

Detroit Has Proactively Managed its Finances Since First Waiver Renewal in 2019

1. Positive FY 2018-19 financial results
 2. Decisive FY 2019-20 actions to address revenue shortfall
 3. Adopted FY 2020-21 budget
-

All conditions of the FRC waiver continue to be met.

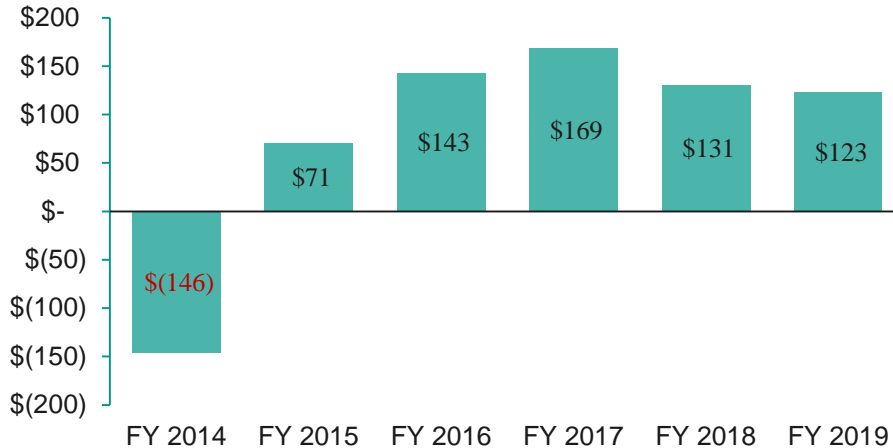
Audited FY 2018-19 Financial Results



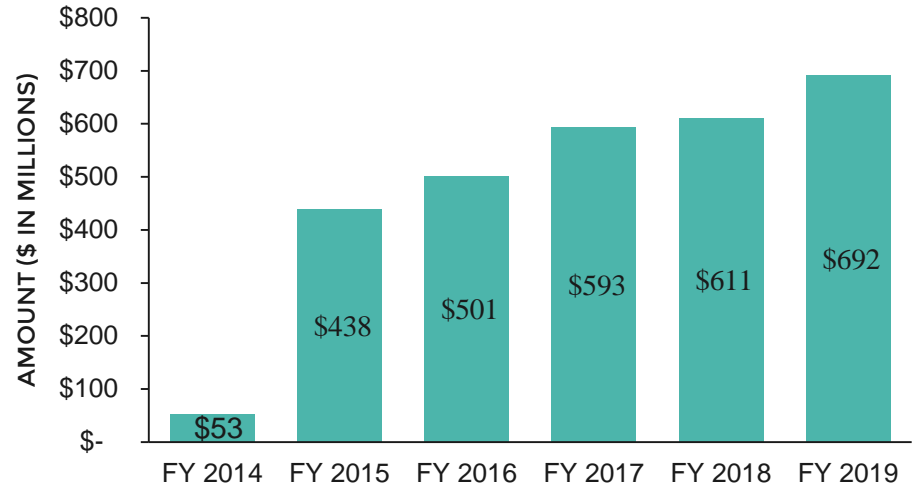
Audited FY 2018-19 Financial Results

- FY 2018-19 marks five straight years of balanced budgets and operating surpluses
- Growing GF fund balance, reaching nearly \$700 million in FY 2018-19
- FY 2018-19 results outperformed the budget

GENERAL FUND - UNASSIGNED FUND BALANCE (DEFICIT)



GENERAL FUND - FUND BALANCE



FY 2019-20 Accomplishments



Recent OCFO Accomplishments

- **University Economic Analysis Partnership:** City is partnering with UM, MSU, and WSU to provide Detroit-specific economic data and allow city government and community stakeholders to quantify local economic conditions and design effective programs.



- **UltiPro:** Ongoing project to transition all City employees to modern human resources and payroll system; all employees, except DPD, are now online according to plan.
- **\$1B Raised:** In grant revenue since 2014 to support residents, business, and neighborhoods; 2019 marked first calendar year with \$300+ million raised.

**From the Grand Bargain to
\$1 Billion invested in Detroit**

2014-2019

Adopted FY 2020-21 Budget and FY 2021-2024 Four-Year Financial Plan Overview

FY 2021 Budget – April 2020 Revenue Shortfall

Due to the Coronavirus Disease 2019 (COVID-19) public health emergency and its mandatory business closures and impact on the national economy, the Office of Budget projected revenue shortfalls of \$154 million in FY 2020 and \$194 million in FY 2021 driven by the following:

- Gaming revenue losses directly tied to the casino closures on March 16, 2020
- Income tax reduction as employers have laid off and furloughed workers and there is a forecasted contraction in the national and state economy
- Anticipated State Revenue Sharing reduction due to a drop in state sales taxes
- Other revenue losses from suspended parking enforcement, bus fare interruption to protect drivers from COVID-19 and a reduction in business and construction permitting activity

The projected revenue shortfalls required changes to the Recommended Budget the Mayor presented on March 6, 2020. The Mayor presented his recommended changes in April 2020, and the City Council approved the FY 2021 Budget with those changes on May 5, 2020.

FY 2021 Budget – April 2020 Revenue Shortfall

City of Detroit - Estimated COVID-19 Revenue Impacts

\$ in millions

	February 2020 Est		April 2020 Est					Change \$	
	FY20	FY21	FY20	FY21	FY22	FY23	FY24	FY20	FY21
General Fund									
Major Taxes									
Income Tax	\$ 329.8	\$ 340.4	\$ 281.0	\$ 239.4	\$ 322.6	\$ 332.0	\$ 343.1	\$ (48.8)	\$ (101.0)
State Revenue Sharing	208.4	205.0	201.2	190.5	202.0	203.7	205.4	(7.2)	(14.5)
Wagering Tax/Fees	204.4	206.3	152.6	145.7	189.7	191.6	193.5	(51.8)	(60.6)
Property Tax	118.4	118.9	117.2	111.9	206.6	208.3	210.0	(1.2)	(7.0)
Utility Users Tax	28.3	28.5	28.3	28.5	28.7	28.9	29.1	-	-
Subtotal, Major Taxes	\$ 889.3	\$ 899.1	\$ 780.3	\$ 716.0	\$ 861.8	\$ 874.3	\$ 889.3	\$ (109.0)	\$ (183.1)
Other Revenues	\$ 187.6	\$ 185.7	\$ 158.6	\$ 190.7	\$ 204.5	\$ 205.5	\$ 206.6	\$ (29.0)	\$ 5.0
Grand Total, General Fund	\$ 1,076.9	\$ 1,084.8	\$ 938.9	\$ 906.7	\$ 1,066.3	\$ 1,079.8	\$ 1,095.9	\$ (138.0)	\$ (178.1)
Other Funds (GF Impact)									
BSEED Construction Code Fund	\$ 25.0	\$ 25.0	\$ 15.2	\$ 19.0	\$ 25.0	\$ 25.0	\$ 25.0	\$ (9.8)	\$ (6.0)
DDOT Transportation Fund	72.3	73.2	66.3	63.2	73.7	74.1	74.5	(6.0)	(10.0)
Airport Fund	0.7	0.7	0.5	0.7	0.7	0.7	0.7	(0.2)	-
Grand Total, All Funds	\$ 1,174.9	\$ 1,183.7	\$ 1,020.9	\$ 989.6	\$ 1,165.7	\$ 1,179.6	\$ 1,196.1	\$ (154.0)	\$ (194.1)

* All years have been adjusted to exclude \$27M of General Fund interfund reimbursements and pass-through contributions that will no longer be categorized as revenue but were previously.



