

Fringe Benefit Costs Paid by MDOT for Contract Work on State Trunkline Highways: Are They Out of Line?

Rick Olson

Final Draft October 20, 2012

Finding: The fringe benefits paid by MDOT to county road commissions for contract work done by the road commissions on state trunkline highways on behalf of MDOT, although very high for some road commissions, appear to have reasonable explanations. Significant efforts to control these costs have been expended by the road commissions in question.

Conclusion: There was no “smoking gun” found. There is not enough fraud, waste and abuse in the system to eliminate which would fill the funding gap calculated in other studies. Nonetheless, control of these costs remains important and continued efforts are warranted.

The Michigan Department of Transportation (MDOT) contracts with 65 county road commissions to perform maintenance work on highways within the MDOT’s jurisdiction. The work performed includes, but is not limited to, routine highway maintenance such as snow removal, roadside mowing, etc. The rationale is that it is more efficient for MDOT to contract with the local agencies than to duplicate facilities and equipment in the areas.

This is not a new practice. For example, MDOT and the Washtenaw County Road Commission have had an agreement for the county to perform winter maintenance on state-owned roads since July 1946. The Road Commission recently renewed its annual contract with the Michigan Department of Transportation to maintain state highways, including I-94, M-14, US-23, US-12, M-52 and M-153. http://annarbor.com/news/road-commission-facing-winter-with-plenty-of-salt-aging-trucks-and-small-crew/?cmpid=NL_DH_topheadlines

MDOT reimburses the road commissions their actual costs, including the wages and benefits. To document the road commissions’ fringe benefit costs, MDOT requires counties under contract to submit direct labor and fringe benefit information on MDOT form 455C.

It came to my attention that some of the fringe benefit percentages submitted by the road commissions for 2010 appeared unreasonably high. Rather than jump to conclusions and think, “So that’s why road work costs so much and why we don’t have enough money to properly maintain our roads”, I decided to seek explanations for the percentages reported.

MDOT personnel compiled the initial spreadsheet of the counties under contract with the total and each of the components of the total fringe benefit percentages. The data was reformatted and the counties ranked in order of total percentages, from high to low, as shown on the table below. The counties’ fringe benefit totals ranged from 212.49% of wages for Midland County Road Commission to 57.41% for the Mecosta County Road Commission. The obvious questions were, “Why were some road commissions so high?” and “Why is there such a wide range?”

To answer those questions, e-mail messages were sent to the 35 road commissions whose total percentage was over 100%, plus seven other road commissions who had one or more element percentage that exceeded the average for that element. In addition to pointing out the apparently unusually high total percentage (where applicable), the specific elements that appeared out of line were pointed out. See the “Fiscal Year 2010 Fringe Benefits By Contract County - Selected Elements” spreadsheet to the specific elements questioned. For the road commissions with a total over 100%, the cells are not shaded, while for the road commissions with totals less than 100%, the specific cells are highlighted. A sample message for Crawford County is shown as Appendix A.

At the time of this revised final draft, all but Oakland, Ontonagon, Monroe, and Wayne (not technically a “road commission”, as it is a department of the county government) county road commissions had submitted their responses. Oakland County reported by phone responses consistent with those heard from other road commissions. Monroe County had not responded due to a recent change in management. All of the counties which had total percentages under 100% but for which specific elements had been questioned had submitted their responses. The full responses in alphabetical order may be downloaded from <http://ourmiroads.com/fringebenefitsstudy.html> together with the Excel spreadsheet with all fringe benefit categories by all contracted road commissions reported.

Conclusions Reached:

I found no “smoking gun” which would indicate the fringe benefit percentages were currently without good reason.

The total fringe benefit percentages are composed of many components, including, but not limited to, leave and longevity, retirement costs, and health care costs. Further, the percentage is a calculation of the total non-administrative fringe benefit costs divided by the total non-administrative wages. This latter point, although apparently obvious, is extremely relevant. The vast majority of the road commissions reported reductions in force over the past years. Many of the road commissions have legacy costs for former employees that still need to be paid for. Further, recent retirees have cashed in accumulated vacation and sick leave days. With reduced current payrolls (and thus a smaller divisor in the percentage calculation) and bulked up current payments for those costs, the resulting total fringe benefit percentages rise higher than normal.

