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TO: Detroit City Council

FROM: David Whitaker, Director 
Legislative Policy Division Staff

DATE: February 10, 2021

RE: Review of the 2020 Comprehensive Annual Financial Report (CAFR) for the City of Detroit

Executive Summary

The Legislative Policy Division (LPD) in this memorandum provides the City Council a report on the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020 (2020 CAFR). A copy of the 2020 CAFR has been presented to the members of the Budget, Finance and Audit Committee for review.

We acknowledge and commend the efforts of the OCFO (Office of the Chief Financial Officer) staff to complete the 2020 CAFR on December 17, 2020 ahead of the deadline of December 31, 2020.

Plante & Moran, PLLC, the City's independent auditor, issued an unqualified ("clean") opinion for the 2020 CAFR, including its audited financial statements and related footnotes. A clean opinion does not mean that the City's financial condition is satisfactory. Essentially a "clean" opinion means that the City's 2020 CAFR is fairly presented in all material aspects. As a result, investors, creditors, rating agencies and other interested parties reading the City's 2020 CAFR can rely on the audited financial statements and the information contained therein.

LPD's review of the 2020 CAFR was based on the following focus questions:

- Will the City of Detroit be able to pay its bills (both expected and unexpected) on time (near-term financing situation)?
- Is the City of Detroit's financial health improving or deteriorating (long-term financial condition)?

- To what extent has the City’s emergence from bankruptcy on December 10, 2014 improved the City’s financial condition (post-bankruptcy impact)?
- Is it likely that today’s financial position for the City of Detroit will improve or deteriorate in the future (economic condition)?

LPD’s review of the 2020 CAFR focuses on major issues we raise from our review of the 2020 CAFR as we feel the 2020 CAFR addresses the preceding focus questions. However, to gain a broader “high level” understanding of the 2020 CAFR from a financial perspective, LPD encourages the reader of this report to also read the “Introductory Section & Transmittal Letter” (pages i-vii of the 2020 CAFR) and the “Management Discussion and Analysis” section (pages 4-18 of the 2020 CAFR) in the 2020 CAFR.

Highlights from the City’s General Fund Financial Statements in the 2020 CAFR (Near-term perspective)

- Note: the governmental fund financial statements are used to assess a government’s near-term financing situation since their measurement focus is primarily near-term. The City’s chief governmental fund that is reported in the 2020 CAFR is the “General Fund”. Most of the City’s basic services, such as public protection (police and fire), recreation and general services, are reported in the General Fund. Taxes and intergovernmental revenue generally fund these services. Whether or not the General Fund’s “fund balance” (assets and deferred outflows of resources¹ less liabilities and deferred inflows of resources²) is in a surplus or deficit position is a key indicator of the financial health of the City of Detroit as a government from a near-term perspective.
- The City’s General Fund ended up with an \$54.2 million operating surplus for FY 2020, primarily due to use of federal CARES Act grant to reduce the General Fund burden regarding the COVID-19 pandemic.
- The General Fund had an accumulated unassigned fund balance (surplus) of \$109.1 million³ at June 30, 2020, a \$14.1 million decrease from the \$123.2 million accumulated unassigned surplus at June 30, 2019. This means the City’s General Fund had sufficient assets to pay its obligations at June 30, 2020. This was due to the quick action taken by the Administration and City Council in April 2020 to mitigate the economic impact caused by the COVID-19 pandemic. This action⁴ reduced salaries and wages by \$9.8 million through layoffs and reduction of hours; and the City also used some of \$109 million federal CARES Act grant to cover payroll expenses for public safety, public health, health care, human services, and similar employees costs whose services are substantially dedicated to mitigating or responding to the COVID-19 pandemic.

¹ A deferred outflows of resources is a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. An example of a deferred outflow of resources is an employer pension contribution made after the measurement date.

