document will outline the events leading to the CET, discuss the implications, and lay out further questions to consider as the city continues to address its financial crisis.

*Disclaimer: This document is provided as a public service and was prepared for educational, public interest and research purposes only. This document or its contents should not be construed to represent legal advice.*

# Michigan Public Sector Labor Law 101

To understand the issues and events surrounding the City Employment Terms (CET), it is helpful to review key elements of Michigan public sector labor law.

## » Who is responsible for administering labor disputes in Michigan?

Under Public Act 176 of 1939, the Michigan Employment Relations Commission (MERC) was created to resolve labor disputes involving public and private sector employees. This task is carried out through mediators, arbitrators and fact finders. MERC also conducts union representation elections, determines appropriate bargaining units and rules on unfair labor practice cases.

## » What laws does MERC administer for the public sector?

MERC administers the following two statutes that are unique to the public sector.

- Public Employment Relations Act (PERA)
- Compulsory Arbitration Act (Act 312)

## Public Employment Relations Act (PERA)

### » What is PERA?

The Public Employment Relations Act (PERA), also known as Act 336 of 1947, establishes the ground rules for the public sector employment relationship. This includes declaring and protecting the rights and privileges of public employees, requiring certain provisions in collective bargaining agreements, providing for the mediation of grievances and the holding of elections, prohibiting strikes by public employees and prescribing the means of enforcing and penalizing those who violate this act.

### » What does PERA say about collective bargaining?

PERA requires a public employer to bargain collectively with the representatives of its employees. To bargain collectively means that representatives for both the employer and the employees meet and confer in good faith with respect to wages, hours, and other terms and conditions of employment. The goal is to settle on a written contract. The law does not require either party to agree to a proposal or make

a concession. Specifically, PERA states that a public employer shall not refuse to bargain collectively with the representatives of its public employees, subject to the provisions of Act 336.

### » Does PERA address strikes by public employees?

Strikes are prohibited by public employees. The statute defines strike as an employee's willful absence from his or her position or abstaining from the full, faithful and proper performance of his or her duties for the purpose of inducing, influencing or coercing a change in employment conditions, compensation, or the rights, privileges or obligations of employment.

The statute allows the employer to discipline or discharge a public employee for engaging in a strike, subject to a review and appeal process.

### » What happens when the parties can't reach an agreement?

PERA authorizes the MERC to assign a mediator when the parties can't reach an agreement. This individual is a neutral third party who assists the parties in resolving their disputes. The mediator has no authority to impose changes to the contract. Instead, the mediator's objectivity, expertise and experience can help to restore communication and facilitate problem solving between the parties.

If the parties are unable to reach an agreement after mediation, the next option is to file for either Act 312 arbitration or fact finding.

## Compulsory Arbitration Act (Act 312)

### » What is Act 312?

Act 312 of 1969, the Compulsory Arbitration of Labor Disputes in Police and Fire Departments Act, provides for compulsory arbitration and administration of labor disputes in municipal police and fire departments. Most employees in those departments are often referred to as "Act 312 eligible" or "uniformed" employees.

When the employer and employee representatives in police or fire department labor disputes are unable to reach an agreement, they may proceed with the Act 312 process as administered by the MERC. Each party presents its case to an impartial arbitrator. After

hearing both sides, the arbitrator issues a written arbitration award that is final and binding on both the employer and employee. This results in a mandatory resolution of labor disputes between police and fire personnel and their employers. For that reason, Act 312 eligible bargaining units are seen as having more leverage to resolve disputes than other employee groups.

### » Does Act 312 conflict with PERA?

No. Act 312 is considered supplementary to PERA.

### » What is fact finding?

If non-Act 312 eligible employee groups and the employer are not able to reach an agreement, PERA provides for a fact finding process. In this process, a neutral fact finder hears both sides and issues a recommendation for settlement of the dispute. Unlike Act 312, the neutral fact finder's recommendation is *not* binding on the employees or employer.

### » How do contracts get resolved if fact finding is not binding?

There are two potential outcomes after the parties receive the fact finder's report. One is that the parties resolve their differences based on the report. Another outcome is that the employer imposes its "last, best offer" if the parties have reached an impasse. An impasse occurs when both parties are solidified in their position and further efforts at bargaining would be useless. Imposing contract changes can only occur after a 60-day period following the fact finder's report. During that time, it is expected that the parties continue to meet in good faith to negotiate agreement based on the fact finder's report.

