



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY

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STATE TREASURER

**DATE:** April 12, 2016

**TO:** Financial Review Commission Members

**FROM:** Ronald L. Rose, Executive Director  
Steven C. Watson, Senior Analyst  
Financial Review Commission

**SUBJECT: City of Detroit FY 2017-FY 2020 Financial Plan Review**

In accordance with the Michigan Financial Review Commission Act (PA 181 of 2014), the City submitted its FY17-FY20 four-year financial plan to the FRC 100 days before the start of the fiscal year (March 23, 2016 for the fiscal year beginning July 1, 2016). The City publicly presented its plan to the FRC at the March 28, 2016 meeting. The FRC has scheduled a special meeting on April 13, 2016 for questions, answers, and a discussion on the City's financial plan. The FRC must approve or disapprove the City's submitted financial plan at its April 18, 2016 regular meeting. Through this memo, the attached tables, and the attached discussion topics, the FRC staff provides its overview and analysis of the City's financial plan as submitted.

### **Financial Plan Overview**

The City's FY17-FY20 Four-Year Financial Plan (the "financial plan") proposes total General Fund spending of \$1.078 billion in FY17, \$1.018 billion in FY18, \$1.026 billion in FY19, and \$1.034 billion in FY20. This spending is supported by the revenue estimates approved at the City's February Consensus Revenue Estimating Conference plus the use of \$67.9 million of prior-year surplus in FY17 to support restructuring capital projects (\$27.9 million) and blight remediation (\$40 million). The financial plan also includes proposed spending from the City's separate grant funds, special revenue funds, and enterprise funds, which are supported by restricted revenues. The City's financial plan estimates those funds totaling \$832 million in FY17, \$864 million in FY18, \$862 million in FY19, and \$877 million in FY20 (nearly half is the Detroit Water and Sewerage Department Retail funds). Inclusive of all funding sources, the financial plan supports 9,061 positions in FY17.

### **Technical Note on Comparisons to the FY 2016 Budget**

The financial plan includes organizational changes that, while technical, make it difficult to make direct comparisons to the prior-year adopted FY16 budget, including:

- Integration of operating restructuring funds into agency budgets
- Consolidation of capital restructuring funds from agency budgets to the Non-Departmental section

- Office of the Chief Financial Officer restructuring
- Removal of certain Public Lighting Department spending and revenue due to the electrical grid transition to DTE Energy
- Inclusion of Public Lighting Authority debt service transfer and its dedicated revenue
- Transfer of Animal Control from Police to Health and Wellness Promotion

The attached summary tables include an “Adjusted FY 2016” column prepared by FRC staff that approximates how FY16 would look after incorporating the above adjustments. This should help isolate the real year-over-year changes by normalizing for these technical shifts. The analysis that follows below compares the financial plan to the adjusted FY16 budgeted amounts.

## **Major General Fund Changes**

### *Operations*

While the financial plan’s total year-over-year change in budget is relatively small, there are substantial changes in individual spending categories. Overall, the City’s financial plan provides for an \$81 million (12%) increase in departmental budgets in FY17, largely offset by a \$64.6 million (70%) decrease in restructuring capital. The City’s ability to sustain growth in operations over the long term will remain a significant challenge, especially given its substantial increase in pension funding requirements in FY24. The leading three department increases are Police (\$27.8 million), Innovation and Technology (\$15.3 million), and Elections (\$6.6 million), representing over half of the total growth. The Police increase includes the recently approved pay raises. The Innovation and Technology increase includes that department’s ongoing restructuring, staff increases, and consolidation of certain IT functions and contracting. The Elections growth is due to the primary and general elections occurring during FY17. In general, the financial plan assumes salaries and benefits increase 2.5% in FY18, 2.5% in FY19, and 2% in FY20. It also assumes other operating costs decrease 2.5% in FY18, 3% in FY19, and 4% in FY20.

### *Capital and Blight*

The financial plan provides \$40 million for blight remediation and \$27.9 million for restructuring capital funded from prior-year surplus. As mentioned above, the City has substantially reduced appropriations for restructuring capital projects in FY17 (down \$64.6 million). However, the City may not ultimately spend all of the FY16 capital appropriations. Furthermore, as of this date, the City has over \$68 million in exit financing proceeds that have not yet been allocated for restructuring projects. The City has also identified \$50 million in unspent general obligation bond proceeds to be used for capital projects. Thus, there is substantial funding available in the near-term to supplement the new \$27.9 million budgeted for restructuring capital projects.

The financial plan includes \$40 million for blight remediation in FY17 (nearly flat to FY16). This represents only the General Fund support and does not include the use of federal grants, such as the Hardest Hit Fund (HHF) allocations provided to the Detroit Land Bank Authority for residential blight. The City intends to use the General Fund appropriation for Land Bank operations (\$11.4 million) and blight remediation that is ineligible for HHF, such as commercial structures and closed schools. For FY18-FY20, the financial plan continues to support Land Bank operations from recurring City revenues.

