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Budget Address

Continuing our Work for Detroit's Working Families
Detroit Mayor Kenneth V. Cockrel Jr. Fiscal 2010 Budget Message

April 13, 2009

Honorable City Council:



The budget I present to you today is a structurally balanced budget for the City of Detroit for fiscal year 2009-2010. It does not rely on any one-time events to raise revenue for the new budget year. It does, however, require all of us: Government leaders, employees, unions, businesses and the entire community – to examine the purpose and mission of Detroit city government and make serious decisions about our future.

In January, when I presented my deficit reduction plan, I informed you of my goal to eliminate the City's accumulated deficit, as well as remedy our structural budget imbalance. I said that the practice of spending more than we take in must end. This budget moves the City away from the pattern of deficit spending that has been tolerated for far too long, and introduces a new level of accountability and transparency to the City's budget. The process of eliminating the accumulated deficit from prior years begins with us being realistic about what we take in and what we spend. It begins with us being honest with ourselves and open with those that rely on our city's services to provide a realistic picture of our financial situation. Members of this honorable body, this budget for the 2009-2010 fiscal year is presented as an important step in that direction.

This budget offers a sober yet straightforward view of the revenue the City of Detroit can realistically expect to receive and what it can afford to pay for essential city services. In our planning, we did not ignore the severe economic downturn Detroit and the entire state is now facing. Therefore my revenue projections are conservative, but realistic, based on the lower tax income and

other revenue the city will receive.

I recognize, as I hope we all do, that unless we deliver high quality, user-friendly services and improve overall service delivery, Detroit will not retain the residents and businesses needed to sustain a solid tax base. This budget calls for the City to provide services that Detroiters need and it eliminates non-essential expenditures identified by department directors, deputy directors and other experienced personnel. My job as mayor requires that I too make critical choices as to how to spend the tax dollars of Detroit's taxpayers. I have taken the responsibility of preparing this budget the way I have tried to take on every challenge and responsibility I've faced in public life: with the serious perspective of a Detroit taxpayer; a husband and father; a Detroiter who is involved with my neighborhood and community organizations, and who is concerned about what's happening with jobs, schools and the safety of the people on my block and on the next block and on the other side of town. I have brought to this budget the perspective of a native and longtime Detroit resident – so none of my decisions were taken lightly.

Ultimately, presenting a realistic budget that deals head-on with fiscal challenges that have been put off or even covered up in recent years is vital to our city's survival. Balancing the budget, especially in these difficult economic times, involves making tough choices everywhere. For instance, while we will not close additional City-funded recreation centers, we must reduce the number of seasonal workers hired to maintain city recreation and park facilities. This also means a reduction in frequency of grass cutting from 10 days to 15 days. However while we may be reducing services in one area, we also will aggressively seek out others to adopt some of our parks and help pay for their upkeep in the next fiscal year.

Staff Reductions

Another painful but necessary choice was made after examining operations in all City departments and consulting with departmental leaders. The 2009 - 2010 budget calls for the elimination of 826 budgeted positions. This reduction includes 334 layoffs and the elimination of 509 positions that are currently vacant. There are no layoffs of public safety personnel however; some unfilled public safety positions will be eliminated. A total of 17 positions were added in the Department of Public Works for the recycling initiative and provide additional support for the solid waste division.

The recommended job cuts will reduce salary and wage costs for the General Fund by $42 million. This includes a $2 million decrease in the Mayor's Office Budget.

Now, this was something I hoped to avoid. I have dedicated my career as a public servant in the City of Detroit to working for working people. As you recall, I asked the unions to make wage concessions so that any layoff would be minimal. I approached our unions as partners in an effort to avoid massive layoffs. I am pleased to report that negotiations with our unions are ongoing and wage concessions are still on the table. However, no decisions have been made and I am required to present a budget to Council at this time. As a

result, I must propose, in this budget, staff reductions. At the same time, I am proposing for the first time in our city's history, an incentive for retirements that will lessen the number of involuntary layoffs.
To be more explicit, I am proposing a staff reduction plan that encourages City civilian employees who have more than 30 years of service to retire. We will make a one-time offer to employees with 30 years of service or more, an opportunity to receive full retirement benefits as usual with one exception. As an incentive, we will increase the sick bank payout from 60% to 85%. Civilian employees with 30 years of service will have 30 days to accept this offer. After 30 days, this increased sick bank payout will not be available. Another feature of this plan calls for a one-time payment of 10% of the current annual salary for those 30-year civilian employees who have little or no time in their sick bank. This is a one-time offer that will be available for 30 days and then it will not be offered again. We will announce the details later this month and implement this plan in May.