The city and many of its bargaining units have experience with the fact finding process. In 2009 and 2010 it was widely reported that the City of Detroit

was potentially imposing the last, best offer after fact finding with American Federation of Federal, State, County and Municipal Employees (AFSCME) bargaining units.

### » What is a bargaining unit?

A bargaining unit, represented by a labor union, is organized based on a "community of interests" for representation and bargaining. Common interests may include wages, hours, benefits, working conditions, skills, supervisory structure and bargaining history.

### » Who determines the appropriateness of a bargaining unit?

The MERC is granted the authority under PERA to determine and approve an appropriate unit. Some job classifications fall into gray areas. The MERC has established a set of principles that it applies when asked to conduct elections for a new bargaining unit or when disputes arise. In the case of disputes, they can be raised by the employer or the recognized bargaining unit. This is known as filing a unit clarification petition to the MERC.

### » How many bargaining units represent City of Detroit employees?

There are 48 bargaining units representing the city's employees in addition to the non-union employees. Of those bargaining units, six are Act 312 eligible because they represent police and fire department employees.

Some labor unions may represent multiple bargaining units. For example, a union such as AFSCME represents seven different bargaining units. Each bargaining unit has its own contract. Here are examples of three AFSCME bargaining units: crossing guards, paving forepersons and non-supervisory (in the transportation department).

# PA 4: Labor Law *Exceptions* for Financially Stressed Cities

Public Act 4 of 2011 (PA 4), the Local Government and School District Fiscal Accountability Act, has significant implications for labor relations in cities with severe financial stress.

## » What is the definition of severe financial stress?

PA 4 provides for a financial review team to review a city's finances when certain conditions exist. If the review team finds that those conditions exist and that the local government's resulting capability to provide for essential public health, safety and welfare is threatened, then the city is considered to be in severe financial stress. In March 2012 the review team assigned to the City of Detroit reported that the city is in severe financial stress.

## » What happens if a city is found to be in severe financial stress?

The city has two options. The *first* option is to enter into a consent agreement with the review team and state treasurer. The consent agreement provides for measures considered necessary to address the local financial problem and provide for the financial stability of the local government. The consent agreement must be approved by the governing body of the local government and approved by the state treasurer. As a result, the local governing body remains in control as outlined in the consent agreement.

The *second* option is for the city to be assigned an emergency manager. In that scenario, the city is considered to be in receivership and the local governing body's authority is suspended.

## » Is the City of Detroit Financial Stability Agreement the same as a consent agreement?

Yes. The plan for Detroit to address its fiscal crisis is outlined in a financial stability agreement between the city and the state of Michigan. This agreement is commonly referred to as the consent agreement. The consent agreement provides for a nine-member financial stability board that is charged with reviewing, assisting, advising and recommending action to

the mayor that is consistent with the terms of the agreement.

## » How does PA 4 affect labor laws for cities with a consent agreement?

Section 14a(10) of PA 4 provides that local governments operating under a consent agreement are not subject to PERA Section 15(1). That section of PERA requires a public employer to bargain or confer with employee labor representatives over wages, hours, terms and conditions of employment, and negotiate agreements. The essence of PA 4 is that a public employer's duty to bargain is suspended for the term of the consent agreement (i.e. as long as the city is in severe financial stress). It is this language that provides authority for the City of Detroit, for example, to impose labor contract changes.

## » Was PERA also amended in 2011?

Yes. PERA was amended in 2011 with specific reference to PA 4 in three areas.

1. New collective bargaining agreements must include a provision that allows an emergency manager to reject, modify or terminate the collective bargaining agreement subject to PA 4. Further, this requirement is a prohibited subject of bargaining.
2. Collective bargaining agreements covered by PERA may be rejected, modified or terminated pursuant to PA 4.
3. A unit of local government entering into a consent agreement under PA 4 is not subject to PERA for the term of the consent agreement.

## » How does PA 4 affect labor laws for cities with an emergency manager?

Section 19(1)k of PA 4 is explicit in the level of authority that an emergency manager possesses as it relates to labor agreements. Simply stated, the emergency manager may terminate one or more terms and conditions of an existing collective bargaining agreement with some caveats.