It remains uncertain how much the City needs and how it will support continued capital reinvestment and blight remediation beyond FY17 once the non-recurring resources supporting them are exhausted. Granted, it will likely take the City multiple years to exhaust the resources discussed above. The City plans to budget for capital and blight one year at a time as additional surplus, revenue gains, and other funding sources are identified. Given its conservative approach to budgeting, it remains likely the City will generate annual budget surpluses for reinvestment. The City plans to prepare a five-year capital plan by November 2016, in accordance with the City Charter, which will identify its capital needs and may address the long-term plan of finance.

### *Debt Service*

The financial plan includes appropriations in all years to satisfy scheduled debt service payments. It does not assume the issuance of any new debt. It also reflects the reduced debt service from the exit financing remarketing and \$30 million principal pay down from September 2015. The City's limited-tax general obligation (LTGO) debt service is \$75.4 million in FY17 and FY18 but grows to \$88.5 million in FY19 and \$97.8 million in FY20. In FY19, the debt service increase is supported mainly through revenue growth. In FY20, the \$20 million reduction in legacy pension contribution contemplated by the plan of adjustment offsets the \$9 million debt service increase as well as most of the \$15 million increase for public lighting decommissioning.

### *Pensions*

The City's legacy pension obligations remain a major financial challenge, especially given the recently identified shortfall in the City's legacy pension funds compared to the plan of adjustment projections. The financial plan includes \$30 million per year from FY17 to FY19 and \$10 million in FY20 to support the City's legacy pension obligations. This represents an additional \$10 million per year compared to the amounts required by the plan of adjustment. These amounts are separate from the roughly \$4 million per year in the financial plan supported by a portion of the unlimited-tax general obligation (UTGO) bond settlement. It is also separate from the City contributions to active employees' new hybrid pension plans, which are budgeted along with all active employee benefits within each department's budget.

The financial plan supports the additional \$10 million per year for pensions by eliminating the previously budgeted \$10 million contingency appropriation, which the City has not needed to utilize in FY15 or FY16. Furthermore, the City's separate Budget Reserve Fund already has an \$8 million to \$11 million cushion each year on top of its 5% required balance, thus covering the desired contingency without the need for the separate annual appropriation. Note, however, that future years' proposed pension contributions may change substantially based on the adopted recommendations in the City's forthcoming pension funding study. Separate from this financial plan, the City also plans to submit a FY16 budget amendment to provide an additional \$20 million to \$30 million for its legacy pension obligations in the current year. That increase will be funded from surplus fund balance, which will be identified before FY16 year-end.

### **Major Changes in Grant, Special Revenue, and Enterprise Funds**

The financial plan also includes the City's separate grant funds, special revenue funds, and enterprise funds, which are supported by restricted revenues. The largest among them are the Detroit Water and Sewerage Department Retail (DWSD-R) funds, which total \$384 million in FY17 and grow to \$430 million in FY20. FY17 reflects the first full year of the City's new local

retail operation after separating the regional wholesale operation into the new Great Lakes Water Authority (GLWA). This reorganization shifted over \$905 million and approximately 1,200 positions from the City's financial plan to GLWA compared to the original FY16 adopted DWSD budget. The new DWSD-R proposes annual operating increases of less than 4% supported primarily by water and sewer billing. The DWSD-R budget includes a 57 FTE increase in FY17 and sets aside the entire GLWA lease payment for capital rather than subsidizing local rates.

The next largest fund is the Detroit Department of Transportation (DDOT) fund at \$134 million, which supports public transportation in the city and is funded from fare revenue, federal and state funding, and a City General Fund subsidy. The financial plan assumes flat spending from FY17 through FY20 by absorbing salary increases through other operating savings. The plan also assumes small but steady decreases in the annual General Fund subsidy, from \$61.5 million in FY17 to \$58.2 million in FY20. Note that the DDOT budget also provides over \$6 million for the annual operating subsidy to the Detroit People Mover. Overall, the financial plan does not make aggressive assumptions about growth in DDOT federal and state funding or fare revenue from ridership gains. The City appears to be waiting until actual gains are observed before including them in its financial plan.

The remaining funds include over \$60 million in grant funds and over \$250 million in special revenue and other enterprise funds. These include the federal Community Development Block Grant, the dedicated property tax millage for unlimited-tax general obligation bonds, the dedicated library millage, street and solid waste funds, parking funds, airport funds, and other special funds. Overall, these funds are largely budgeted flat because the City is not counting on any gains until they are realized. Notable exceptions are annual increases in the Street Fund (tied to the recently enacted State legislation to increase road funding) and the City's plans to apply for \$14.4 million in additional Staffing for Adequate Fire & Emergency Response (SAFER) grant funding in FY18.

## **Conclusion**

Overall, the City's financial plan relies on reasonably conservative revenue and spending assumptions. It provides substantial increases for ongoing operations and reduces new capital funding while existing capital resources are spent down. However, the City continues to face significant long-term challenges to address its legacy pension obligations and capital needs. As such, the City is preparing separate plans due this fall to address both pensions and capital, which may necessitate significant changes to the FY17-FY20 financial plan and will certainly inform the development of the FY18-FY21 financial plan.