FY 2020 and FY 2021 Revenue Assumptions

Income Tax

- Individual tax loss assumes 30% annualized US GDP loss in Q2-2020, followed by a slow recovery based on April interim economic forecast from the University of Michigan
- Assumes a 20% loss in corporate and partnership tax revenue in FY20, another 40% loss in FY21

Wagering Tax and Fees

- Assumes closures through 6/30/2020
- Followed by gradual reopening: July/Aug (20%), Sept/Oct (50%), Nov/Dec (75%), and Jan 2021 (100%)

Property Taxes

- Assumes 50% loss in delinquent tax payment plan revenue through end of FY20 and for all of FY21
- No impact on summer 2020 tax levy, which are based on values as of 12/31/2019

FY 2020 and FY 2021 Revenue Assumptions

State Revenue Sharing (constitutional share)

- Losses based on State sales tax reductions from business closures and economic contraction
- Reductions in statutory share remain a major risk as the State rebalances its budget due to COVID-19

Other Revenue Losses

- Court Fees/Fines and EMS Fees from disrupted collections or reduced activity through 6/30/2020
- Parking Fees/Fines from suspension of parking enforcement through 6/30/2020
- Investment Earnings adversely impacted by market reaction
- Business Licenses and Construction Permit/Inspection Fees from closures and economic contraction
- DDOT Bus Fares Interrupted to protect drivers through 12/31/2020
 - Construction Code Fund, DDOT, and Airport revenue losses impact the General Fund through a contribution increase, absent another solution

FY 2021 Budget – April 2020 Budget Changes

The following budget changes offset the projected revenue losses for FY 2020 and FY 2021.

Budget Changes	FY 2020	FY 2021
Repurpose Prior Year Fund Balance*	\$33M	\$67.4M
RainyDay Fund (Budget Reserve) Withdrawal	-	\$50M
PreCOVID-19 Projected Surplus (Feb 2020)	\$51M	-
Repurpose Current Blight and Capital Funds	\$59.7M	-
CARES Act Transit Grant to Reduce DDOT/People Mover Contribution	-	\$24M
CARES Act Transit Grant for DDOT Revenue Losses	\$6M	\$10M
Workforce Savings (Executive Branch)	\$4.3M	\$32.3M
FY21 New Initiatives and Other Savings	-	\$10.4M
Total	\$154M	\$194.1M

* Reprogrammed proposed FY21 spending on Blight (\$40M), Rainy Day Fund (\$30M), Retiree Protection Fund (\$20M), and Cash Capital (\$5M).



FY 2021 – FY 2024 Four-Year Financial Plan

General Fund	FY 2021	FY 2022	FY 2023	FY 2024
February 2020 Revenue Conference	\$1,084.8M	\$1,095.9M	\$1,109.4	\$1,123.5
April 2020 Revenue Shortfall	(\$194.1M)	(\$29.6M)	(\$29.6M)	(\$27.6M)
Exclude Non-General Fund Revenue Shortfall*	\$15.9M			
Use of Prior Year Fund Balance	\$67.4M	-	-	-
Use of Rainy Day Fund (Budget Reserve)	\$50M			
Use of Retiree Protection Fund	-	-	-	\$87M
Revised Resources Total	\$1,024.0M	\$1,066.3M	\$1,079.8M	\$1,182.9M

* BSEED Construction Code Fund revenue losses (\$6M) are balanced with an increased General Fund contribution, and \$50M are balanced using CARES Act Transit Grant.



FY 2021 – FY 2024 Four-Year Financial Plan

General Fund	FY 2021	FY 2022	FY 2023	FY 2024
March 2020 Budget Recommendation	\$1,140.2M	\$1,095.9M	\$1,109.4	\$1,210.5
FY21 Net Expenditure Changes	(\$116.2M)	-	-	-
Ongoing Savings from Cancelled FY21 General Wage Increase	-	(\$9.6M)	(\$9.6M)	(\$9.6M)
Reduce DDOT Contribution by Using Street Fund (per Act 249)	-	(\$20M)	(\$20M)	(\$20M)
Rainy Day Fund (Budget Reserve) Deposit	-	-	-	\$2M
Revised Expenditures Total	\$1,024.0M	\$1,066.3M	\$1,079.8M	\$1,182.9M



Budget Reserve Schedule

	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024
Beginning Balance	\$107,280,192	\$57,280,192	\$57,280,192	\$57,280,192
Transfer In / (Out)	(\$50,000,000)	-	-	\$2,000,000
Ending Balance	\$57,280,192	\$57,280,192	\$57,280,192	\$59,280,192
% of recurring expenditures	5.6%	5.4%	5.3%	5.0%

Note: PA 182 Sec 4t (1) (c) (vi) - Four-Year Financial Plan Requirement: Include a general reserve fund for each fiscal year to cover potential reductions in projected revenues or increases in projected expenditures equal to not less than 5% of projected expenditures for the fiscal year

FY 2022 – FY 2024 Revenue Assumptions

Income Tax

- Ongoing annual losses of \$25M in FY22-FY23 and \$23M in FY24 below Feb 2020 Revenue Conference
- Assumes a sustained recovery following economic contraction, with no more extraordinary COVID-19 closure impacts experienced in FY 2020 and FY 2021
- While having returned to growth, the City's employment base will remain below prior forecasts

State Revenue Sharing

- Ongoing annual losses of \$4.6M for FY22-FY24 below Feb 2020 Revenue Conference
- While having returned to growth, the State sales tax base remains below prior forecasts

Wagering Tax and Fees

- Casino activity has returned to normal or otherwise adapted by FY22 to achieve prior forecast
- The OCFO is comfortable making this assumption, despite the risk of further COVID-related disruption, because the revenues do not include potential gains from internet gaming or sports betting, currently under implementation.

Implementing Workforce Changes

- The City is tracking and will begin reporting in June on savings realized from the workforce changes instituted in April.
- The workforce report will show projected and actual savings by City department.