This action would occur only after a meeting with the bargaining representatives does not result in prompt resolution of modifications needed to address the



financial emergency. Further, such action is temporary and should not target any specific class of employee. Similar to the consent agreement scenario, Section 26(3) of PA 4 suspends PERA 15(1) for a period of five years from the date the local government is placed in receivership or until the receivership is terminated, whichever occurs first.

» **Does the City of Detroit consent agreement address collective bargaining agreements?**

Yes. Annex D to the consent agreement specifically identified July 16, 2012 as the deadline for the city

to negotiate or impose new contracts with bargaining units whose labor agreements have expired. That section of the agreement further identifies 12 specific contract concerns that should be incorporated into new and subsequent labor contracts. The 12 items address uniformity, joint committees, outsourcing, departmental consolidation, continuation of terms, new hire benefits, promotion criteria, bumping rights, favorable concessions previously agreed to by the unions, contract length, dispute resolution and work rule modifications.

## Suspension of PA 4: What Laws Do We Follow Now?

On Feb. 9, petitions requesting a referendum to repeal of PA 4 on the November ballot were submitted to the Board of State Canvassers. The board’s responsibility includes the review of statewide ballot documents for compliance with applicable laws. The board found that the font size on the petitions did not meet the legal requirements. After months of legal proceedings and appeals, the decision rested with the Michigan Supreme Court. On Aug. 3, the court ruled that the petitions were valid. The Board of Canvassers then met on Aug. 8 to implement the court’s decision to place the referendum on the ballot.

» **What is the status of PA 4 now that it will be a ballot question in November?**

The attorney general (AG) issued an opinion on Aug. 6 that states that PA 4 is suspended pending the referendum in November. The AG further stated that the previous emergency manager law, Public Act 72 of 1990 (known as the Local Government Fiscal Responsibility Act), is reinstated. The rationale is that PA 4 contained specific language that repealed PA 72. If PA 4 is suspended, then the integral repeal of PA 72 written into PA 4 is also suspended.

» **Does PA 72 address consent agreements?**

Yes. In PA 72, similar to PA 4, the local government with a severe financial problem could enter into a consent agreement. The agreement would include the measures necessary to achieve long-term financial recovery, provide for periodic fiscal status reports to

the state treasurer, and be approved by the governing body of the local government.

» **How is PA 72 different from PA 4 as it relates to labor laws?**

Unlike PA 4, there are no exceptions to labor laws under PA 72. Emergency managers and local government leaders working under a consent agreement follow PERA as written less any reference to PA 4. In other words, laws applicable to labor contracts are the same whether the local government experiencing a financial problem or not.

» **What does this mean for the City of Detroit’s consent agreement?**

Except for those provisions which relate specifically to labor law exceptions for financially stressed cities under PA 4, it is the position of the state treasurer and the mayor that the remainder of the consent agreement remains in place.

» **What is the status of actions taken under PA 4?**

The attorney general’s opinion states that PA 4 is not void, but is in effect stayed, until the November election results are certified. This language infers that as long as PA 4 was in place the actions taken under it remain in place. Following that logic, the actions taken by the city to impose labor contracts would also then be valid.

# City of Detroit Employee Union Representation

Of the city’s 10,238 employees, 9,223 are represented by 48 bargaining units. Labor contracts covering the majority (80 percent) of those represented expired on or before June 30. The remaining collective bargaining agreements expire at various dates through June 30, 2013.

## » What is the average salary of unionized employees?

To understand the financial impact of the City Employment Terms (CET), the question of employee salary is often raised. The city provides the analysis found in **Table 1** to answer that question.

**Table 1 - Average Salary of Unionized Employees**

<b>City of Detroit Average Salary of Unionized Employees</b>		
<b>Major Group</b>	<b>Number of Employees</b>	<b>Average Salary</b>
Police	2,794	\$ 56,040
Fire	1,006	60,468
EMS	217	44,715
Transit Union	689	32,748
General	4,517	40,890
Total Union Employees	<u>9,223</u>	<u>\$ 47,097</u>

Source: City of Detroit Discussion Document dated July 16, 2012.

## » Are there bargaining units not affected by the CET?

The CET, pursuant to the consent agreement, only applies to labor agreements that expired July 18, 2012. The remaining five bargaining units, representing 1,699 employees, have labor agreements that are in effect and will expire on various dates through June 30, 2013. There are additional exceptions to the CET implementation.