RLR/SCW

Attachments: (1) FRC Staff Summary Tables, City of Detroit FY17-FY20 Four-Year Financial Plan  
(2) FRC Questions and Discussion Topics, City of Detroit FY17-FY20 Four-Year Financial Plan

City of Detroit | FY17-FY20 Four-Year Financial Plan

FRC Staff Review

General Fund Summary

\$ in millions

	Adopted Budget FY 2016	Adjusted (1) Budget FY 2016	Financial Plan Submission to FRC (3/23/2016)			
			FY 2017	FY 2018	FY 2019	FY 2020
<b>Recurring Revenues</b>	\$ 1,022.5	\$ 999.5	\$ 1,009.8	\$ 1,018.0	\$ 1,026.1	\$ 1,034.3
<i>% YoY Change</i>			1.0%	0.8%	0.8%	0.8%
<b>Appropriations from Recurring Revenues</b>						
Departmental Budgets	\$ 775.9 (2)	\$ 675.3 (2)	\$ 756.7	\$ 766.2	\$ 766.5	\$ 771.1
<i>% YoY Change</i>			12.1%	1.3%	0.0%	0.6%
Non-Departmental						
Restructuring Capital (3)	\$ -	\$ 92.5	\$ 27.9	\$ -	\$ -	\$ -
Blight (4)	49.5	40.5	40.0	11.4	11.4	11.4
<i>less amounts funded from surplus</i>	(49.0)	(49.0)	(67.9)	-	-	-
LTGO Debt Service	81.0	81.0	75.4	75.4	88.5	97.8
Legacy Pension	20.0	20.0	20.0	20.0	20.0	-
Legacy Pension (UTGO Funding)	4.0	4.0	4.0	3.9	3.7	3.7
Legacy Pension (Extra Funding) (5)	-	-	10.0	10.0	10.0	10.0
Transportation Subsidy	60.2	60.2	61.5	60.9	59.1	58.2
Public Lighting Decommissioning	5.0	5.0	15.0	4.0	1.0	16.0
Contingency	10.9	10.9	0.8 (6)	-	-	-
All Other Non-Departmental	65.0	65.0	66.4	66.2	65.9	66.1
<b>Appropriations from Recurring Revenues</b>	\$ 1,022.5	\$ 1,005.4	\$ 1,009.8	\$ 1,018.0	\$ 1,026.1	\$ 1,034.3
<i>% YoY Change</i>			0.4%	0.8%	0.8%	0.8%
<b>Prior-Year Surplus</b>	\$ 49.0	\$ 49.0	\$ 67.9	\$ -	\$ -	\$ -
<b>Spending from Surplus (see above)</b>	49.0	49.0	67.9	-	-	-
<b>Total Resources</b>	\$ 1,071.5	\$ 1,048.5	\$ 1,077.7	\$ 1,018.0	\$ 1,026.1	\$ 1,034.3
<b>Total Appropriations</b>	1,071.5	1,054.4	1,077.7	1,018.0	1,026.1	1,034.3
<i>less reduced spending projection</i>	-	(40.0) (7)	-	-	-	-
<b>Surplus / (Deficit) (8)</b>	\$ -	\$ 34.1	\$ -	\$ -	\$ -	\$ -
<b>Budget Reserve Fund</b>						
Ending Balance	\$ 62.3	\$ 62.3	\$ 62.3	\$ 62.3	\$ 62.3	\$ 62.3
5% Requirement	53.6	53.6	53.9	50.9	51.3	51.7
Cushion above Requirement (6)	8.7	8.7	8.4	11.4	11.0	10.6

**Notes:**

- (1) The Adjusted FY16 column includes technical adjustments made by FRC staff to improve budget-to-budget FY17 comparison (see additional notes).
- (2) FY16 Departmental Budgets includes budgeted Restructuring funding and cost savings. FY16 Adjusted modifies adopted by shifting \$92.5M of Restructuring capital to Non-Departmental, adding \$5.4M annualized OCFO restructuring interagency billing, subtracting \$26M from Public Lighting technical shift due to transition to DTE, and adding \$12.5M for Public Lighting debt service.
- (3) FY16 adopted includes restructuring capital funding spread across various departments. In FY16 adjusted and FY17, restructuring capital is centralized in non-departmental. FY18-FY20 restructuring capital is not budgeted until additional surplus is identified to fund it. General Fund capital spending will be supplemented by over \$50M in unspent GO bond proceeds.
- (4) Does not include grant-funded blight remediation. The FY16 Adjusted column for Blight is \$9M lower because the budgeted Hardest Hit Funds go directly to the Land Bank and not City General Fund. The FY18-FY20 Blight funding is budgeted to sustain the Land Bank operating subsidy.
- (5) For FY16, the City plans to propose an amendment to provide an additional \$20M to \$30M to fund pension obligations from surplus. For FY17-FY20, the City has budgeted an additional \$10M annually to fund pension obligations. The City's forthcoming pension study may lead to further changes in the City's future pension funding strategy.
- (6) City no longer budgets a 1% Contingency because Budget Reserve Fund cushion provides equivalent coverage.
- (7) In its 3/28/16 monthly financial report to the FRC, the City projects underspending in FY16 compared to budget, primarily due to vacant positions (partially offset by public safety wage increases) and exit financing debt service savings.
- (8) Only includes projected surplus generated within each year. Does not include total accumulated General Fund balance. Total FY15 fund balance to be determined upon year-end audit completion. However, at least \$67.9M of prior-year surplus has been designated for use in FY17.