Department	Projected Regular Cost (w/o reductions)	Projected Reduced Cost (with reductions)	Projected Savings	Actual Cost	Actual Savings	Change in Savings (Projected vs. Actual)	Notes
DPW							
OCFO							
Fire							
Health							
HR							
CRIO							
DoIT							

Sample Workforce Savings Report



Planned Future Borrowing

- The City intends to issue \$80 million debt in 2020 to support public safety, recreation and transportation capital projects.
- Issuance is authorized under 2018 UTGO bond resolution
- UTGO debt is funded from debt millage and not General Fund



Public Safety
\$36.4M



Parks &
Recreation
\$38.6M



Transportation
\$5.0M

Approach to External Stimulus Funding

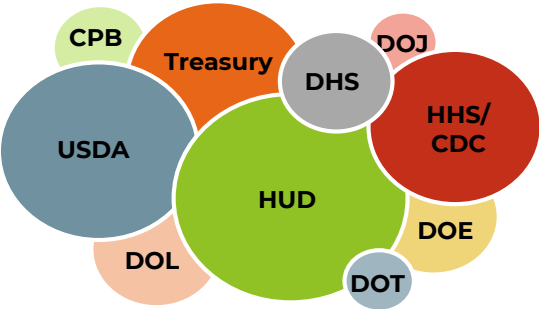


Maximize Available External Funding

A holistic strategy is required to help mitigate against risks posed by the complexities of this unprecedented crisis and prevent the City from returning to Active oversight by the Financial Review Commission

Complex Factors	Potential Risks	Mitigation
<ul style="list-style-type: none">• Public health emergency with no clear end date• Multiple funding streams with unique eligibility requirements• Funding opportunities and requirements are constantly evolving• COVID-19 is impacting departments in an unprecedented way• Impacts of event extend beyond response activities	<ul style="list-style-type: none">• City exhausts flexible funds too early• Certain funding such as FEMA Public Assistance has match requirements• Departments disqualify themselves from later funding due to errors in approach• Departments develop individual strategies that are misaligned	<p>Detroit, through its OCFO, is developing and overseeing a holistic fiscal strategy to maximize external funding</p>

Federal Eligibility Requirements

Funding sources have different eligibility requirements

Specific Initiatives	FEMA Public Assistance (PA)	State & Local Relief Fund								
		<p>\$116.9 M</p> 								
	<table border="1" style="width: 100%;"> <thead> <tr> <th style="background-color: #667788; color: white;">Eligible</th> <th style="background-color: #667788; color: white;">Ineligible</th> </tr> </thead> <tbody> <tr> <td> COVID-19-related: <ul style="list-style-type: none"> • PPE & other supplies • Equipment • Overtime for already-budgeted employees • Straight time & overtime for unbudgeted employees • Contract costs </td> <td> <ul style="list-style-type: none"> • Damages covered by insurance • Expenses that have been or will be reimbursed by another federal program • Recovered salvage costs • Loss of revenue </td> </tr> </tbody> </table>	Eligible	Ineligible	COVID-19-related: <ul style="list-style-type: none"> • PPE & other supplies • Equipment • Overtime for already-budgeted employees • Straight time & overtime for unbudgeted employees • Contract costs 	<ul style="list-style-type: none"> • Damages covered by insurance • Expenses that have been or will be reimbursed by another federal program • Recovered salvage costs • Loss of revenue 	<table border="1" style="width: 100%;"> <thead> <tr> <th style="background-color: #ff9933; color: white;">Eligible</th> <th style="background-color: #ff9933; color: white;">Ineligible</th> </tr> </thead> <tbody> <tr> <td> COVID-19-related: <ul style="list-style-type: none"> • Medical expenses • Public health expenses (e.g., disinfection) • Payroll expenses for health care & associated workers • Other expenses, e.g., food delivery to vulnerable populations </td> <td> <ul style="list-style-type: none"> • Damages covered by insurance • Employee expenses not substantially dedicated to COVID-19 • Expenses that have been or will be reimbursed by another federal program • Donor reimbursement • Severance pay • Legal settlements </td> </tr> </tbody> </table>	Eligible	Ineligible	COVID-19-related: <ul style="list-style-type: none"> • Medical expenses • Public health expenses (e.g., disinfection) • Payroll expenses for health care & associated workers • Other expenses, e.g., food delivery to vulnerable populations 	<ul style="list-style-type: none"> • Damages covered by insurance • Employee expenses not substantially dedicated to COVID-19 • Expenses that have been or will be reimbursed by another federal program • Donor reimbursement • Severance pay • Legal settlements
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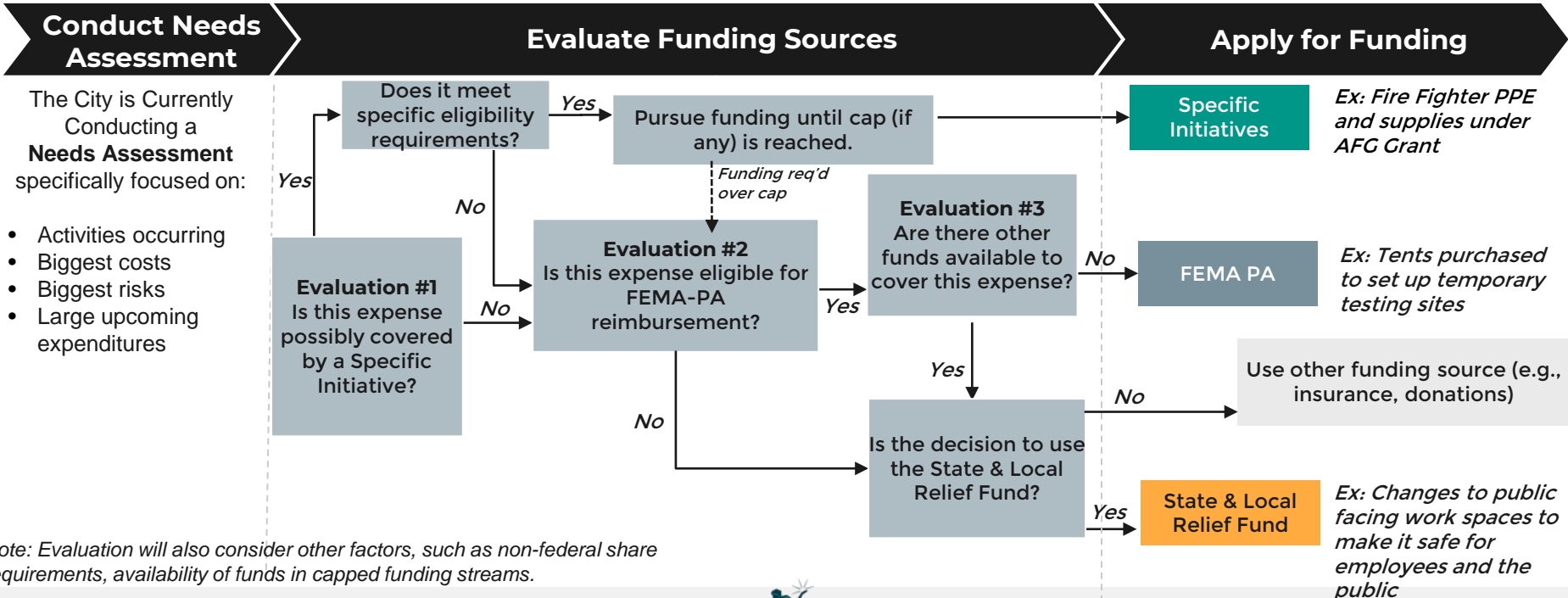
High-level eligibility is being evaluated by populating the matrix in previous slides.

Detailed eligibility requirements vary from fund to fund and are constantly evolving; they should be evaluated for specific cases based on a funding source's requirements.



Approach to Funding Pursuit

How do we determine what actions to take?



Note: Evaluation will also consider other factors, such as non-federal share requirements, availability of funds in capped funding streams.