Without digging even deeper, it is impossible to say with the current data that the road commissions have done all they can do to control and/or reduce their fringe benefit costs. This is, have some of the road commissions done all that they could to control costs? Probably not. Have all of the road commissions done at least some of the cost reductions most of the other road commissions have done? Probably not. Nonetheless, it is clear that the road commissions have done a lot. I.e., what the responses show is a fairly consistent pattern of:

- Reduced numbers of employees (80 of 83 county road agencies have reduced staff levels in recent years, according to a CRAM survey, some by more than 50%)
- More seasonal employees with lower benefits provided

- Attempts to control retiree costs by eliminating retiree health care benefits for recent new employees, reduce multipliers for pension benefits, etc.
- Attempts to control health care costs with changes in health insurance providers, contracts, reductions in benefits, increases in co-pays and deductibles, etc.

To a great extent, the current road commissions are saddled with costs that to a great extent are being incurred because of past decisions.

For a specific example, one could look at the county road commission that stands above the rest in terms of what might appear as a stratospherically high percentage – Midland, with a 212.49% fringe benefit rate for 2010. First of all, they have reduced their workforce by not replacing employees when they have retired. Their Leave and Longevity percentage of 20.96% spiked because of the retirement and final payout for five of their union employees. The rate had fallen to 16.79% in the 2011 455c report. Their 121.92% for the Michigan Municipal Employee Retirement System was elevated due to a \$400,000 payment for Other Post Employment Benefits (OPEB) to catch up in an underfunded system, followed by a \$500,000 payment in the following year. By being aggressive in increasing the funding level for the retirement program, they have returned to a stable retirement system.

The county with the next highest 2010 fringe benefit percentage, Luce, at 160.8%, reported the following:

“In the last fifteen years our road commission has made a lot of changes to our contract. The first was probably our sick leave. The employees who were hired before 07/01/81 had the luxury when they retired to get a buyout of 1,280 hours. Our last employee who was under this plan retired last year. With the current contract the most an employee may retiree with is 480 hours. Currently we have nothing close to that figure. Since 2005, we have paid out close to \$50,000 per year just for that benefit. If you look at the 455C for the years 2010 and 2011 you will notice that our percentage rate has dropped from 22.13 to 19.31 and this year should be lower than that.

The next item of business was our health insurance. In Sept of 1998, we instituted a no spouse on the retirees health care benefit for those hired after Sept. 1, 1998. The employee gets 4% per year for every year they work and the spouse receives nothing. Currently we have five employees that come under this plan.

Then in July of 2006, we took the retirees who are 65 and over off our health care and gave them \$2,500 each or \$5,000 per couple to purchase their own supplemental insurance. At that time it saved us over \$20,000 per couple per year.

In 2008, Management went to a \$2,000/\$4,000 deductible for BC/BS and then we went to a \$4,000/\$8,000 in 2010. Finally in 2012, the union and retirees who are under 65 went to a higher deductible plus a hard cap system for the union.

On our new contract, all new employees will be going to a reduced retirement with a 1.3 factor, no F55 and no E-2. Also to note, all new employees will have health insurance for only three years after retirement.

Representative Olson, we feel that we are headed in the right direction on our benefits, but the union benefited so much from past contracts, that it has taken the last 15 years to get back on track. We know that our fringe rate is high, but it is a reflection on low labor cost compared to the benefit package. As a way to keep our costs low, Luce County Road Commission has gone to a larger seasonal work force with reduced benefit levels while permanent staffing has been reduced 50% the past 10 years.”

These two examples are typical among the responses I received, showing dramatic actions taken by the road commissions to lower their fringe benefit costs.

However, having said that, this data shows the need to maintain pressure on controlling fringe benefit costs, as these costs have been and continue to be a very significant percentage of their total costs. Past road commissions in good times have been fairly generous in granting fringe benefits, often because fringe benefit improvements are easier to give than more wage increases that are more visible to the elected road commissioners and the general public. If, or when, we are successful in obtaining additional funding for road maintenance, we will not want to once again send the signal that “good times” have returned and allow fringe benefits to once again expand.