4/12/2016 - Prepared by FRC Staff

City of Detroit | FY17-FY20 Four-Year Financial Plan

FRC Staff Review

General Fund Appropriations by Department

\$ in millions

	Adopted Budget FY 2016	Adjusted (1) Budget FY 2016	FY 2017	FY17 vs. FY16 Adj.		FY 2018	FY 2019	FY 2020
				(\$) Sorted	(%)			
<b>Departmental Appropriations</b>								
Police Department	\$ 310.2	\$ 275.4	\$ 303.2	\$ 27.8	10.1%	\$ 307.1	\$ 309.7	\$ 313.4
Innovation and Technology	15.7	16.0	31.3	15.3	95.6%	31.4	31.3	31.1
Department of Elections	4.3	4.5	11.1	6.6	146.7%	11.0	10.9	10.8
Public Lighting Department	38.8	25.0	31.3	6.3	25.2%	31.1	30.8	30.5
Recreation Department	19.5	15.4	20.3	4.9	31.8%	20.3	20.0	19.7
General Services Department	66.5	59.2	64.0	4.8	8.1%	60.7	55.9	55.4
Office of the Chief Financial Officer	57.4	50.6	55.0	4.4	8.7%	55.8	56.3	56.7
Health and Wellness Promotion	6.3	2.4	5.2	2.8	116.7%	10.0	10.0	10.0
Housing and Revitalization	8.3	8.3	10.9	2.6	31.3%	10.8	10.7	10.5
Law Department	13.9	13.7	15.5	1.8	13.1%	15.7	15.8	15.8
City Council	7.3	7.3	9.1	1.8	24.7%	9.4	9.7	9.8
Human Resources Department	14.3	9.4	10.8	1.4	14.9%	10.9	10.9	10.9
Department of Public Works	1.5	1.3	2.2	0.9	69.2%	2.2	2.2	2.2
Planning Department	1.2	1.2	2.0	0.8	66.7%	2.0	2.0	2.0
Municipal Parking	5.9	5.6	6.0	0.4	7.1%	6.0	5.9	5.9
BSEED	0.9	0.9	1.1	0.2	22.2%	1.1	1.1	1.1
Human Rights Department	1.1	1.1	1.3	0.2	18.2%	1.3	1.3	1.3
Office of the Inspector General	0.9	1.0	1.1	0.1	10.0%	1.1	1.1	1.1
Zoning Appeals	0.5	0.5	0.6	0.1	20.0%	0.6	0.6	0.6
Ombudsman	0.8	0.8	0.8	-	0.0%	0.8	0.8	0.8
36th District Court	33.5	33.5	33.5	-	0.0%	34.0	34.3	34.6
Airport	5.4	- (2)	-	-	-	-	-	-
Office of Budget	1.7	- (2)	-	-	-	-	-	-
Fire Department	142.5	124.8	124.8	-	0.0%	127.2	129.4	131.2
City Clerk	2.1	2.1	2.1	-	0.0%	2.0	2.0	1.9
Administrative Hearings	1.2	1.1	1.0	(0.1)	-9.1%	1.0	1.0	1.0
Office of the Auditor General	3.8	3.8	3.2	(0.6)	-15.8%	3.2	3.2	3.1
Mayor's Office	10.4	10.4	9.3	(1.1)	-10.6%	9.5	9.6	9.7
<b>Departmental Total</b>	<b>\$ 775.9</b>	<b>\$ 675.3</b>	<b>\$ 756.7</b>	<b>\$ 81.4</b>	<b>12.1%</b>	<b>\$ 766.2</b>	<b>\$ 766.5</b>	<b>\$ 771.1</b>
<i>% YoY Change</i>				<i>12.1%</i>		<i>1.3%</i>	<i>0.0%</i>	<i>0.6%</i>
<b>Non-Departmental Appropriations</b>								
Public Lighting Decommissioning	\$ 5.0	\$ 5.0	\$ 15.0	\$ 10.0	200.0%	\$ 4.0	\$ 1.0	\$ 16.0
Legacy Pension (3)	24.0	24.0	34.0	10.0	41.7%	33.9	33.7	13.7
Blight (4)	49.5	40.5	40.0	(0.5)	-1.2%	11.4	11.4	11.4
Transportation Subsidy	60.2	60.2	61.5	1.3	2.2%	60.9	59.1	58.2
LTGO Debt Service	81.0	81.0	75.4	(5.6)	-6.9%	75.4	88.5	97.8
Contingency	10.9	10.9	0.8 (5)	(10.1)	-92.7%	-	-	-
Restructuring Capital (6)	-	92.5	27.9	(64.6)	-69.8%	-	-	-
All Other Non-Departmental	65.0	65.0	66.4	9.0	13.8%	66.2	65.9	66.1
<b>Non-Departmental Total</b>	<b>\$ 295.6</b>	<b>\$ 379.1</b>	<b>\$ 321.0</b>	<b>\$ (50.5)</b>	<b>-13.3%</b>	<b>\$ 251.8</b>	<b>\$ 259.6</b>	<b>\$ 263.2</b>
<i>% YoY Change</i>				<i>-13.3%</i>		<i>-21.6%</i>	<i>3.1%</i>	<i>1.4%</i>
<b>Grand Total Appropriations</b>	<b>\$ 1,071.5</b>	<b>\$ 1,054.4</b>	<b>\$ 1,077.7</b>	<b>\$ 30.9</b>	<b>2.9%</b>	<b>\$ 1,018.0</b>	<b>\$ 1,026.1</b>	<b>\$ 1,034.3</b>
<i>% YoY Change</i>				<i>2.9%</i>		<i>-5.5%</i>	<i>0.8%</i>	<i>0.8%</i>