Let me tell you, I take it extremely personally when I, as Mayor have to lay off an individual worker. For every position that we reduce or eliminate I know that it does not just affect one individual, if affects an entire family. That is why I have asked our unions to work with the city in preserving our jobs by making joint sacrifices. Unions across the country have been asked to make wage concessions and most have agreed that reducing ones salary is better than reducing ones job. Nonetheless, the City continues to work with our unions. While some have been critical about the pace of the negotiations, it is imperative that an agreement be worked out that is in the best interest of both parties, and the long-term future of our city.

And for those whose positions have been eliminated, we are offering you help. We have assigned a member of the Detroit Workforce Development Department to work with you, should you want it, in seeking training in a new career. This support is available at no cost under the "No Worker Left Behind" program. Assistance also will be provided to those seeking new employment that includes career counseling, resume development and job training.

Stimulus Funding
The federal economic stimulus funds from the American Recovery and Reinvestment Act of 2009 (ARRA) will be a welcome addition to the City's operations, but it is not and cannot be a part of our budget proposal. We should not rely on it to reduce our deficit or to account for something for the next fiscal year. While we welcome the opportunity to receive Recovery Act dollars, we know that the funds will not solve all of Detroit's economic problems. The funds can only be used to execute a limited number of the shovel ready, capital projects we identified a few months ago.

We identified more than $3 billion worth of projects that could have the added benefit of creating an estimated 30,000 jobs for Detroiters. The unfortunate reality is that Detroit will not receive $3 billion in stimulus funds. The limited funds Detroit receives will be used for projects that will enhance City operations or improve facilities where Detroiters receive City services. This budget, therefore, does not factor in federal Recovery Act funds.

The budget before you incorporates an outlook that brings the City closer to a more limited service perspective that has been advocated by some within and beyond Detroit city government since the late Marie Farrell Donaldson, the City's former Auditor General and Ombudsman, suggested such an approach 25 years ago. Yet, this budget still reflects optimism about the growth and development the City can expect moving forward, due to the resiliency of Detroiters and the historic opportunities that lie before us today.

Reduced Revenue Expectations
This budget also projects revenue decreases for fiscal 2010 totaling $66.2 million in taxes, penalties, interest, fines, investment income and State of Michigan Revenue Sharing.

A $13 million decrease in collection of current and delinquent property taxes is projected for fiscal 2010. We recommend a total of $168 million in budgeted property tax revenue.

A $30 million decrease in income taxes is projected for fiscal 2010. We recommend a total of $245 million in budgeted income tax revenue.

A $18 million decrease in wagering taxes is projected for fiscal 2010. We recommend a total of $176 million in budgeted wagering tax revenue.

A $4.1 million decrease in State of Michigan Revenue Sharing is projected for fiscal 2010. We recommend a total of $275 million in budgeted State Revenue Sharing.

To wrap up my discussion of expected reduced revenue, a $4.2 million decrease in earnings on investment for fiscal 2010. We recommend budgeting total earnings on investment of $3 million.

Solid Waste Fee Reduction
One area of revenue reduction expected during the 2009-2010 fiscal year will be good news for Detroit residents. I'm pleased to announce that due to the retirement of GDRRA bonds earlier this year, the City's annual Solid Waste Fee will be reduced from $300 to $240 for each household. The new fee for seniors will be $120. These reductions will become effective on July 1, 2009.

Decreased Debt Payments
While the budget projects significant revenue decreases, it also projects a $32 million reduction in debt payments, due to the payoff of Fiscal Stabilization bonds.

Prior-Year Deficit Elimination
The deficit reduction plan I presented to Council in January proposed, as a deficit elimination strategy, the leasing of city assets to unlock their value. To quickly reiterate, leasing a city asset means that we secure immediate private funding while maintaining control of the asset and in some cases, its operation, over a period of time. IT DOES NOT MEAN GIVING IT AWAY. Detroit retains ownership of the asset while eliminating the deficit.