This then points out the importance of the 80/20 or cap on health insurance premiums local agencies may pay to SB 7 (PA 152 of 2011) obtain some or all of the state distributed funding and the “best practices” proposed in the best practices bills currently under consideration in the legislature. (House Bill 5301 (Price and Olson)/Senate Bill 914 (Kowall), House Bill 5302 (Roy Schmidt and Lori)/Senate Bill 913, (Kowall), House Bill 5313 (Jacobson), House Bill 5304 (Ouimet)/Senate Bill 921 (Jansen) and House Bill 5305 (Lori). Note: County road commissions are required to participate in the 80/20 or hard cap on health insurance premiums required by PA 152 of 2011. County road departments (Wayne, Macomb, Ingham and soon Calhoun) will be able to be exempt under the county general government. However, road commissions are not allowed to opt-out of the requirements as some municipalities may.

In fairness, it must be noted that many of the county road agencies have already implemented health insurance reforms (84%) or pension reforms (58%) without legislative mandates, according to a CRAM survey. The complete results of the 2011 and 2012 CRAM surveys may be accessed at http://www.micountyroads.org/PDF/Reforms_2011_final.pdf and http://www.micountyroads.org/pdf/Administrative_Reforms_10-12.pdf .

Despite these proposed statutory limitations, fringe benefits will not necessarily be controlled. In collective bargaining agreement negotiations, dollars are “fungible”. That is, if there are limits on some fringe benefits, there will be an effort by the unions to achieve additional benefits in other areas. Vulnerable areas include call in pay, overtime pay provisions, payouts for sick leave and vacation time unused, the number of holidays, vacation days and sick leave days, etc. Reading

the responses, it is clear that many of these collective bargaining agreement provisions have been tightened up in the road commissions' attempts to control costs, but there may be many road commissions that have not yet done so or that may loosen the controls under pressure in the future when additional funding becomes available.

Further, this points out the necessity of the defeat of Proposal 2 to be voted on in the November, 2012 elections. If Proposal 2 is approved, I fear that much of the progress in controlling the fringe benefit costs that the county road commissions have achieved will be eroded. The result would be less money to maintain the roads that we need to be maintained and improved. Unless we can assure the taxpayers that they will get value for the additional taxes they will pay, they will be less likely to approve of such revenue increases.

Limitations on the Study.

MDOT also contracts with many larger cities and villages for road maintenance, similar to the contracts with the county road commissions. The fringe benefit percentages claimed by the cities and villages have not been examined. The road commissions percentages were what had been brought to my attention and it was only later that I realized that similar queries would be appropriate for the cities and villages. I don't intend to do so, given a limitation of the time I can devote to pure research.

Although I have reviewed carefully the responses received, I have not done further follow-up or questioning of the responses submitted. They are available at <http://ourmiroads.com/fringebenefitsstudy.html> for your review and if you find things that need to be followed up, the opportunity exists.

