



CITY COUNCIL AGENDA ITEM

August 29, 2011

TO: The Honorable Mayor and City Council Members

FROM: John Szerlag, City Manager

SUBJECT: Cost Effectiveness of the Early Retirement Incentive Program (ERIP), and other Best Practices

The following information has been prepared in response to the inquiry of City Council regarding the cost effectiveness of the Early Retirement Incentive Program.

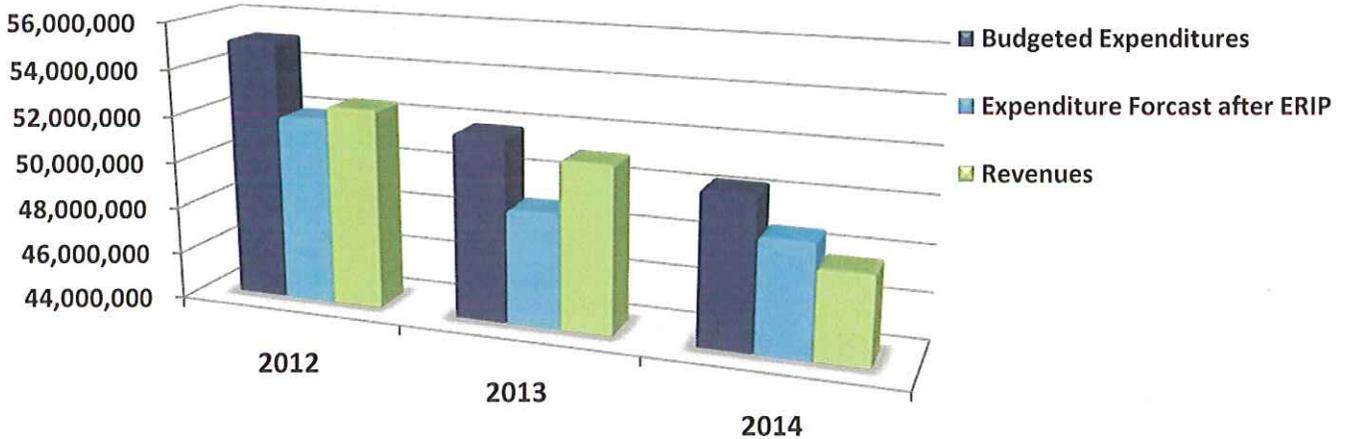
The good news is that the ERIP went beyond being cost neutral; it is cost efficient to the organization. This means that our projected expenditures for employee costs are going to be reduced. And the ERIP is part and parcel of employee concession as well as modified collective bargaining agreements and reduction in costs for replacement employees. All in all, every full-time employee position has had a reduction in payroll costs of at least 10%. As you know, we defined payroll costs as the aggregate number of base salary/wage, pension costs, FICA and workers compensation. We know of no other municipal government where every employee agreed to take concessions.

As background, the Early Retirement Incentive Program was offered to all eight employee groups to reduce costs and assist in the restructuring effort. The program continues to be open to two employee groups; thus, final estimates will not be available until November. That said, we anticipate that the Early Retirement Incentive Program, taken in conjunction with employee concessions and reduced cost of replacement employees, will reduce our budgeted employee expenditures by an average of \$2.6 million per year over the next three years.

Please know that the ERIP and associated cost reductions need to be taken within the context of our Three-Year Budget; in particular the difference between expenditures and revenues. Our Three-Year Budget is balanced. However, our current budgeted expenditures exceed our current budgeted revenues in each of the three years. Thus use of General Fund Balance is required to balance the budget. So, what we have to determine is whether the reduction in expenditures due to the ERIP and related elements are enough to not have to utilize our current level of Fund Balance. The answer is yes, and this is shown graphically below for General Fund operations.