Retiree Protection Fund & Legacy Pension Funding Analysis

Legacy Pensions Background

Plan of Adjustment (POA) Pension Cliff

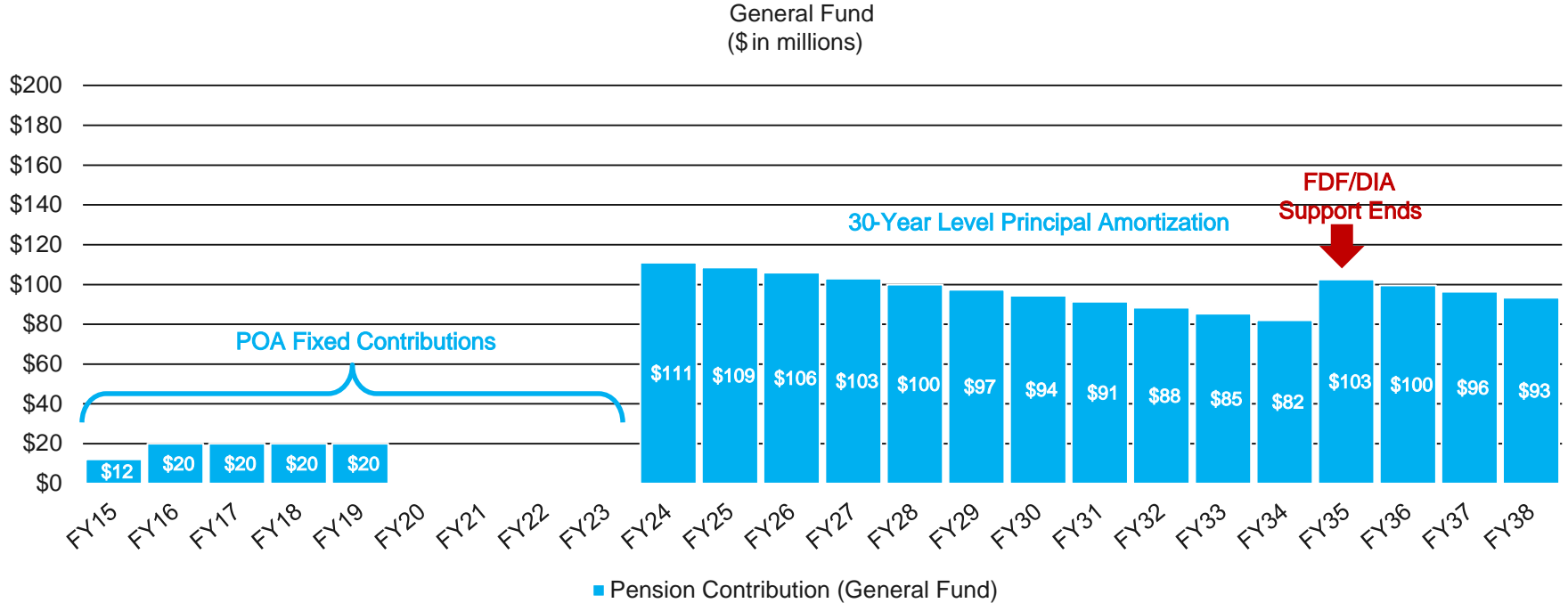
- POA provided a 10-year “pension holiday” for City to invest in service improvements, capital, and blight removal
- POA assumed annual legacy pension contributions increase from \$0 to \$111M in FY 2024 (the “pension cliff”)
- In 2015 valuations, updated mortality tables increased unfunded pension liabilities over \$490M (34%)

Retiree Protection Fund (RPF)

In 2017, the Mayor and City Council created the Retiree Protection Fund by ordinance as a long-term strategy for legacy pension funding:

- Provide extra funding for deposit into the RPF, an irrevocable trust for legacy pension obligations
- Use RPF deposits, plus investment earnings, to partially offset annual pension contributions starting FY 2024
- Gradually build up budget capacity for future annual required contributions (the cliff becomes a ramp)
- Review annually and recommend changes if needed during the annual budget process

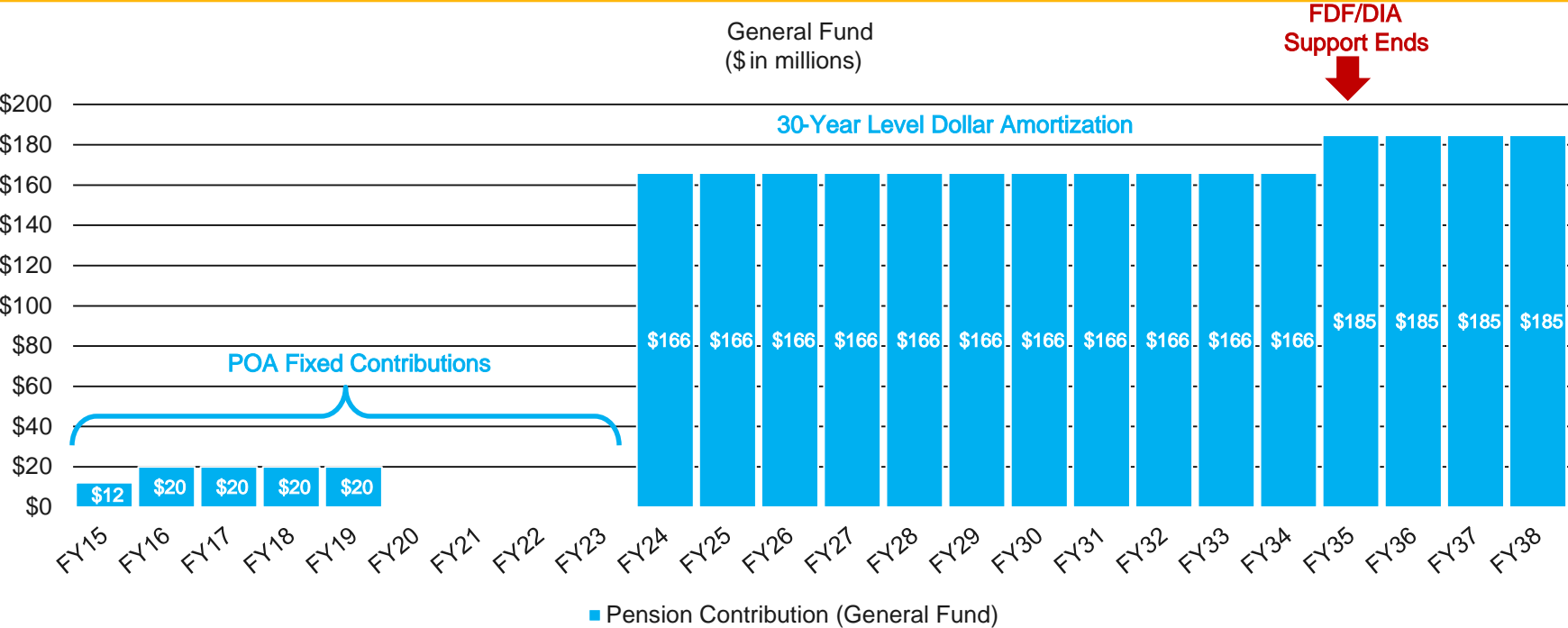
Plan of Adjustment Requirement (October 2014 Projections)



* Excludes "Grand Bargain" contributions from State of Michigan, Foundation for Detroit's Future (FDF), and Detroit Institute of Arts (DIA). DWS and Library liabilities and contributions are separate.



