

To: Mr. Warren Evens, Wayne County Executive  
From: Patrick Willers  
Date: 5/1/15  
Subject: Management Recommendation

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**Three Recommendations:**

My first recommendation is that Wayne County consolidate more operational offices and divisions, in order to reduce redundancies and improve liquidity of the budget. My second recommendation is that Wayne County renegotiate union contracts and worker benefits immediately, in hopes of arriving at a more equitable solution than an across-the-board cut. Lastly, my third recommendation is that Wayne County sell off the jailhouse that is currently halted in construction, in order to get the debt and maintenance fees off of the balance sheet as soon as possible. With the tax revenues decreasing, the debt liabilities becoming more expensive and the pension system becoming more egregiously underfunded, the county needs to act quickly, decisively and confidently.

**Justification**

Wayne County has not recovered well from the financial crisis of 2009. Additionally, with the state's constitution limiting the county's ability to increase its tax rate, the county has not been able to generate enough revenue to cover its operation and legacy expenditure costs. The county's generated revenue declined substantially from 2008 to 2013, driven mostly by falling property values, to where its 2014 revenue is at around half the level it was in 2007 before the crisis (CAFR 2014). As you said to The Detroit News on February 5<sup>th</sup>, "The financial Armageddon" is coming for Wayne County in August 2016 if large changes do not occur immediately, which suggests that the

recommendations delineated below should be evaluated and implemented as soon as possible.

## **Specifics**

### **1. Consolidate Offices and Divisions**

I am aware that the county currently proposes to consolidate three of its operating divisions to form the Health, Community Wellness and Senior Services Department, which is projected to save the county \$3 million a year in expenses (Ramirez 2015). Additionally, you have recently spoken on consolidating offices into the Guardian Building, which is also projected to save the county around \$3 million a year (Lawrence 2015). I believe that these consolidation plans are the right move, and I encourage the county to go even further by eliminating EDGE, and converting it into something similar to the Detroit Economic Growth Corporation. By converting EDGE into an agency the county saves additional money in its budget, and the newly formed entity can continue to pursue economic incentive programs to attract new businesses to Wayne County. It is also quite possible that the agency would be able to function more efficiently by not needing to go through so many layers of bureaucracy, which would signify a better chance of attracting new businesses to Wayne County.

On the other hand, one might argue that by consolidating more divisions the quality of service would decline, as there would be fewer workers per task/function. There could also be a concern that the workers would become more generalized in their skills and less likely to hold deep understanding of the functions. This could be the case in some instances, but I would argue that it is not true for most, and the county needs to

pursue fiscal policies as its first priority to help right the budget deficits, even if that means a slight decline in service quality in the short-term.

## **2. Renegotiate Union Contracts and Worker Benefits**

In 2005, close to 95% of pensions were funded, but by 2013 the percentage fell to 45% and is projected to decline even further by 2023 to 39% (EY 2015). If Wayne County does not act now to resolve this issue quickly, the state will intervene and most likely employ broad, indifferent benefit cuts across the board. This outcome will not be the most equitable solution and might result in a situation similar to Detroit, where people are taking a cut on monthly benefits on top of having to pay back interest payments. By sitting down today with the unions and negotiating the needed cuts, Wayne County can help facilitate a more equitable resolution and might be able to save more people from being negatively effected.

The negotiation process may not be easy, as the unions will not want to concede any cuts if they believe that it is not completely necessary, but it is imperative to convince them that by negotiating now with Wayne County they will be able to help formulate the plan. If they forego negotiations now, they will most likely be forced to negotiate with the state in the future and they will not be able to play as large of a role in the policy formulation. Therefore, it is in the unions' best interest to negotiate now because they will have a greater say in the negotiations and will be able to facilitate a more equitable solution for its members.

### **3. Sell Off Jailhouse**

When Fitch downgraded some of Wayne County's bonds to "junk" bond status on March 12<sup>th</sup> the county's debt became a whole lot more expensive and unsustainable (Hicks 2015). The downgrade reflects the dire situation that the county is facing and Fitch cites many different reasons for its decision, such as the unfinished jail project in Detroit. (Hicks 2015). The jail project is a large concern because there is worry that the project will never be completed and the outstanding debt used to finance the project will not be able to be paid back. The Detroit Free Press reports that with the current overruns, the project could exceed the budgeted amount by \$170 million, which would only exacerbate the already critical condition of the county's debt holdings (Hicks 2015). Furthermore, the county is spending about \$1.4 million in interest and storage fees per month for the project, so the quicker the project can be taken off the balance sheet, the better (Walker 2015). Once the county's role in the project is ended, Fitch will be more likely to reverse the credit rating downgrade and that will help lower the costs of the remaining outstanding debt that the county has.

Recently Dan Gilbert offered \$20 Million for the construction site, but that is much too low to be considered (Walker 2015). However, there might be other companies that would be interested in purchasing the site for a reasonable amount of money, and convert it into office space or something entirely different. I am not proposing to sell the jail to a private prison company specifically, but rather I am encouraging the county to pursue a deal in which the project's costs are converted to liquid assets and small long-term debt. Furthermore, with the sale of the construction site, Wayne County could then use a portion of the money received to renovate the currently operating jails in the county

and still offer improved correctional facility services. As you are aware, the jail project has been halted, a criminal court case is underway to evaluate potential corruption and the price of debt for the county has been raised, all of which showcases strong reasons to end the project immediately.

### Conclusion

When the burden of higher priced debt, due to the downgraded credit rating, is partnered with the decreasing property tax revenue collection, weakened liquidity position, increasing legacy expenditure issues and the need to complete the downtown Detroit jail project, there are too many things that are needed to be resolved quickly for the county not to pursue changes immediately. Therefore, I reiterate my recommendations, in hope that action is taken quickly: consolidate offices, eliminate EDGE, renegotiate the union contracts and workers' benefits and sell off the Jailhouse.

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