Notes:

- (1) The Adjusted FY16 column includes technical adjustments made by FRC staff to improve budget-to-budget FY17 comparison: shifting \$92.5M of Restructuring capital to Non-Departmental, consolidating \$11.5M of department funds into OCFO, adding \$5.4M annualized OCFO restructuring interfund billing, subtracting \$26M from Public Lighting due to transition to DTE, adding \$12.5M for Public Lighting debt service, and shifting \$1.2M for Animal Control from Police to Health.
- (2) The Airport budget is in a separate enterprise fund. The FY16 Adopted General Fund budget for Airport was only for Restructuring Capital appropriations, which have been shifted to non-departmental in the FY16 Adjusted column. The Budget Department is consolidated into the OCFO in the FY16 Adjusted column.
- (3) For FY16, the City plans to propose an amendment to provide an additional \$20M to \$30M to fund pension obligations from surplus. For FY17-FY20, the City has budgeted an additional \$10M annually to fund pension obligations. The City's forthcoming pension study may lead to further changes in the City's future pension funding strategy.
- (4) Does not include grant-funded blight remediation. The FY16 Adjusted column for Blight is \$9M lower because the budgeted Hardest Hit Funds go directly to the Land Bank and not City General Fund. The FY18-FY20 Blight funding is budgeted to sustain the Land Bank operating subsidy.
- (5) City no longer budgets a 1% Contingency because Budget Reserve Fund cushion provides equivalent coverage.
- (6) FY16 adopted includes restructuring capital funding spread across various departments. In FY16 adjusted and FY17, restructuring capital is centralized in non-departmental. FY18-FY20 restructuring capital is not budgeted until additional surplus is identified to fund it. General Fund capital spending will be supplemented by over \$50M in unspent GO bond proceeds.

BSEED = Building Safety Engineering and Environmental Department

4/12/2016 - Prepared by FRC Staff

**City of Detroit | FY17-FY20 Four-Year Financial Plan**

*FRC Staff Review*

General Fund Appropriations by Object

\$ in millions

	Adopted Budget FY 2016	Adjusted (1) Budget FY 2016	FY 2017	FY17 vs. FY16 Adj.		FY 2018	FY 2019	FY 2020
				(\$) Sorted	(%)			
<b>Appropriations by Expenditure Object</b>								
Salaries and Wages	\$ 331.3	\$ 354.3	\$ 404.5	\$ 50.2	14.2%	\$ 413.0	\$ 421.0	\$ 429.0
Employee Benefits	146.0	155.2	186.9	31.7	20.4%	190.5	194.0	177.1
Professional and Contractual Services	51.0	51.0	66.0	15.0	29.4%	64.5	58.0	55.9
Other Expenses	281.1	120.4	130.7	10.3	8.6%	133.6	128.0	141.4
Capital Equipment	0.3	0.3	0.5	0.2	66.7%	0.5	0.5	0.5
Operating Supplies	21.3	30.1	28.3	(1.8)	-6.0%	27.6	26.4	25.3
Operating Services	153.9	156.4	148.7	(7.7)	-4.9%	107.2	104.0	101.6
Fixed Charges	83.5	83.5	75.4	(8.1)	-9.7%	75.4	88.5	97.8
Capital Outlays	3.1	103.2	36.7	(66.5)	-64.4%	5.7	5.7	5.7
<b>Total Appropriations</b>	<b>\$ 1,071.5</b>	<b>\$ 1,054.4</b>	<b>\$ 1,077.7</b>	<b>\$ 23.3</b>	<b>2.2%</b>	<b>\$ 1,018.0</b>	<b>\$ 1,026.1</b>	<b>\$ 1,034.3</b>
<i>% YoY Change</i>				<i>2.2%</i>		<i>-5.5%</i>	<i>0.8%</i>	<i>0.8%</i>

**Notes:**

(1) The Adjusted FY16 column includes technical adjustments made by FRC staff to improve budget-to-budget FY17 comparison: shifting Restructuring capital from "Other Expenses" to "Capital Outlays" and shifting Restructuring operating funds from "Other Expenses" to best approximation of salaries, benefits, supplies, and operating services. Also includes adding \$5.4M annualized OCFO restructuring interagency billing to salaries and benefits, subtracting \$26M from Other Expenses for Public Lighting due to transition to DTE, and adding \$12.5M to Other Expenses for Public Lighting debt service.