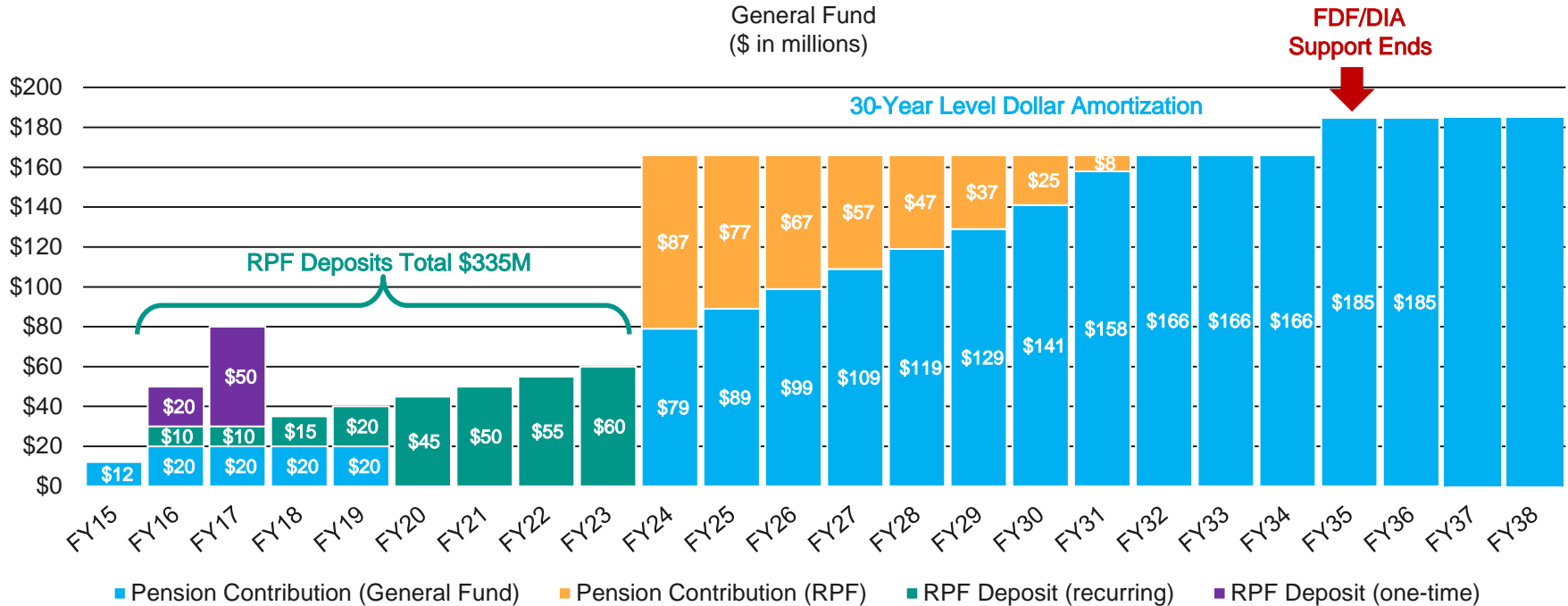
Plan of Adjustment Requirement (with March 2020 Projections)



* Excludes "Grand Bargain" contributions from State of Michigan, Foundation for Detroit's Future (FDF), and Detroit (DIA). The DWSD and Library liabilities and contributions are separate.



FY 2021 Retiree Protection Fund Plan



* Excludes "Grand Bargain" contributions from State of Michigan, Foundation for Detroit's Future (FDF), and Detroit's (DIA). FDF and DIA DWSL and Library liabilities and contributions are separate.



FY 2021 RPF Review

- Each year, OCFO models latest actuarial valuation, pension plan returns, and RPF returns
- No change to funding policy assumptions
 - Retirement Systems have not yet established funding policies
- FY 2024 net contribution from General Fund increases \$3.5M vs. last year's review
 - Increase driven by pension plan returns below 6.75% target

Pension Model Updates and Assumptions	
Actuarial Valuation ⁽¹⁾	FY 2018 valuation
Latest Pension Plan Returns	3.4% GRS, 5.1% PFRS FY 2019 actual return
Future Pension Plan Returns	6.75% projected
Amortization / Funding Policy ⁽²⁾	30-year level dollar
FY 2024 Projected Contribution	\$192M gross (\$26M) FDF/DIA/DWSD/DPL⁽³⁾ \$166M net from General Fund
Latest RPF Returns	4.4% FY 2019 actual return
Future RPF Returns	3% projected

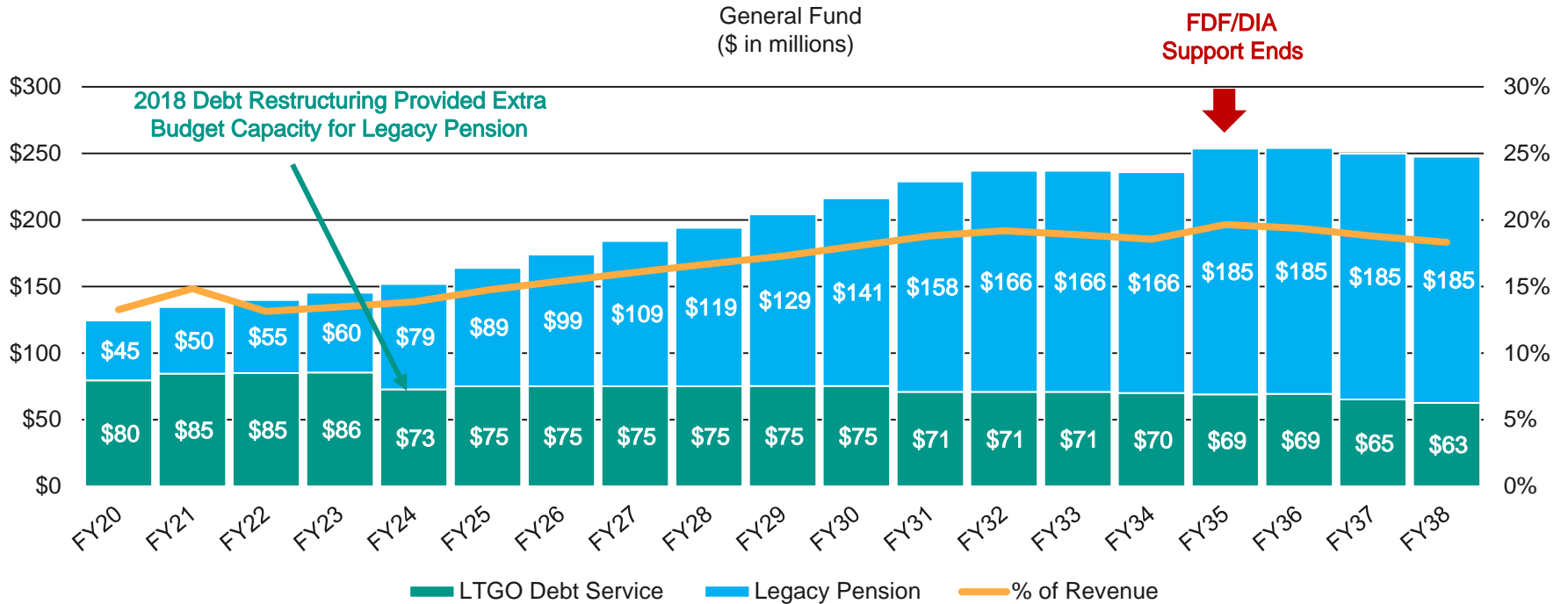
(1) Actuarial valuations for FY 2019 may be completed by spring 2020.