Fiscal Year 2010 Fringe Benefits By Contract County

455C Line Item	Responded	Total Sum of Percentages
Midland	X	212.49%
Luce	X	160.80%
Genesee	X	148.82%
Iron	X	147.18%
Manistee	X	141.40%
Shiawassee	X	136.68%
Macomb	X	135.94%
Oakland		133.78%
Ontonagon		130.01%
Bay	X	128.24%
Cheboygan	X	126.34%
Marquette	X	123.84%
Mackinac	X	121.24%
Lake	X	120.91%
Schoolcraft	X	120.74%
Ostego	X	120.52%
Monroe		118.70%
Chippewa	X	116.67%
Clinton	X	113.77%
Gladwin	X	113.49%
Keweenaw	X	112.38%
Ionia	X	112.00%
Crawford	X	110.34%
Gogebic	X	110.20%
Iosco	X	110.03%
Mason	X	109.63%
Dickinson	X	107.75%
Presque Isle	X	107.49%
Arenac	X	107.01%
Sanilac	X	102.52%
Wayne		101.89%
Delta	X	100.68%
Roscommon	X	100.39%
Missaukee	X	100.25%
Leelanau	X	100.24%
Alpena	X	98.68%
Washtenaw		98.54%
Jackson	X	98.26%
Antrim		98.02%
Branch	X	97.90%
Tuscola	X	97.82%
Wexford	X	97.55%
Montcalm		96.11%
Gratiot	X	95.92%
Benzie		94.22%
Emmet		94.06%
Alcona	X	93.25%
Menominee		89.51%
Lapeer		89.16%
Charlevoix		88.93%
MDOT		88.44%
Oceana	X	88.05%
Calhoun		87.70%
Grand Traverse		85.01%
Alger		83.85%
Newaygo		82.93%
Ogemaw		80.94%
Hillsdale		79.89%
St. Clair		79.78%
Muskegon		79.26%
Berrien		78.78%
Huron		78.64%
Clare		75.55%
Ottawa		73.12%
Kent		65.52%
Mecosta		57.41%

Note: MDOT is included above for completeness, but is not directly comparable to the county road agencies, due to differences in average salary levels and the fact that MDOT employees hired since 1997 are on a defined contribution retirement plan that the state pays a maximum of 7% of salary into.