*4/12/2016 - Prepared by FRC Staff*

City of Detroit | FY17-FY20 Four-Year Financial Plan

FRC Staff Review

Non-General Fund Appropriations by Fund

\$ in millions

Fund	Adopted Budget FY 2016	FY 2017	FY17 vs. FY16		FY 2018	FY 2019	FY 2020
			(\$)	(%)			
Community Development Block Grant	\$ 30.8	\$ 30.0	\$ (0.8)	-2.6%	\$ 28.8	\$ 28.8	\$ 28.8
Urban Development and Discretionary Grants	2.9	2.6	(0.3)	-10.3%	2.6	2.6	2.6
Fire Grants Fund	-	-	-		14.4	-	-
Health Grants Fund	-	23.7	23.7		23.7	23.7	23.7
Homeland Security Grants Fund	-	0.8	0.8		0.8	0.8	0.8
Mayor's Office Grants Fund	-	0.1	0.1		0.1	0.1	0.1
Police Grants Fund	-	5.5	5.5		5.5	5.5	5.5
Public Works Grants Fund	-	0.1	0.1		0.1	0.1	0.1
Recreation Grants	-	0.5	0.5		0.5	0.5	0.5
General Grants (separated by agency in FY17)	31.2	-	(31.2)	-100.0%	-	-	-
<b>Departmental Grants Total</b>	<b>\$ 64.9</b>	<b>\$ 63.3</b>	<b>\$ (1.6)</b>	<b>-2.5%</b>	<b>\$ 76.5</b>	<b>\$ 62.1</b>	<b>\$ 62.1</b>
<i>% YoY Change</i>				-2.5%	20.9%	-18.8%	0.0%
BSEED Construction Code Fund	19.5	20.7	1.2	6.2%	20.7	20.7	20.7
Police Drug Law Enforcement Fund	1.1	1.6	0.5	45.5%	1.6	1.6	1.6
Library Millage	30.5	33.1	2.6	8.5%	33.1	33.1	33.1
Public Works Major Streets Fund	56.6	67.5	10.9	19.3%	72.2	72.2	72.2
Public Works METRO Fund (PA 48 of 2002)	2.5	2.2	(0.3)	-12.0%	2.2	2.2	2.2
Public Works Solid Waste Management	40.6	44.1	3.5	8.6%	44.1	44.1	44.1
Sinking Interest & Redemption (UTGO Millage)	61.8	68.0	6.2	10.0%	66.7	64.0	63.2
Special Housing Rehabilitation Programs	6.1	4.2	(1.9)	-31.1%	4.2	4.2	4.2
Airport Funds (1)	1.5	1.5	-	0.0%	1.5	1.5	1.5
Municipal Parking Funds	17.5	8.2	(9.3)	-53.1%	8.4	8.4	8.5
Transportation Funds (2)	141.8	134.2	(7.6)	-5.4%	134.2	134.2	134.2
<b>Special Revenue and Enterprise Funds Total</b>	<b>\$ 379.5</b>	<b>\$ 385.3</b>	<b>\$ 5.8</b>	<b>1.5%</b>	<b>\$ 388.9</b>	<b>\$ 386.2</b>	<b>\$ 385.5</b>
<i>% YoY Change</i>				1.5%	0.9%	-0.7%	-0.2%
Water Funds	570.6	115.3	(455.3)	-79.8%	119.8	124.6	129.6
Sewerage Funds	718.4	268.5	(449.9)	-62.6%	278.6	289.1	299.9
<b>DWSD Enterprise Funds Total (3)</b>	<b>\$ 1,289.0</b>	<b>\$ 383.8</b>	<b>\$ (905.2)</b>	<b>-70.2%</b>	<b>\$ 398.4</b>	<b>\$ 413.7</b>	<b>\$ 429.5</b>
<i>% YoY Change</i>				-70.2%	3.8%	3.8%	3.8%
<b>Grand Total Non-General Fund</b>	<b>\$ 1,733.4</b>	<b>\$ 832.4</b>	<b>\$ (901.0)</b>	<b>-52.0%</b>	<b>\$ 863.8</b>	<b>\$ 862.0</b>	<b>\$ 877.1</b>
<i>% YoY Change</i>				-52.0%	3.8%	-0.2%	1.8%

**Notes:**

(1) Airport includes General Fund subsidy of \$0.7M in FY16 and \$0.8M for FY17-FY20.

(2) Transportation includes General Fund subsidy of \$60.2M in FY16, \$61.5M in FY17, \$60.9M in FY18, \$59.1M in FY19, and \$58.2M in FY20. The Transportation Fund provides an over \$6M annual subsidy to the People Mover.

(3) The FY16 Adopted Budget reflects DWSD prior to its bifurcation into GLWA and DWSD-Retail. FY17-FY20 reflect only DWSD-Retail.