(2) The Retirement Systems have not yet established funding policies

(3) Foundation for Detroit's Future and Detroit Institute of Arts are the "Grand Bargain" outside sources through FY 2034. Detroit Water and Sewerage Department and Detroit Public Library pension liabilities do not impact the General Fund.



Recurring Debt Service and Legacy Pension Costs



Excludes RPF Deposits from the fund balance in FY16 (\$20M) and FY17 (\$50M). Excludes "Grand Bargain" contributions of \$18.7M per year through FY34. Excludes DWSD and Library. LTGO Debt Service excludes debt service allocated to enterprise funds.



Waiver Requirements



Considerations for Waiver for the City

FRC Act Section	Requirement/ Response	Compliance
8(2)(a)	<p>Requirement: The commission certifies that the City has adopted and adhered to deficit-free budgets for 3 consecutive years that comply with generally accepted accounting principles and are in accordance with the uniform budgeting and accounting act, 1968 PA 2, MCL 141.421 to 141.440a.</p> <p>Response: The City's FY 2017, 2018, and 2019 CAFRs show positive unrestricted fund balances at year-end.</p>	✓
8(2)(b)	<p>Requirement: The State treasurer and the City's chief financial officer, if applicable, certify that both of the following are met: (i) all municipal securities or debt obligations sold by or for the benefit of the City in the general public market during the immediately preceding fiscal year and current fiscal year satisfied the capital and other financial requirements of the City during that period, and (ii) there is a substantial likelihood that municipal securities or debt obligations can be sold by the City in the general public market during the remainder of the current fiscal year and the immediately succeeding fiscal year in amount sufficient to substantially satisfy all of the capital and other financial requirements of the City during those periods in accordance with the City's financial plan, as applicable.</p> <p>Response: The \$135 million of UTGO bonds issued in December, 2018 provided adequate funding for the City's capital and other financial requirements during FY 2019 and FY 2020. The City plans to issue an additional \$80 million in UTGO bonds, using previously obtained voter and City Council authorizations, which will provide adequate funding for the City's capital requirements during FY 2021. The City will also seek a ballot and bond authorizing resolution from City Council for an additional \$250 million, which will be used to meet the City's needs for the rehabilitation and demolition of residential blighted properties in the City in FY 2021 and FY 2022.</p>	✓

Considerations for Waiver for the City *(cont.)*

FRC Act Section	Requirement/ Response	Compliance
8(2)(c)	<p>Requirement: The City's financial plan projects a balanced budget for the current and succeeding 3 fiscal years using generally accepted accounting principles and in accordance with the uniform budgeting and accounting act, 1968 PA 2, MCL 141.421 to 141.440a and section 4t of the home rule city act, 1909 PA 279, MCL 117.4t.</p> <p>Response: The City submitted its approved FY 2021-FY 2024 four-year financial plan to the FRC on May 29, 2020. The financial plan projects a balanced budget for the current and succeeding 3 fiscal years. Additionally, the approved FY 2021-FY 2024 financial plan will contain the following: a) certification from the CFO that the approved budget complies with the applicable provisions of the uniform budgeting and accounting act, and b) a checklist of the financial plan requirements under MCL 117.4t and a response to each requirement.</p>	✓
8(2)(d)	<p>Requirement: The City has demonstrated to the commission's satisfaction that the City has sufficient ability to borrow in the municipal securities market.</p> <p>Response: In FY 2019, the City issued \$135,000,000 of Unlimited Tax General Obligation Bonds, secured only by a pledge of the full faith and credit of the City. Those bonds were rated BB- by S&P and Ba3 by Moody's. In addition, based upon the Qualifying Statement submitted to the Michigan Department of Treasury in December 2019, the Department of Treasury determined that the City was in material compliance with the criteria identified in Section 303(3) of Public Act 34 of 2001. As a result, the City is now authorized to issue municipal securities under this Act without further approval from the Department.</p>	✓

Considerations for Waiver for the City *(cont.)*

FRC Act Section	Requirement/ Response	Compliance
8(2)(e)	Requirement: The City did not violate the plan for adjustment in the immediately preceding fiscal year, as applicable, and is not in violation in the current fiscal year.	✓
	Response: The City did not violate the plan of adjustment in the immediately preceding fiscal year or the current fiscal year.	
8(2)(f)	Requirement: The State treasurer certifies that the City is in compliance with the uniform budgeting and accounting act, 1968 PA 2, MCL 141.421 to 141.440a.	✓
	Response: The CFO has certified that the approved FY 2021-2024 four-year financial plan complies with the applicable provisions of the uniform budgeting and accounting act. The City is managing the current year budget in compliance with the act by monitoring revenues and expenditures and amending the budget if appropriation or fund deficits are projected.	
8(2)(g)	Requirement: The commission certifies that the City is in substantial compliance with the act.	✓
	Response: The City has timely submitted the information and reports required under FRC Resolution 2019-02, which granted the City its current waiver pursuant to section 8 of the act.	



Considerations for Waiver for the City *(cont.)*

FRC Act Section	Requirement/ Response	Compliance
8(2)(h)	<p>Requirement: The City has established as part of a system of compensation for employees retirement plans in which the City contributes no more than 7% of an individual's base pay, excluding payment for overtime services, 1-time lump-sum payments, and the cost of fringe benefits, to an employees' retirement account.</p> <p>Response: The City offers the same retirement plan as provided for in the plan of adjustment.</p>	✓
8(2)(i)	<p>Requirement: The City has implemented a program in which all contracts awarded by the City are posted on the City's public website within 30 days of the contract award, including the identity of the parties to the contract, the dollar amount of the contract, and a brief description of the goods or services provided in the contract.</p> <p>Response: The program is available on the City's Open Data Portal and can be viewed here.</p>	✓

Detroit FRC Resolution 2018-13 Requirements

Waiver Section	Requirement/ Response	Compliance
3(a)	<p>Requirement: Within 45 days after the end of each month, in the form provided to the Commission by the City during the twelve months prior to the commencement of the waiver period, as may be modified after consultation and approval by the Commission’s Executive Director and the City’s Chief Financial Officer, the following: (i) current fiscal year-to-date actuals to budget and annualized projections, (ii) monthly headcount analysis, and (iii) current fiscal year-to-date net cash flows, including a current ratio analysis</p> <p>Response: The City has timely submitted all required monthly financial reports to the Commission and has archived them on the City’s Financial Reports webpage.</p>	✓
3(b)	<p>Requirement: Within 45 days of the end of each quarter, a report on the current status of bond debt, payments made to the City’s pension plans, and payments made to the City’s Section 115 Trust for its legacy pension obligations.</p> <p>Response: The City has timely submitted all required quarterly financial reports to the Commission and has archived them on the City’s Financial Reports webpage.</p>	✓



