



**OFFICE OF THE  
CHIEF FINANCIAL OFFICER  
OFFICE OF BUDGET**

Coleman A. Young Municipal Center  
2 Woodward Avenue, Suite 1106  
Detroit, Michigan 48226

Phone 313•224•6260  
www.detroitmi.gov

November 9, 2023

Honorable Mary Sheffield, Council President  
Detroit City Council  
Coleman A. Young Municipal Center  
2 Woodward Avenue  
Detroit, MI 48226

Re: Fiscal Impact of Proposed Responsible Contracting Ordinance (Revised)

Dear Council President Sheffield:

Please see attached Fiscal Impact Statement prepared by the Office of Budget for the above referenced item, pursuant to CFO Directive 2018-101-029: Fiscal Impact Statements. Upon review, please do not hesitate to contact me to discuss further.

Best regards,

Steven Watson  
Deputy CFO / Budget Director

Att: CFO Fiscal Impact Statement No. 2023-110-002A

cc: Honorable Detroit City Council  
Jay B. Rising, Chief Financial Officer  
Tanya Stoudemire, Chief Deputy CFO/Policy & Administration Director  
John Naglick, Jr., Chief Deputy CFO/Finance Director  
Janani Ramachandran Yates, Deputy Budget Director  
Malik Washington, City Council Liaison  
David Whitaker, Director, Legislative Policy Division



Coleman A. Young Municipal Center  
2 Woodward Avenue, Suite 1100  
Detroit, Michigan 48226

Phone: 313 -628-2535  
Fax: 313 -224-2135  
www.detroitmi.gov

## CFO FISCAL IMPACT STATEMENT NO. 2023-110-002A

**SUBJECT:** Fiscal Impact of Responsible Contracting Procurement Ordinance Amendments  
**PREPARED BY:** Office of the CFO – Office of Budget  
**DATE ISSUED:** November 9, 2023

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### 1. AUTHORITY

- 1.1. State of Michigan Public Act 279 of 1909, Section 4s(2)(d), as amended by Public Act 182 of 2014, states the Chief Financial Officer (“CFO”) shall submit in writing to the Mayor and the governing body of the City his or her opinion on the effect that policy or budgetary decisions made by the Mayor or the governing body of the City (“City Council”) will have on the City’s annual budget and its four-year financial plan.
- 1.2. CFO Directive No. 2018-101-029 Fiscal Impact Statements states that the CFO shall issue Fiscal Impact Statements (“FIS”) for pending or enacted decision items with a significant fiscal impact on the City, as determined by the CFO, to provide financial information to the Mayor and the City Council as they consider action on proposed local policy or budgetary decision items.

### 2. PURPOSE

- 2.1. To provide financial information to the Mayor and the City Council as they consider action on the proposed amendments to the procurement ordinance (Chapter 17, Article V), including additional definitions, additional equalization credits and clearances, clarification and amendment to the bidding process, and other technical changes (the “Responsible Contracting Ordinance”).

### 3. OBJECTIVE

- 3.1. This FIS serves as the report on the fiscal impact of the Responsible Contracting Ordinance in relation to the City’s annual budget for FY 2024 and four-year financial plan for FY 2024 – FY 2027 (the “City budget”).

### 4. SCOPE

- 4.1. This FIS is not intended to convey any statements nor opinions on the advisability of the Responsible Contracting Ordinance, except for those components of the proposed ordinance that have or may have a fiscal impact on the City budget.
- 4.2. This fiscal impact analysis is based on the Responsible Contracting Ordinance, as amended on November 8, 2023 in committee and described below in Section 5 of this FIS. Should the proposal change, an updated FIS may be issued.

### 5. STATEMENT

- 5.1. Conclusion: The Responsible Contracting Ordinance would have an **indeterminate negative fiscal impact** on the City budget.

5.2. Background: Under current law, the equalization credit process provides for a system of preferences for Detroit-based Businesses, Detroit Headquartered Businesses, Detroit Resident Businesses, Detroit-based Small Businesses, Detroit-based Micro Businesses, and Joint and Mentor Ventures. The preferences work by providing credits against the price of qualifying bidders (i.e., “equalizing”) in evaluating the overall winning bidder of a qualifying solicitation for goods and services. For example, a Detroit-based business can win a contract despite a higher bid so long as the equalization credits close the gap with the lowest actual bidder. The current process also provides a tiered system of credits with the percentages declining as the contract value increases. While the current process applies all eligible credits for bid evaluation purposes, there is also a cap on how much it can impact the contract award pricing. The City pays no more than 12% or \$100,000, whichever is less, above the lowest actual bid prior to the application of credits (the “equalization cap”).

The proposed Responsible Contracting Ordinance would modify the equalization credits process used to award contracts and determine pricing described above, as follows:

- Modifies the current system of credits, such that credit percentages no longer decline as contract value increases;
- For “high-impact construction contracts” only, adds new equalization credit preferences for Construction workforce development and Construction workforce investment businesses, regardless of whether they are Detroit-based businesses.
  - “High-impact construction contracts” are construction contracts, as defined in the ordinance, valued at \$250,000 or more.
  - “Construction workforce development” businesses means a construction contractor that participates in a Registered Apprenticeship Program.
  - “Construction workforce investment” businesses means a construction contractor that provides health insurance and retirement benefits to the employees working on the proposed construction contract.

The proposed Responsible Contracting Ordinance would also create new clearance requirements for contractors. The proposed ordinance requires businesses to receive new clearances before bidding for construction contracts:

- Corporate Accountability Clearance: Construction business submits documentation proving employees are properly licensed and certified and has not had any licenses, registrations, or certificates required for the performance of the contract revoked in the past five years.
- Workforce Safety Clearance: Construction business submits documentation proving appropriate safety training received by all employees.

5.3. Fiscal Impact: The Responsible Contracting Ordinance would have an **indeterminate negative fiscal impact** on the City budget, including higher administrative costs and higher contract pricing.

To implement the proposed ordinance, CRIO and OCP would need to hire additional staff as outlined in the table below. Additionally, CRIO may need to acquire new software to

sufficiently meet the proposed ordinance requirements. However, those costs are indeterminate at this time.

**City of Detroit  
Responsible Contracting Ordinance - Administrative Impact**

| <i>\$ in thousands</i>                             | Fiscal Year |        |        |        |
|----------------------------------------------------|-------------|--------|--------|--------|
|                                                    | 2024        | 2025   | 2026   | 2027   |
| <b>New employee salaries</b>                       |             |        |        |        |
| CRIO - Inclusion Analyst                           | 67          | 68     | 69     | 70     |
| OCP - Contracting and Procurement Specialist 3     | 83          | 85     | 87     | 89     |
| <i>Budgeted annual wage increase</i>               | 2%          | 2%     | 2%     | 2%     |
| Health and fringe benefits                         | 48          | 49     | 50     | 51     |
| <b>Total personnel cost</b>                        | \$ 198      | \$ 202 | \$ 206 | \$ 210 |
| <b>Partial year savings (Jan 1 effective date)</b> | \$ (99)     |        |        |        |
| <b>Approximate total incremental cost increase</b> | \$ 99       | \$ 202 | \$ 206 | \$ 210 |

The equalization credit changes would have an indeterminate cost to the City budget through higher contract pricing. Expanding the universe of equalization credits, increasing the credits, and adding new procurement process requirements on bidders may lead to overall higher contract costs and reduce the fiscal benefit from the equalization cap in determining contract prices.

**APPROVED**



Steven Watson  
Deputy CFO / Budget Director