The importance of this funding source is that it will reestablish the City's cash reserves and thereby eliminate the need for the City to borrow each year to fund its annual operations. It will also substantially reduce the City's accumulated deficit.

As I have noted, asset leasing has been introduced successfully in other cities, such as Memphis, Indianapolis, Harrisburg and Chicago, which sold the income stream from its municipal parking to a third party. These cities entered into long-term leases, retaining ownership and setting their terms for future operations.

Since January, we have explored, with certain interested parties, the potential of leasing Detroit's income stream from three of the City's assets: the Detroit-Windsor Tunnel; the Municipal Parking facilities; and, the Public Lighting Department. These discussions have helped to further convince us that the City can raise $100 million from leasing the income stream of the Detroit-Windsor Tunnel; $100 million from Municipal Parking; and $75 million from Public Lighting. In every instance, the City of Detroit would retain ownership. The $5 million deficit balance could be paid off from operations next year. And we continue to explore this opportunity.

Restoring Financial Stability

In the eight months since becoming Mayor, we have set the course to restore fiscal stability to government. Getting a handle on the City's finances is a matter of due diligence and realistic expectations of what we as a city take in; the cost of services; and, what we pay out. It is a matter of being transparent and honest about the economic realities our city faces. We have already uncovered the problems of the past and put corrective processes in place to make sure that we maintain fiscal stability and transparency in city government.

Since I became Mayor last September, we have achieved a number of financial victories:

- Beginning with the recognition that the accumulated deficit was much larger than previously reported, and that new financial systems and controls were needed;
- On February 26, we completed the Comprehensive Accounting Financial Report (CAFR) for the fiscal year ended June 30, 2007, and the City has received an unqualified audit opinion from our independent auditing firm (KPMG); and,
- We will complete the 2008 CAFR by August 31, 2009. The fiscal year 2009 CAFR is scheduled for completion by March 31, 2010 and the 2010 CAFR will be completed by December 31, 2010. That's two CAFRs this year, and two CAFRs next year.

That's a lot of work and it's critically important work for this City and its people that that work continue.

But the most significant work that my administration has done recently involved an agreement that saved the City of Detroit from paying $400 million to speculative investors. By reaching an agreement in principle last month with

these investors, we actually saved the City from financial insolvency -- and most likely, intervention from the State of Michigan. This agreement must be ratified by this Honorable Body – and I trust that you will approve of removing this huge weight from the City's balance sheet.

I'll move on after mentioning just a few more financial victories we achieved since last September:

- We received the highest possible credit rating from the Standard & Poors credit agency for the City's revenue anticipation notes;
- We remarketed Detroit Water bonds with high credit ratings;
- All of this was achieved despite the downgrade I mentioned in the City's credit ratings, which was tied to the collapse of financial markets last fall and a continued weak bond market.

We Are All in This Together

Detroit like all cities, is suffering the effects of the global economic crisis. The housing market continues to suffer, the financial markets are still in limbo and our auto industry is being reorganized. As a result, we as a city need to make critical decisions that help us in the short term, while at the same time position our city better in the long term. Unfortunately, very few cities are immune from staff reductions. Cutting back on services is necessary in today's economic environment. It is an issue that cities from New York to Seattle and Los Angeles to Washington, D.C. are dealing with.

The budget I present today eliminates Detroit's structural deficit and puts us on track to knock out the accumulated deficit from the past. It is a painful process, but the pain must be shared fairly. In order to close the deficit without destroying core services, we need help from all of our partners – unions, contractors and others, to get through these difficult times. While this budget reflects today's economic realities, it will offer hope and opportunity to keep Detroit moving forward.

Today, we are all being forced to make difficult choices about the way we run our households. We have to make painful sacrifices in order to pay for the essentials. The City of Detroit must be willing to do the same. That will require strong leadership and good judgment from those of us with the awesome responsibility to govern this city. I ask you to carefully consider my budget proposal for the next fiscal year. I also ask you for your support.

At this time, I along with my Budget Director Pamela Scales and CFO, Joe Harris, are available for questions.