Detroit FRC Resolution 2018-13 Requirements *(cont.)*

Waiver Section	Requirement/ Response	Compliance
3(c)(i)	<p>Requirement: On an annual basis, by March 31st of each year, (A) analysis and forecasts for the legacy pension plans in the form substantially similar to those previously provided to the Commission by the City prior to the waiver period, as may be modified after consultation and approval by the Commission’s Executive Director and the City’s Chief Financial Officer; and (B) analysis that confirms the City’s ability to pay its debt obligations through the period of time the City is subject to the Commission’s oversight.</p> <p>Response: The City timely submitted this report titled “FY 2020-2029 Long-Term Forecast Report for Legacy Pension Plans and Debt Obligations” on March 30, 2020.</p>	✓
3(c)(ii)	<p>Requirement: On an annual basis, by April 30th of each year, the City’s adopted budget and 4-Year Financial Plan.</p> <p>Response: Pursuant to FRC Resolution 2020-01, the City was granted an extension of the deadline for timely delivery of the adopted fiscal 2020-2021 budget and 4-year financial plan. Pursuant to that Resolution, the City timely submitted its adopted budget and 4-year financial plan on May 29, 2020. It is also available online.</p>	✓



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

DATE: June 2, 2020

TO: State Budget Director Chris Kolb, CFO David Massaron,
Council President Brenda Jones, David Nicholson, John Walsh, State Treasurer
Rachael Eubanks

FROM: Patrick Dostine, Departmental Specialist
Financial Review Commission

SUBJECT: FRC City Finance Subcommittee June 2, 2020 Meeting Recap

The following is a recap of the FRC city finance subcommittee call on June 2, 2020. The finance subcommittee was convened for the purpose of receiving an overview of the city's finances and operations as the city nears the end of its year-two waiver, which was granted June 2019. On June 29, the FRC will take up for consideration the extension of the waiver for another year.

Introduction

The Office of Chief Financial Officer (OCFO) presentation covered, among other things, revised revenues and expenditures in the FY 2021 budget and their revised projections in the Four-Year Financial Plan, FY2021-FY2024 (plan) and other adjustments due to the COVID-19 outbreak. This memorandum provides an overview of the revised revenue estimates, the assumptions behind the estimates, changes in expenditures, risks to the FY 2021 budget and Four-Year Financial Plan, and the city's legacy pension obligations and the retiree protection plan.

The Mayor presented his original budget, utilizing revenues from the February 19, 2020 revenue estimating conference, to city council on March 6. Ten days later, with the COVID outbreak escalating, the three casinos closed. A revised budget with recommended changes was formulated and presented by the mayor to council on April 14. City council held budget hearings and subsequently adopted the revised FY 2021 budget on May 5. The OCFO submitted a balanced budget and Four-Year Financial Plan to the FRC May 29.

FY 2021 Budget Revenues, April 2020 Revenue Shortfall

The table on the next page (FY 2021 Budget – April 2020 Revenue Shortfall) shows the effects of COVID on the city's general fund- and other funds revenues. The first two columns show the revenues that were adopted at the February revenue estimating conference for FY '20 and FY '21. The middle five columns show the adjusted-down revenues (in April) for FY '20-FY '24. The last two columns are the differences between February's estimates and April's.

FY 2021 Budget – April 2020 Revenue Shortfall

City of Detroit - Estimated COVID-19 Revenue Impacts									
<i>\$ in millions</i>									
	February 2020 Est		April 2020 Est					Change \$	
	FY20	FY21	FY20	FY21	FY22	FY23	FY24	FY20	FY21
General Fund									
Major Taxes									
Income Tax	\$ 329.8	\$ 340.4	\$ 281.0	\$ 239.4	\$ 322.6	\$ 332.0	\$ 343.1	\$ (48.8)	\$ (101.0)
State Revenue Sharing	208.4	205.0	201.2	190.5	202.0	203.7	205.4	(7.2)	(14.5)
Wagering Tax/Fees	204.4	206.3	152.6	145.7	189.7	191.6	193.5	(51.8)	(60.6)
Property Tax	118.4	118.9	117.2	111.9	206.6	208.3	210.0	(1.2)	(7.0)
Utility Users Tax	28.3	28.5	28.3	28.5	28.7	28.9	29.1	-	-
Subtotal, Major Taxes	\$ 889.3	\$ 899.1	\$ 780.3	\$ 716.0	\$ 861.8	\$ 874.3	\$ 889.3	\$ (109.0)	\$ (183.1)
Other Revenues	\$ 187.6	\$ 185.7	\$ 158.6	\$ 190.7	\$ 204.5	\$ 205.5	\$ 206.6	\$ (29.0)	\$ 5.0
Grand Total, General Fund	\$ 1,076.9	\$ 1,084.8	\$ 938.9	\$ 906.7	\$ 1,066.3	\$ 1,079.8	\$ 1,095.9	\$ (138.0)	\$ (178.1)
Other Funds (GF Impact)									
BSEED Construction Code Fund	\$ 25.0	\$ 25.0	\$ 15.2	\$ 19.0	\$ 25.0	\$ 25.0	\$ 25.0	\$ (9.8)	\$ (6.0)
DDOT Transportation Fund	72.3	73.2	66.3	63.2	73.7	74.1	74.5	(6.0)	(10.0)
Airport Fund	0.7	0.7	0.5	0.7	0.7	0.7	0.7	(0.2)	-
Grand Total, All Funds	\$ 1,174.9	\$ 1,183.7	\$ 1,020.9	\$ 989.6	\$ 1,165.7	\$ 1,179.6	\$ 1,196.1	\$ (154.0)	\$ (194.1)

* All years have been adjusted to exclude \$27M of General Fund interfund reimbursements and pass-through contributions that will no longer be categorized as revenue but were previously.

The grand totals (all funds) in the last two columns (-\$154 million in FY '20 and -\$194.1 million in FY '21) are the revenue shortfalls the OCFO presented in detail (along with the city's comprehensive response) to the FRC in April. The revenue estimates in the middle five columns are the estimates utilized in the city's Four-Year Financial Plan.

FY '20 and FY '21 Revenue Assumptions

Income Tax

The city's largest revenue stream is income tax. In estimating the loss of individual income taxes, the city assumes a 30% annualized loss in gross domestic product (GDP) in the second quarter of 2020, followed by a slow recovery based on April interim economic forecast from the University of Michigan. In addition, the estimate assumes a 20% loss in corporate and partnership tax revenue in FY '20 and another 40% loss in FY '21.

A commissioner contemplated whether the city's assumptions will account for the loss of income taxes due to, for example, workers who once worked in the city but decide to work out of their homes, either permanently or at least intermittently. The city said for the out-years, FY '22 – FY '24, it anticipates ongoing income tax losses of \$25 million in FY '22 and FY '23 and \$23 million in FY '24.