1. Detroit Department of Transportation employees are subject to Section 13(c) of the Federal Transit Act because the city receives federal mass transit funds. Before changes are made, they must be approved by the U.S. Department of Labor (DOL). Section 13(c) applies to seven bargaining units covering 1,009 members.
2. Detroit Water and Sewer Department (DWSD), subject to a U.S. District Court order issued Nov. 4, 2011, is operating under separate management processes of the city. This extends to labor relations. As a result, DWSD management is proceeding to bargain with the DWSD employee unions. The pattern set by the city, however, will be of importance to DWSD employees and management. The city identified six bargaining units representing 179 employees where DWSD is responsible for negotiations.

## Key Events

It is helpful to understand the events and context surrounding the city’s action of imposing labor contracts in July 2012. Labor relations, wages and benefits are technical and complex fields. Compounding the technical challenge is having adequate discussion and analysis while facing a cash crisis, an increase in service delivery demands and balancing the expectations of employees who have, in many cases, decades of service to the city.

### » Labor Negotiations History

**Feb. 1, 2012** – Mayor Dave Bing and a coalition of non-uniform unions announce a tentative agreement. The agreement, subject to approval by both Detroit City Council and union members, is said to be the “first meaningful step in achieving necessary concessions ... to resolve the city’s financial crisis.”<sup>1</sup>

**Feb. 18, 2012** – Mayor Bing and Detroit Fire Fighters Association announce a tentative agreement, subject to approval by both city council and union members, which achieves “necessary cost savings.”<sup>2</sup>

**March 23, 2012** - Coalition of non-uniform union membership ratifies the tentative agreements announced Feb. 1, 2012.<sup>3</sup> *The Detroit Free Press* reports that the negotiated concessions equate to \$54 million in savings. That amount is less than half of what Mayor Bing identified as the amount needed to address the city’s fiscal crisis.<sup>4</sup>

**Late March 2012** – The city council does not ratify the tentative agreements presented by the unions. During this period, negotiations are in process between the city and the review team to develop a consent agreement.

### » Consent Agreement

**April 5, 2012** – The city enters into a consent agreement with the state of Michigan pursuant to Michigan Public Act 4. There are two key provisions related to

labor costs. First, the agreement provides authority for the city to impose wage and benefit changes if existing labor contracts have expired. Second, the agreement provides for a newly formed Financial Advisory Board (FAB) to “review, assist, advise and comment to the mayor and city council on the financial impact of (i) any proposed amendment or modification to any material contracts to which the City is party .... ”

### » Budget Adoption

**May 24, 2012** – Detroit City Council adopts the mayor’s FY 2013 budget with some modifications. The budget reflects approximately \$250 million in general fund cost reductions to address the city’s financial emergency.

### » Budget Implementation

**June 28, 2012** – The FAB conducts its first public meeting.

**July 1, 2012** – The city’s new fiscal year begins.

**July 12, 2012** – The FAB meets publicly to review Mayor Bing’s wage, benefit, and work rule changes to achieve the budgeted cuts in the FY 2013 budget. The board approves Mayor Bing’s proposal, titled “City Employment Terms” which is estimated to result in \$102 million in annual savings.

**July 16, 2012** – Mayor Bing asks City Council to act on the CET to avoid “inadequate cash flow to make payroll, to pay vendors, and ... default in the Financial Stability Agreement – ultimately triggering the appointment of an emergency manager ....”<sup>5</sup>

**July 16-17, 2012** – City council deliberates the CET. Ultimately, the council votes 5-4 to reject the CET.

July 18, 2012 – Mayor Bing announces that CET will be imposed in accordance with the consent agreement.

**Aug. 8, 2012** – PA 4 is suspended and PA 72 is reinstated.

<sup>1</sup> City of Detroit Press Release dated Feb. 2, 2012.

<sup>2</sup> City of Detroit Press Release dated Feb. 18, 2012.

<sup>3</sup> City of Detroit Press Release dated March 23, 2012.

<sup>4</sup> Steve Neavling, “30 Detroit Labor Unions Ratify Concessions in Hopes of Averting Emergency Manager,” March 23, 2012.

<sup>5</sup> City of Detroit Press Release dated July 16, 2012.

# City Employment Terms (CET)

There are four primary categories of changes: wages, health care, pension and work rules. The changes are generally consistent among all bargaining units with exceptions noted by the city in a “Discussion Document” dated July 16, 2012 available from the mayor’s website at [www.detroitmi.gov](http://www.detroitmi.gov).