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Given the above, the ERIP/concession initiative not only reduced reliance on Fund Balance, but we now have projected revenues exceeding projected expenditures for the first two years of the three-year budget. If we compare the average expenditure reductions from the ERIP to the average use of Fund Balance over the next three years, we project revenues over expenditure on an average of \$600,000 per year. Of course, there are other variables to consider and we will not know for certain until the final audit. However, that should not take away from the fact that this is a major accomplishment for the City of Troy. And we have arrived here because of all of the following:

1. City Council prioritizing service delivery venues.
2. City Council adopting a Three-Year Budget based on this prioritization.
3. All employee groups, union and non-union agreeing to concessions.
4. A continuous reduction in the cost of replacement employees because of reduced pay and benefits.
5. Organizational restructuring.
6. Guidance from the International City/County Management Association (ICMA) relative to organizational economic sustainability.
7. A change in the culture of the organization to accept, embrace and enhance the concept of change management.

While going from a projected deficit between revenues and expenditures to one where we project revenue to exceed expenditures is a commendable achievement, there are still three issues which need to be addressed:

1. As you know, we are slated to lose thirty-eight sworn police officers from our 2009 staffing level. The ICMA report indicated that the department will be unsustainable unless at least four sworn positions are retained. This will result in an annual recurring cost of approximately



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\$450,000. In addition, I'd like to discuss the matter of police deployment in further detail this October.

2. Another sustainability issue we need to tackle is the 32 hour work week for several departments. This will adversely affect quality of services to our residents and businesses. It will also impair our ability to retain and attract employees.
3. City Council wants to revisit the major and local street system networks from both maintenance and capital improvement perspectives.

At this time I recommend City Council formally authorize retaining at least four sworn police officer positions from the thirty-eight slated for elimination.

Before closing I would like to mention two more items. In terms of revenue projections, Mr. Nino Licari, City Assessor, sees no changes to the revenue projections that were initially made over two years ago. While individual classes of property are seeing slightly different losses in value than originally projected, the net change in taxable value is virtually the same. For example, the residential class will drop just under 5% this year (compared to the original 6% estimate), the commercial will lose close to 10%, and the industrial class will lose about 14%. Both of these classes were originally estimated to drop 5%. The net overall change will still be very close to the original 6% loss in taxable value.

Finally, the methodology for calculating the financial impact of the ERIP was evaluated by the actuarial firm of Gabriel, Roeder, Smith and Company. The program was determined to be sound taking into account the associated amortized actuarial cost of the program, the cost of any replacement employees, and the concessions that were made by every employee group (see attachment 1). Succinctly, this means that the ERIP was economically advantageous to the City of Troy as an organization.

C: Lori Grigg Bluhm, City Attorney
Aileen Bittner, City Clerk
Tom Darling, Darling & Associates
Monica Irelan, Assistant to the City Manager/Coordinator of Continuous Improvement
Nino Licari, City Assessor
Gary Mayer, Chief of Police
Peggy Sears, Human Resources Director
Council Candidates

August 18, 2011

Mr. John Szerlag
City Manager
City of Troy
500 W. Big Beaver Road
Troy, Michigan 48084

Re: Potential Savings Associated With Early Retirement Incentive Program

Dear John:

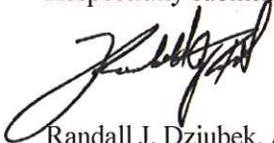
You have asked for our comments regarding the approach used by the City's staff to estimate the potential pay and fringe benefits savings associated with the Early Retirement Incentive Program (ERIP), and how these estimated savings were used to support the forecast that the ERIP is cost efficient. (Fringe benefits for this purpose include sick time, vacation time, health costs, pension costs, etc.) After reviewing the information provided to us for this purpose, we believe the procedures used by the City are reasonable for this purpose.

Our analysis was based on information provided by the City as described below. We have relied on the City for the accuracy of this information.

- Current pay and payroll costs (which include fringe benefits and other expenses) for each individual eligible member
- Expected year by year pays for replacement employees (over a five year time horizon)
- The estimated cost for replacement employees (which include pay, fringe benefits and expenses)
- Written summary of the procedures used by the City to perform its analysis (attached)
- Estimated savings resulting from reduction in workforce

Once the ERIP is closed to all employees, the City can then revise the forecast of the potential total organizational savings, based on the employees who actually retired under the program, savings from employee concessions, and promotional opportunities created.

Respectfully submitted,



Randall J. Dziubek, ASA, EA, MAAA



Kenneth G. Alberts

RJD/KGA:sc
Enclosure

cc: Brad Armstrong