Wagering Tax and Fees

Revenue from the casinos is another significant revenue source for the city, approximately \$600,000 a day. The city assumes the casinos will be closed through June 30, followed by a gradual reopening: July/August (20%); September/October (50%); November/December (75%) and back to full capacity in January 2021.

The city acknowledged that its wagering-tax revenue assumptions (casinos at full capacity in January 2021) could have been "more conservative". However, the CFO noted the city did not

factor in internet gaming and sports betting revenue estimates, revenues that will hopefully mitigate a slower casino reopening if that should happen, he said. The CFO said the city is going to monitor the reopening very closely and added that in other states there has been a “pent-up appetite” for reopened entertainment venues like casinos.

Property Taxes

Property tax estimates assume a 50% loss in delinquent tax payment plan revenue through the end of FY '20 and for all of FY '21. The city does not anticipate no affect on the summer 2020 tax levy which are based on values as of December 31, 2019.

State Revenue Sharing (constitutional)

The reduction in constitutional state revenue sharing is based on reductions in state sales tax from business closures and economic contraction. Reduction is statutory revenue sharing remains a risk as the state works through its own challenges

Other Revenue Losses

Please see slide #11 for a list of the remaining other-revenue losses.

Expenditure Changes FY 2021-FY 2024 Four-Year Financial Plan

The city made adjustments to the expenditure side of the equation to accommodate the revenue short fall (see table below). For FY '21, the city made adjustments totaling \$116.2 million. It was not made clear at the meeting what comprised the \$116.2 million. For the out-years ('22,'23 and '24) there are ongoing annual savings of \$9.6 million due to the anticipated cancellation of COLA payments and annual salary increases. General fund contributions to DDOT are reduced (\$20 million annually) and replaced by street fund dollars. And finally, the city has to add \$2 million to the statutory mandated 5% budget reserve¹ in FY '24.

FY 2021 – FY 2024 Four-Year Financial Plan

General Fund	FY 2021	FY 2022	FY 2023	FY 2024
March 2020 Budget Recommendation	\$1,140.2M	\$1,095.9M	\$1,109.4	\$1,210.5
FY21 Net Expenditure Changes	(\$116.2M)	-	-	-
Ongoing Savings from Cancelled FY21 General Wage Increase	-	(\$9.6M)	(\$9.6M)	(\$9.6M)
Reduce DDOT Contribution by Using Street Fund (per Ac	-	(\$20M)	(\$20M)	(\$20M)
RainyDay Fund (Budget Reserve) Deposit	-	-	-	\$2M
Revised Expenditures Total	\$1,024.0M	\$1,066.3M	\$1,079.8M	\$1,182.9M

Potential Risks to the FY '21 Budget and Four-Year Financial Plan

¹ Note: PA 182 Sec 4t (1) (c) (vi) - Four-Year Financial Plan Requirement: Include a general reserve fund for each fiscal year to cover potential reductions in projected revenues or increases in projected expenditures equal to not less than 5% of projected expenditures for the fiscal year. The city’s Four-Year Financial Plan satisfies this requirement.

- A second wave of COVID-19;
- What the world looks like after COVID-19; specifically, the work routines and entertainment habits of people;
- Slower reopening of the casinos;
- Pension board funding policy;
- Labor negotiations to eliminate COLAs and annual increases are unsuccessful;
- Reduced statutory general revenue sharing;
- Pension assets fail to earn their expected return;
- Federal government disallows stimulus for lost revenue.

Workforce Savings Tracking Sheet

The city anticipates workforce savings in FY '20 (\$4.3 million) and FY '21 (\$32.3 million) for a total of \$36.6 million. They have developed a tracking sheet and will begin reporting this month. The instrument is designed to capture projected and actual savings by city department (see below).

Department	Projected Regular Cost (w/o reductions)	Projected Reduced Cost (with reductions)	Projected Savings	Actual Cost	Actual Savings	Change Savings (Projected vs. Actual)	Notes
DPW							
OCFO							
Fire							
Health							
HR							
CRIO							
DoIT							

FY 2021 Retiree Protection Fund (RPF)

The FY 2024 pension “cliff” – the Actuarial Determined Contribution (ADC) – is \$166 million using a level dollar amortization. In 2035 when the contributions from the foundations and the DIA end, the city’s general fund contribution increases to \$185 annually.

The OCFO said the RPF currently has \$183 million, \$170 million from contributions and \$13 million from interest earnings as of May 2020.

A discussion ensued during the subcommittee meeting regarding the anticipated growth in the annual contribution from the city’s general fund in FY 2024 given the market losses in March and modest, forecasted market earnings over the next three fiscal years. The OCFO said \$20 million a year could be added to the payment.

The city also noted that later this summer the OCFO is going to make a presentation to the pension boards and investment committees as these entities are contemplating the adoption of a

funding policy. It's critical that a funding policy not add pressures to the city's challenged general fund.

Planned Future Borrowing

The city is planning a borrowing of \$80 million in the fall for public safety, recreation and transportation capital projects. The issuance is authorized under the city's 2018 bond resolution. The city has selected JP Morgan Chase and Siebert Williams Shank as co-senior managers to lead the offering. If the city should encounter any issues getting the borrowing placed in the public market, it will consider a direct loan with JP Morgan Chase. The city's credit ratings on its general obligation bonds are currently Ba3 (positive outlook) from Moody's and BB- (negative outlook) from S & P.

Foundations – City of Detroit Collaborations

The CFO remarked that the philanthropic community has been "tremendous" in supporting the city in its response to the unprecedented crisis at hand. As an example, he noted how the Quicken Loans foundation was instrumental in setting up and operating the call center for the city's testing site at the former State Fair grounds. The foundation provided a scheduling and appointment-setting process at no charge to the city. Other collaborations resulted in PPEs being issued to small businesses that supported restart plans and helped in filling service gaps in targeted areas due to cutbacks or reductions. The CFO said the philanthropic and business communities have been an integral part to the city's ability to make investment in people and he looks forward to a continuing partnership.

Conclusion

The city submitted to the FRC on May 29 a balanced FY '21 budget and Four-Year Financial Plan, also with balanced budgets in the succeeding three years, meeting the requirement in Sec. 8(2)(c) of the Financial Review Commission Act. The CFO noted that the city's audited FY 19 general fund fund balance peaked at \$692 million but will start to go down.

Because of the rapid onset of the COVID-19 outbreak and its concomitant impact on the local and state economies, the city was faced with sudden and significant revenue shortfalls in FY '20 (-\$154 million) and (projected) FY '21 (-\$194 million). To address the shortfalls, the city utilized/repurposed unassigned- (\$104 million of \$123 million) and assigned fund balances, budget reserves (\$50 million of \$107 million), CARES Act transportation grant dollars (\$34 million) and implemented cost-saving measures (\$50 million in total) across its workforce. Repurposing the fund balances means the city will forgo a supplemental payment to the RPF, blight remediation and capital improvement programs, a deposit to the budget reserve, and an affordable housing initiative, and other initiatives.

The CFO said unlike previous years when the city was budgeting operating surpluses, the city now must manage "much more diligently and scrupulously" making sure every expense is "good because a lot of the cushion or reserves aren't there any longer."

See the Appendix to review the OCFO's entire presentation: *FRC Finance Subcommittee: City of Detroit*.