## » How much savings are expected from each category?

The majority of savings comes from medical plan changes for active employees and retirees (59 percent), with the remainder from wages (24 percent), pension (9 percent) and work rules (8 percent).

## Wages

### » What are the wage changes?

There are five key changes that affect cash compensation to employees as listed below. The first three are immediate, while the remaining two are long term in nature. The city estimates that the annual savings from these changes is \$25 million.

1. Wage reduction of 10 percent for all employees.
2. Shift premium reductions which vary based on job classification.
3. Existing furlough day program for non-uniform employees will be eliminated. There will no longer be furlough days; however, there will also be no wage rate adjustment. This results in a permanent 10 percent wage-rate reduction for the employee. There is no impact on the city’s FY 2013 budget because the city has already recognized that reduction in budget.
4. Freezing unused sick leave banks at current levels. Future payout, typically at retirement, is reduced from 100 percent to 60 percent for uniformed personnel.
5. Reduction of annual vacation accrual from 320 to 160 hours which limits the dollar amount of future payouts. The city will also implement a “use it or lose it” policy to lower vacation bank payout.

## Health Care

### » What are the health care changes for current employees?

There are three categories of changes to control the city’s medical plan cost for active employees.

1. **Employee cost sharing** - Employees will be required to contribute a minimum of 20 percent to offset the cost of the health, dental and optical insurance plans.
2. **Change in Medical Plan** - The primary health care plan is a preferred provider network plan (PPO) identified as “Option 3.” Key benefit provisions are shown in Table 1 along with benchmark data assembled by the city.
3. **Change in Prescription Drug Program** - The changes to the prescription drug program, also presented in **Table 2**, include increased co-pays on a three-tier plan for generic/formulary/non-formulary cost (i.e. \$10 for generic; \$35 for formulary; and \$50 for non-formulary based upon insurance carrier rules). In addition, the city is modifying coverage to encourage mail order and generic choices and is limiting coverage on lifestyle drugs, with the exception of smoking cessation and weight loss.

### » What are the health care changes for retirees?

1. Dental and vision insurance coverage ends Jan. 1, 2013 with an estimated savings of \$8 million annually.
2. Retirees will move to the same medical plan (“Option 3”) as described above for active employees with an estimated savings of \$26 million annually.

### » What is the annual cost of medical coverage for employees and retirees?

Currently, the city spends approximately \$246 million per year on medical plans. Of that amount, 39 percent is for employees, 45 percent for pre-Medicare-eligible retirees and 16 percent for Medicare-eligible retirees.



After the changes are implemented, it is estimated that the city's cost will be reduced by \$60.3 million (24.5 percent) in the first year.

## Pension

### » What is a defined-benefit pension?

A defined-benefit pension, in its simplest form, is based upon a three-part formula as shown below.

- 1) Final Average Compensation (FAC)
  - 2) x Years of Service
  - 3) x Pension Multiplier
- 
- = Annual Defined Benefit Pension Income

There are numerous ways each of the above components can be defined that increases or decreases the city's pension costs. For example, FAC could represent average compensation over the "60 highest consecutive months" or it could be over 30 months. In some cities, FAC may include sick leave payout

at retirement; others may exclude it. The pension multiplier is typically expressed as a number such as 2.5 (indicating a 2.5 percent benefit for each year worked). For an employee who retires with an FAC of \$50,000 with 20 years of service and a pension multiplier of 2.0, his/her annual defined benefit is \$20,000 (\$50,000 x 20 x 0.02).

### » What are the defined pension changes for current employees?

1. The city's contracts provide for a pension multiplier based on progressive scale for years of service. That multiplier will be replaced with a simple 1.5 multiplier for each year of *future* service. The existing multiplier scale remains in place for years of service previously earned.
2. Some of the city's contracts provide for automatic annual pension benefit increases. This is known as a cost of living adjustment (COLA). For those who have had COLA in their contracts, it will be eliminated.