City of Detroit | FY17-FY20 Four-Year Financial Plan

FRC Staff Review

Budgeted Positions by Department

	Adopted Budget	Adjusted (1) Budget	FY 2017	FY17 vs. FY16 Adj.		FY17 vs. FY16 Adj. Comments	
	FY 2016	FY 2016		FTE	(%)		
Police Department							
Civilian	609	558	563	5	0.9%	Board of Police Commissioners restoration	
Uniform	2,595	2,553	2,564	11	0.4%		
Police Department Total	3,204	3,111	3,127	16	0.5%		
Fire Department							
Civilian	374	350	350	0	0.0%		
Uniform	815	982	982	0	0.0%		
Fire Department Total	1,189	1,332	1,332	0	0.0%		
Administrative Hearings	4	4	4	0	0.0%		
General Services Department	345	453	453	0	0.0%		
Health and Wellness Promotion	8	26	51	25	96.2%	Services returned to City, Maintenance of Effort	
Housing and Revitalization	92	65	59	(6)	-9.2%	HRD Restructuring	
Human Resources Department	82	65	65	0	0.0%		
Human Rights Department	5	5	7	2	40.0%		
Innovation and Technology	45	44	134	90	204.5%	DoIT Restructuring, hiring contractors	
Law Department	86	108	108	0	0.0%		
Mayor's Office	62	62	73	11	17.7%	Homeland Security increase	
Office of Budget (moved to OCFO)	16	0	0	0			
Office of the Chief Financial Officer	219	453	453	0	0.0%		
Planning Department	19	19	22	3	15.8%	Planning Restructuring	
Public Lighting Department	17	17	6	(11)	-64.7%	Public Lighting transition to PLA/DTE	
Public Works	345	340	376	36	10.6%	Increase for Solid Waste & Street Funds	
Recreation Department	117	117	219	102	87.2%	Increase includes 58 summer-only seasonal	
<b>Executive Agencies Total</b>	<b>5,855</b>	<b>6,221</b>	<b>6,489</b>	<b>268</b>	<b>4.3%</b>		
City Clerk	14	14	14	0	0.0%	FTE status for Council staff to restore benefits	
City Council	0	0	69	69			
Department of Elections	57	57	56	(1)	-1.8%		
Office of the Auditor General	10	12	12	0	0.0%		
Office of the Inspector General	7	7	7	0	0.0%		
Ombudsman	6	6	6	0	0.0%		
Zoning Appeals	3	4	5	1	25.0%		
36th District Court	326	326	326	0	0.0%		
Board of Ethics	1	1	1	0	0.0%		
Detroit Building Authority	7	7	7	0	0.0%		
Elected Officials	11	11	11	0	0.0%		
Media Services and Communications	7	7	7	0	0.0%		
Retirement Systems	41	41	41	0	0.0%		
<b>Legislative, Judicial, &amp; Other Total</b>	<b>490</b>	<b>493</b>	<b>562</b>	<b>69</b>	<b>14.0%</b>		
Airport	4	3	4	1	33.3%	Increase per DWSD-R budget	
BSEED	207	192	204	12	6.3%		
Library	334	334	325	(9)	-2.7%		
Municipal Parking	93	93	89	(4)	-4.3%		
Transportation	917	900	900	0	0.0%		
Water and Sewerage	1,674	431	488	57	13.2%		
<b>Enterprise Agencies Total</b>	<b>3,229</b>	<b>1,953</b>	<b>2,010</b>	<b>57</b>	<b>2.9%</b>		
<b>Grand Total Positions</b>	<b>9,574</b>	<b>8,667</b>	<b>9,061</b>	<b>394</b>	<b>4.5%</b>		

Notes:

(1) The Adjusted FY16 column includes technical adjustments made by FRC staff to improve budget-to-budget FY17 comparison: OCFO Restructuring, Restructuring funding approved for additional hiring in FY16, budget amendments in FY16 to fund additional FTE, the transfer of Animal Control from Police to Health, and the bifurcation of DWSD into GLWA and DWSD-R.

Budgeted Positions are flat from FY17 to FY20, except for the Office of the CFO, which gradually decreases by 22 FTE by FY20.

BSEED = Building Safety Engineering and Environmental Department

4/12/2016 - Prepared by FRC Staff



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

## DETROIT FINANCIAL REVIEW COMMISSION

### City of Detroit FY 2017-FY 2020 Financial Plan Review

#### Questions and Discussion Topics

April 13, 2016

1. **Operating Growth:** Overall, the City's financial plan provides for an \$81 million increase in departmental budgets in FY17, largely offset by a \$64.6 million decrease in restructuring capital. Will the City continue to accommodate this level of ongoing operating spending? If so, how will it make room in the budget for capital needs and the substantial increase in annual legacy pension contributions in FY24?
2. **Vacant Positions:** The financial plan assumes all budgeted positions are filled on day one of FY17 (July 1, 2016). Given that there are currently vacancies and will likely continue to be vacancies when FY17 begins, what is the General Fund working cushion at the beginning of FY17 from vacancies?
3. **Capital Projects:** The City has identified \$50 million in unspent bond proceeds for use toward capital projects, and the financial plan includes \$27.9 million for restructuring capital, tentatively allocated as follows:
  - Airport - \$0.3 million
  - Finance - \$0.5 million
  - Fire - \$8 million
  - Information Technology - \$10.6 million
  - Recreation - \$3.8 million
  - General Services - \$4.6 million

What specific projects have been identified to date for the \$27.9 million and the \$50 million? Do they all constitute non-recurring spending? What, if any, spending obligations do these projects create in later years (e.g., maintenance)? Does the financial plan include sufficient funding for those out-year costs? Describe the separate five-year capital plan that the City is currently developing, and specifically, whether it will identify future capital spending needs and a plan to fund them.