Fiscal Year 2010 Fringe Benefits By Contract County - Selected Elements									
455C Line Item	Total Payroll (Salary, Wages and Fringe Benefits) Costs	Leave and Longevity (Non-admin) Percent	Compensation Insurance Percent	Michigan Municipal Empl. Retirement System Percent	Health and Accident Insurance Percent	Hospitalization Insurance Percent	Other Benefits Percent	Other Insurance Percent	Other Time of Union STE Percent
Midland	1,679,908	20.96%	5.22%	121.92%	1.02%	49.16%	2.14%	2.81%	0.00%
Luce	1,006,202	22.13%	2.95%	41.77%	1.23%	78.73%	1.95%	0.59%	0.00%
Genesee	9,023,093	16.04%	4.04%	0.00%	2.01%	58.91%	0.26%	1.76%	0.00%
Iron	1,096,406	32.00%	3.92%	45.34%	0.00%	52.33%	0.00%	0.00%	0.00%
Manistee	1,373,411	19.00%	3.30%	53.80%	0.00%	52.90%	0.20%	1.30%	0.00%
Shiawassee	2,200,895	18.41%	2.83%	23.53%	0.58%	81.93%	0.15%	0.00%	0.00%
Macomb	14,519,119	24.03%	1.47%	0.00%	0.42%	81.85%	0.15%	0.15%	0.00%
Oakland	12,589,345	21.57%	14.20%	0.00%	3.56%	58.03%	0.03%	4.83%	0.00%
Ontonagon	2,305,180	20.69%	2.91%	33.50%	0.00%	62.12%	0.60%	1.61%	0.00%
Bay	3,164,738	20.18%	2.33%	0.00%	0.00%	68.60%	0.15%	0.43%	0.00%
Cheboygan	1,740,595	16.87%	2.90%	32.60%		63.54%	0.00%	0.46%	0.00%
Marquette	2,649,458	22.74%	3.01%	39.48%	6.22%	41.96%	0.00%	0.64%	0.00%
Mackinac	1,009,861	21.61%	4.65%	36.48%	0.00%	45.30%	0.40%	3.31%	0.00%
Lake	1,227,615	17.00%	3.33%	28.93%	0.00%	58.34%	3.15%	0.00%	0.00%
Schoolcraft	1,351,447	21.89%	3.65%	36.26%	0.00%	46.80%	1.73%	0.00%	0.00%
Ostego	1,409,259	14.65%	2.11%	21.79%	0.00%	71.75%	1.35%	0.00%	0.00%
Monroe	4,577,104	26.14%	3.01%	0.00%	0.00%	57.62%	0.00%	1.40%	0.00%
Chippewa	2,697,852	16.93%	3.23%	21.20%	0.00%	64.46%	1.07%	0.00%	0.00%
Clinton	2,536,107	23.32%	3.20%	21.19%	0.59%	55.81%	0.00%	0.09%	0.00%
Gladwin	1,481,430	16.27%	3.14%	23.54%	0.00%	56.54%	0.31%	3.44%	0.00%
Keweenaw	880,613	19.40%	2.75%	19.83%	2.26%	55.46%	0.27%	2.44%	0.00%
Ionia	1,783,922	18.67%	0.87%	42.70%	0.00%	36.22%	0.46%	3.12%	0.00%
Crawford	1,238,619	24.35%	2.18%	26.53%	0.35%	46.70%	0.37%	0.00%	0.00%
Gogebic	1,612,842	20.44%	3.86%	0.00%	0.00%	54.84%	0.16%	0.00%	0.00%
Iosco	1,490,317	16.52%	2.65%	42.87%	0.00%	38.28%	0.11%	0.10%	0.00%
Mason	1,547,230	28.11%	3.60%	18.75%	0.00%	38.06%	1.32%	9.98%	0.00%
Dickinson	1,552,174	14.99%	1.94%	19.31%	0.00%	61.92%	0.12%	0.18%	0.00%
Presque Isle	1,100,095	16.94%	2.80%	25.34%	0.00%	53.46%	0.00%	0.00%	0.00%
Arenac	874,334	19.24%	3.99%	25.93%	1.94%	44.59%	0.00%	1.83%	0.00%
Sanilac	2,156,584	21.54%	3.08%	9.61%	0.00%	58.51%	0.00%	0.03%	0.00%
Wayne	28,263,084	23.46%	3.85%	24.94%	38.48%	0.00%	0.00%	0.00%	0.60%
Delta	1,470,761	17.27%	4.95%	32.81%	0.00%	35.17%	0.04%	1.29%	0.00%
Roscommon	1,702,213	15.35%	3.20%	0.00%	0.00%	50.75%	1.81%	10.38%	0.00%
Missaukee	981,913	17.59%	2.97%	0.00%	53.48%	0.00%	3.89%	0.00%	0.00%
Leelanau	1,316,296	13.31%	3.54%	36.46%	0.19%	37.07%	0.11%	0.77%	0.00%
Alpena	1,271,671	21.74%	2.97%	18.12%	0.00%	45.37%	0.69%	0.50%	0.00%
Washtenaw	7,684,243	16.77%	4.03%	16.37%	0.14%	45.89%	2.85%	3.38%	0.00%
Jackson	4,089,818	14.27%	3.73%	0.00%	0.00%	63.20%	0.33%	1.02%	0.00%
Antrim	1,655,592	12.60%	2.30%	34.90%	0.00%	39.10%	0.00%	0.00%	0.00%
Branch	1,582,471	14.58%	3.18%	0.00%	0.00%	52.23%	1.08%	0.00%	0.00%
Tuscola	2,527,897	17.58%	2.21%	6.00%	1.43%	56.39%	3.41%	0.00%	0.00%
Wexford	1,733,847	14.28%	3.64%	24.91%	0.00%	39.37%	4.87%	1.25%	0.00%
Montcalm	1,975,833	16.52%	3.47%	20.36%	1.38%	41.83%	2.52%	0.60%	0.00%
Gratiot	1,688,234	24.08%	4.27%	20.40%	1.34%	36.27%	0.10%	0.00%	0.00%
Benzie	1,258,567	18.86%	3.98%	24.40%	0.00%	36.57%	0.00%	1.78%	0.00%
Emmet	1,750,414	16.06%	2.77%	31.31%	0.00%	28.10%	0.17%	0.12%	0.00%
Alcona	1,216,315	20.46%	-5.14%	0.00%	50.90%	0.00%	0.32%	7.78%	0.00%
Menominee	1,566,116	16.75%	5.42%	8.99%	0.00%	41.55%	0.00%	0.00%	0.00%
Lapeer	2,718,480	15.96%	3.65%	16.13%	0.72%	42.98%	0.07%	0.12%	0.00%
Charlevoix	1,304,779	15.21%	2.66%	24.69%	0.00%	36.45%	0.00%	0.49%	0.00%
Oceana	1,783,820	24.03%	7.32%	0.00%	0.00%	37.19%	1.01%	0.48%	0.00%
Calhoun	2,859,232	16.06%	2.63%	17.25%	0.47%	41.90%	0.03%	0.09%	0.00%
Grand Traverse	2,155,160	13.32%	2.63%	20.25%	37.50%	0.00%	1.16%	0.82%	0.00%
Alger	1,372,969	17.42%	5.14%	13.79%	0.00%	36.28%	0.32%	1.72%	0.00%
Newaygo	2,014,920	12.48%	2.71%	21.70%	0.00%	31.66%	3.61%	0.71%	0.00%
Ogemaw	1,331,040	16.71%	3.22%	19.54%	0.00%	32.16%	0.00%	0.00%	0.00%
Hillsdale	1,923,268	16.67%	2.55%	10.07%	0.40%	40.80%	0.01%	0.10%	0.00%
St. Clair	4,877,161	19.56%	2.72%	0.00%	0.00%	30.69%	0.00%	0.44%	0.00%
Muskegon	3,595,353	18.83%	3.32%	22.82%	0.46%	18.23%	0.08%	1.14%	0.00%
Berrien	3,318,115	11.17%	4.00%	0.00%	40.76%	0.00%	0.89%	0.00%	0.00%
Huron	3,186,073	15.82%	3.17%	13.67%	0.00%	35.30%	0.20%	0.00%	0.00%
Clare	1,374,933	12.80%	3.73%	9.82%	0.00%	39.25%	0.00%	0.00%	0.00%
Ottawa	6,340,975	15.58%	1.65%	20.81%	0.00%	25.25%	0.04%	1.89%	0.00%
Kent	12,347,949	17.60%	3.77%	0.00%	0.00%	26.84%	1.85%	0.00%	0.00%
Mecosta	1,536,050	18.62%	4.05%	7.93%	0.00%	17.14%	0.57%	0.00%	0.00%