**Table 2 – Medical and Rx Plan Analysis**

City of Detroit City Employment Terms - Medical and Rx Plans	Current	New Plan Option 3	Benchmarks	
			Wayne County	State of MI (pre-4/2010 hire)
<b>PPO medical plan (in network)</b>				
Employee premium contribution	10% - 20%	20%	20%	20%
Plan deductible	\$175/\$350	\$250/\$500	\$500/\$1,000	\$400/\$800
Co-insurance %	10%	20%	20%	10%
Co-insurance (out-of-pocket) maximum	\$825/\$1,650	\$1,500/\$3,000	\$1,500/\$3,000	\$1,500/\$3,000
Office visit	\$10	\$25	\$30	\$20
Urgent care co-pay	\$10	\$25	\$30	\$20
Emergency room co-pay (waived if admitted)	\$75	\$100	\$100	\$200
Hospital co-pay (waived if admitted)	\$75	\$100	\$100	\$200
<b>Rx drug plan</b>				
Co-pay at retail (double copay for 90 day supply)	\$5/\$15	\$10/\$35/\$50	\$10/\$35/\$50	\$10/\$30/\$60
Mandatory mail	no	after 34 days	after 34 days	after 34 days
Mandatory generic	no	yes	yes	yes
Traditional generic step therapy	no	yes	yes	yes
Exclusion of lifestyle drugs	no	yes	yes	yes

Source: City of Detroit Discussion Document dated July 16, 2012.

3. Upon retirement, unused sick time payout has been included in the FAC calculation. For uniformed personnel, that amount of payout included in FAC is capped at 60 percent. For all other employee groups, sick leave payout will be excluded from FAC.

» **Are other pension changes for current employees under consideration?**

Yes. City documents identify other changes under consideration. These may include an increase in age and service requirements to be eligible for a pension; further adjustments to FAC by redefining pay period; eliminating a practice of subsidized early retirement; requiring employees to contribute to the plan; and potentially freezing the pension plan. “Freezing” a plan can be carried out in many different ways. In general, however, it means that the employer retains the plan but benefits stop accruing.

» **Are there changes to the pension plan for new hires?**

Not at this time. The city has indicated that it is considering other lower-cost plan options for new hires. This means that it may close the defined-benefit pension plan to new hires.

» **What is the budget impact of the pension changes?**

The city estimates that the proposed changes will decrease its annual pension cost from \$114.9 million to \$106.4 million, which equates to \$8.5 million or 7.4 percent.

» **Are there changes to the pension for existing retirees?**

No. There are no changes to pension benefits for existing retirees. One area of interest to current employees and retirees is the composition board members for the city’s two pension boards: the General Retirement System and the Detroit Police and Fire Retirement System. At issue is the number of board members in total, the number of board members elected by retirees and employees, and the number of board members subject to mayoral appointment.

The angst over board composition is not unique to Detroit and is not resolved by a rule of thumb or formula. As described in a publication provided by the National Association of State Retirement Administrators, the “board composition of a public retirement system must reflect and balance two issues: a) the fact that the sponsor has a legitimate interest in the

effective management of the retirement system; and b) the fact that the retirement system must be managed in the best interests of the beneficiaries and therefore must be protected from undue political influence.”<sup>6</sup>

**Work Rules**

» **What are work rules?**

In general labor contract theory, the organization’s management retains all rights unless specifically limited, restricted or modified by union contract. Those limitations are often known as work rules and can cover a wide range of issues including grievance procedures, safety standards and shift assignments.

» **What are the most significant work rule changes in the CET?**

The city provided a specific list of work rule changes that impact the police department as identified below. It should be noted that items one through five also apply to the non-uniform personnel.

1. Remove limitations on management rights and responsibilities that limit the city’s rights to manage policies, goals and scope of operations. This specifically includes the right to implement or modify disciplinary policies.
2. Prohibit arbitrators from ruling on future grievances based on expired bargaining agreement provisions or past practice.
3. Amending the criteria for transfers and assignments to be based upon experience, attendance, work performance, sick time use and demonstrated ability rather than seniority.
4. The union will be required to reimburse the city for all full-time and part-time paid union officials.
5. The city will charge a 2 percent administrative fee for collection and remittance of union dues and service fees.
6. Authorize the chief of police to hire and deploy reserve personnel at his discretion.
7. Eliminate a joint labor/management committee to determine the assignment of civilians to job functions. Assignment of civilian personnel to positions where a police officer is not required will be at the city’s discretion.

<sup>6</sup> National Association of State Retirement Administrators, “Best Practices in Pension Governance: A Cortex Perspective,” accessed online at <http://www.nasra.org/resources/cortexpractices.htm>.

» **How will work rule changes affect compensation in the police department?**

In any local government, a 24/7 operation like a police department results in unique practices as it relates to work rules. For example, there are numerous compensation issues related to scheduling, returning to work for court appearances and working on holidays.