4. **Blight:** The financial plan includes \$40 million for blight remediation in FY17 and \$11.4 million annually thereafter for Detroit Land Bank operations. This funding is further supplemented by grant funding, most notably from the federal Hardest Hit Fund. Please

provide a complete overview of blight funding and planned uses, including all fund sources, agencies, and external authorities. How much has been spent to date? How many blighted structures have been removed by category? How many will be removed with the new funding? What other expenses does blight funding support?

5. **Legacy Pension Obligations:** The financial plan includes \$30 million per year from FY17 to FY19 and \$10 million in FY20 to support the City's legacy pension obligations. This represents an additional \$10 million per year compared to the amounts required by the plan of adjustment. Granting that debt service and public lighting decommissioning expenses are forecasted to grow in FY20, please elaborate further on the challenge of sustaining \$30 million per year for pensions in FY20.
6. **Public Lighting:**
  - a. **PLD Decommissioning:** The City is decommissioning its electrical grid infrastructure following the transition to DTE Energy. For this expense, the financial plan includes \$5 million for FY16, \$15 million for FY17, \$4 million for FY18, \$1 million for FY19, and \$16 million for FY20 under Non-Departmental. How certain are these cost estimates, both as annual amounts and the total expense? Why does the amount increase dramatically in FY20? How much has been spent to date on decommissioning, and how many years will it take? How much does the City expect to collect from the sale of salvaged scrap?
  - b. **Public Lighting Department:** While there have been many technical adjustments made to FY16, it appears the Public Lighting Department General Fund budget has a \$6 million increase in FY17. Is this related to the decommissioning expenses? The FY16 departmental budget adjustments assume all of the electrical grid revenues and expenses are shifted to DTE Energy. Is the City instead still incurring certain electrical grid expenses in FY17? Separate from the \$12.5 million debt service transfer, how much is the operating subsidy transfer to the Public Lighting Authority? Has it changed compared to FY16?
7. **Police:** The Police Department General Fund budget increases by nearly \$28 million in FY17, which includes the recently approved pay raises, 11 additional police officer positions, 5 additional professional positions for the restored Board of Police Commissioners staff, and non-salary operating increases for the Support Services Bureau. Please elaborate on how these budget increases will support the Police Department's goals in FY17 and beyond.
8. **Fire:** The Fire Department General Fund budget is flat in FY17 compared to FY16. If the City negotiates pay raises for firefighters and emergency medical technicians in the near term, how will it fund those increases?
9. **Innovation and Technology:** The Department of Innovation and Technology (DoIT) General Fund budget nearly doubles in FY17 with an increase of over \$15 million. This supports additional positions contemplated by the department's restructuring, including

replacing contractors with employees for certain ongoing functions. Please provide an update on the ongoing DoIT restructuring. In addition to IT staff, what other citywide IT expenses will flow through the DoIT budget? How is the City restructuring and managing its IT spending through changes in its technology platforms and system upgrades? How will these changes improve the delivery of City services and internal operations?

10. **Recreation:** The Recreation General Fund budget increases by nearly \$5 million for 102 additional positions (58 are summer-only seasonals) and a non-salary operating increase for the Administration Support Unit. Please discuss how these increases will be utilized and whether the increases will improve recreational opportunities for the city's residents and visitors.

The financial plan also assumes \$0.5 million in funding from Recreation grants. What other recreation grant funding and partnerships is the City pursuing, even if it does not all flow through the City's financial plan?

11. **Health and Wellness Promotion:** The Health General Fund budget increases by nearly \$3 million to a total of \$5.2 million in FY17 (more than double FY16) after already accounting for the shift of Animal Control from Police. It grows to \$10 million annually for FY18-FY20. Please provide an update on the return of the Health Department functions to City government, the negotiated Maintenance of Effort requirements that lead to the \$10 million future annual budget, and how the Department will utilize the increase in funds.

12. **General Services Department (GSD):** The GSD General Fund budget increases by nearly \$5 million in FY17 after already accounting for over \$3 million in FY16 capital funding that GSD retains in FY17. The financial plan only provides that capital funding in FY17 and then eliminates it in FY18, and this is separate from the restructuring capital allocation in Non-Departmental. Please explain how the one-time capital funding will be used. Is GSD catching up on a backlog of maintenance activities? How will GSD sustain enhanced service levels in the future?

13. **Transportation:** The Detroit Department of Transportation (DDOT) budget for FY17 is \$134 million, which supports public transportation in the city and is funded from fare revenue, federal and state funding, and a City General Fund subsidy. Is this funding level sufficient to meet DDOT needs and continue improving service levels? Despite not appearing to include it in the financial plan, does DDOT expect significant gains in fare revenue from ridership increases and operational improvements? Will DDOT utilize any of the funding from the recently enacted State legislation for roads funding, which allows for additional public transit allocations?