Appendix A – Sample Request E-Mail Message

Dear Crawford County Road Commission Managing Director Donald A. Babcock,

This request for information is being generated to build the case for additional funding for road and bridges, something I am still hoping we can get accomplished in the lame duck session after the November 6 elections. Part of the case we need to build is that taxpayers are currently getting value for money.

It has been brought to my attention that the fringe benefit rates paid by MDOT to counties for work performed on MDOT's behalf appear out of line in some cases. I know that there often are good explanations for numbers or percentages that appear out of line, so I am seeking that additional information.

The Michigan Department of Transportation (MDOT) requires counties under contract to perform maintenance work on MSDOT's road system are required to submit direct labor and fringe benefit information MDOT form 455C. A copy of Form 455C is attached. Attached is a worksheet combining FY 2010 fringe benefit information for all contract maintenance counties. In addition to the information for the 66 counties, similar MDOT information was provided for comparison purposes.

Based on that information, your county had total fringe benefit costs of 110.34% of non-administrative payroll in 2010, much higher than the median 100% of the 65 counties, and above MDOT's FY 2010 total of 86.22%.

Please provide me with an explanation for why the percentage is so high. Your Leave and Longevity (Non-admin) percentage of 24.35% appears to be particularly high. Please explain. Also, please outline what actions you have taken to rein that cost in for the future. The 2010 data was the latest I received from MDOT, so please also attach your 2011 Form 455C to your response.

I would appreciate a response no later than October 12, to allow me time to compile the answers into a report I can deliver to the remainder of the legislators early in November. I would not want to have to report "Failed to respond" for your county, as this will not help convince other legislators that taxpayers are getting value for their money. Responses may be sent to my office e-mail address of rickolson@house.mi.gov, from which this message is sent.

If you have any questions, feel free to give me a call. My cell phone is probably the best so you don't have to go through any legislative aide.

Rick Olson, State Representative
55th Legislative District
525 Judd Road, Saline, MI 48176
734-944-0794, 734-646-5286 cell
olson48176@comcast.net

Office:

989 Anderson House Office Bldg.
517-373-1792
rickolson@house.mi.gov
<http://repolson.com>