The city has identified eight categories of work rule changes that affect the patrol officers. This includes limitations on court time pay, holiday pay, eligibility for overtime pay, holiday pay and bonus vacation days. In addition, the educational reimbursement program is being eliminated as well as receiving additional compensation of 2 percent (known as a wage differential) while on a roster for promotion.

» **What is the budget impact of work rule changes to the police department?**

The compensation-related changes that affect members of the Police Officers Association of Michigan are

estimated by the city at \$5.2 million. If the city implements those same changes when the Detroit Police Lieutenants and Sergeants Association contract expires next year, it is reported that the budget shortfall will be reduced by an additional \$5.2 million.

» **What is the budget impact of work rule changes for non-uniform personnel?**

Excluding the police department, the city identified 67 work rule changes that affect some or all of the non-uniform bargaining units. Fifty-five of those changes are intended to improve departmental efficiencies, but the savings are not readily quantifiable. The remaining 12 work rules result in savings estimated at \$3.2 million annually. One work rule change for non-uniform personnel makes up the majority of the savings. That is the elimination of pay for union representatives of approximately \$2.5 million.

## Next Steps

» **Do the savings from implementation of the CET equal the FY 2013 budget?**

No. The city’s adopted budget was based on labor contract savings of \$185 million. With implementation delays, the savings are now estimated to be \$160 million. This results in a shortfall of \$25 million in the first month of the new fiscal year.

» **Does this solve the city’s financial crisis?**

The long-term impact of the contract changes begins to address the city’s structural deficit. There is, however, significant work ahead. The CET discussion document presented to the FAB hints at further budgetary pressures. Many of those concerns are not unlike other U.S. cities. The difference for the City of Detroit, however, is the magnitude of the fiscal

imbalances. Personnel costs that the city will continue to address include the following.

- Pension underfunding of \$4.3 billion
- Retiree health care underfunding of \$6.6 billion (known in the accounting literature as “other postemployment benefits” or OPEB)

» **Will there be litigation?**

There is a great deal at stake, philosophically and financially, for the city and the labor unions. While the city’s financial crisis is understood to varying degrees, the solutions are more evasive. Unprecedented actions to address these types of fiscal challenges are often vetted through litigation. It is reasonable to expect that implementation of the CET will be the subject of legal action over the next year.

## Resources

### » Where can we find out more about the City of Detroit’s budget and finances?

The city’s website provides budget and financial information at several locations at [www.detroitmi.gov](http://www.detroitmi.gov). In particular, the following departmental sites are recommended: Mayor’s Office (see “Financial Update” page), Budget Department, Finance Department, Office of the Auditor General, City Council Meetings Calendar (with agendas) and the City Council Fiscal Analysis Division. In addition, the Detroit City Council provides access to the decision-making process by live streaming its meetings online, including an archive of prior meetings.

### » Where can I find other Michigan State University Extension (MSUE) FAQs about the Detroit financial situation?

FAQs related to the following topics may be found online at <http://msue.anr.msu.edu>.

- A Proposed City of Detroit Consent Agreement and Public Act 4 Of 2011
- City of Detroit Financial Stability Agreement
- City of Detroit’s New Revenue Forecasting Process and Multi-Year Budget
- City of Detroit FY 2013 Budget

### For More Information

Eric Scorsone  
 MSU Extension Specialist  
 Phone: (517) 353-9460  
 Email: [scorsone@msu.edu](mailto:scorsone@msu.edu)  
 Web: [www.msue.msu.edu](http://www.msue.msu.edu)

MSU is an affirmative-action, equal-opportunity employer, committed to achieving excellence through a diverse workforce and inclusive culture that encourages all people to reach their full potential. Michigan State University Extension programs and materials are open to all without regard to race, color, national origin, gender, gender identity, religion, age, height, weight, disability, political beliefs, sexual orientation, marital status, family status or veteran status. Issued in furtherance of MSU Extension work, acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Thomas G. Coon, Director, MSU Extension, East Lansing, MI 48824. This information is for educational purposes only. Reference to commercial products or trade names does not imply endorsement by MSU Extension or bias against those not mentioned. Produced by ANR Communications. 8-14-12

*Disclaimer: This document is provided as a public service and was prepared for educational, public interest and research purposes only. This document or its contents should not be construed to represent legal advice.*