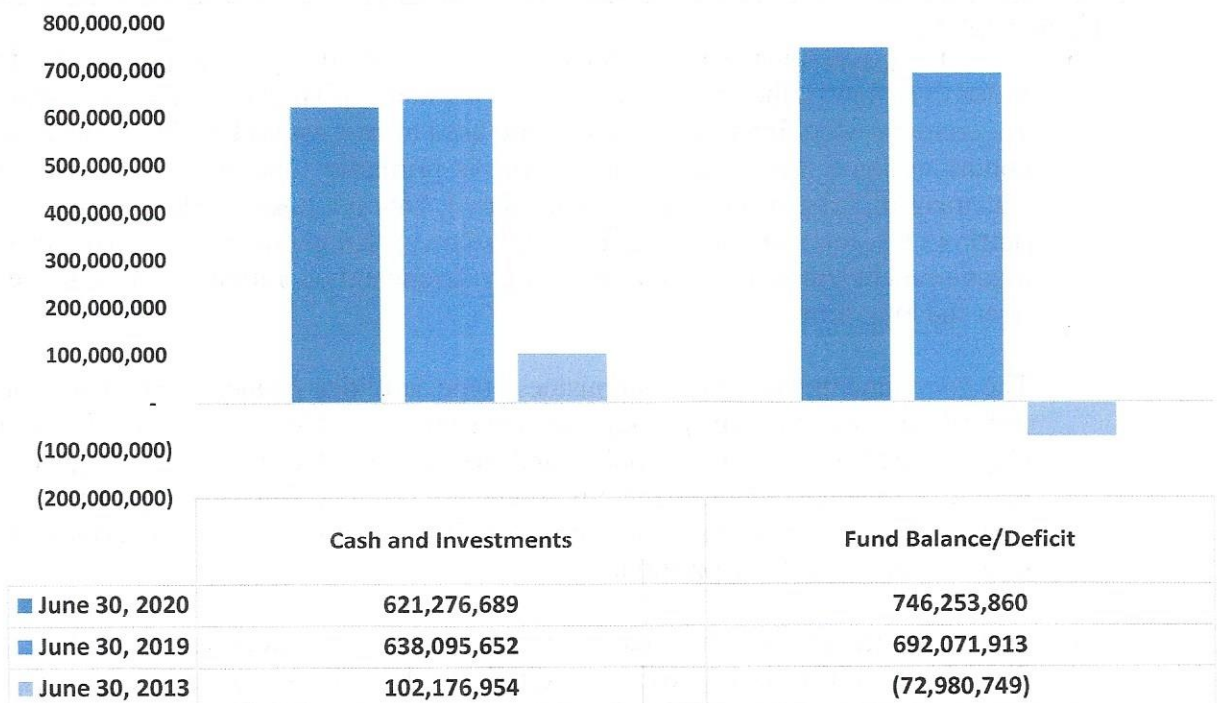
² A deferred inflows of resources is an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. An example of a deferred inflow of resources is a grant revenue received past the period of availability.

³ Page 24 of the 2020 CAFR

⁴ Page 15 of the 2020 CAFR, Management’s Discussion and Analysis.

- The City’s General Fund assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$746.3 million. As a result, the General Fund had a total fund balance at June 30, 2019 of \$746.3 million⁵, increase of \$54.2 million from the \$692.1 million total fund balance at June 30, 2019.
- Most of the General Fund total fund balance of \$746.3 million at June 30, 2020 is assigned for reinvestment, future liabilities, and potential risks: a) \$107.3 million for Budget Reserve; b) \$74.0 million for Risk Management Fund; and c) \$163.1 million for continuing and subsequent appropriations. In addition, a total of \$184.7 million of the fund balance is set-aside and restricted for future pension contributions.
- The General Fund’s cash, investments and restricted cash and investments at June 30, 2020 totaled \$621.3 million. This is a decrease of \$16.8 million from the \$638.1 million cash and investments balance at June 30, 2019. The graph below shows the General Fund’s liquidity per cash and investments and total fund balance for fiscal years 2020, 2019, and 2013.

General Fund Liquidity



- Although the General Fund is now able to pay its bills on time, and its financial health is improving, cautionary notes are warranted. First, the City still has looming increases in pension and debt obligations. Secondly, although \$621.3 million in General Fund cash and investments is sizable, the lion share of it is either obligated, restricted or assigned to a specific purpose. As a result, available cash for discretionary spending is minimal.

⁵ Page 24 of the 2020 CAFR

- Furthermore, if the City continues to incur COVID-19 expenditures without additional Federal stimulus dollars forthcoming, that could present a further strain on General Fund revenues in FY 2021.
- We noted a Fund Balance issue on page 27 of the FY 2020 CAFR. The FY 2020 CAFR General Fund beginning Fund Balance in the Oracle system was different than the FY 2019 published CAFR ending fund balance by \$1,746,331 and we would like OCFO team to explain this discrepancy. Below schedule shows the difference.

	<u>Beginning Fund Balance</u>	<u>FY 2020 Net Change</u>	<u>Ending FY 2020 Fund Balance</u>
Per Oracle System	\$ 690,325,582	54,181,963	744,507,545
Per CAFR	692,071,913	54,181,947	746,253,860
Difference	<u>\$ (1,746,331)</u>	<u>16</u>	<u>(1,746,315)</u>

Highlights from the City’s Governmental-Wide Financial Statements in the 2020 CAFR (Long-term perspective)

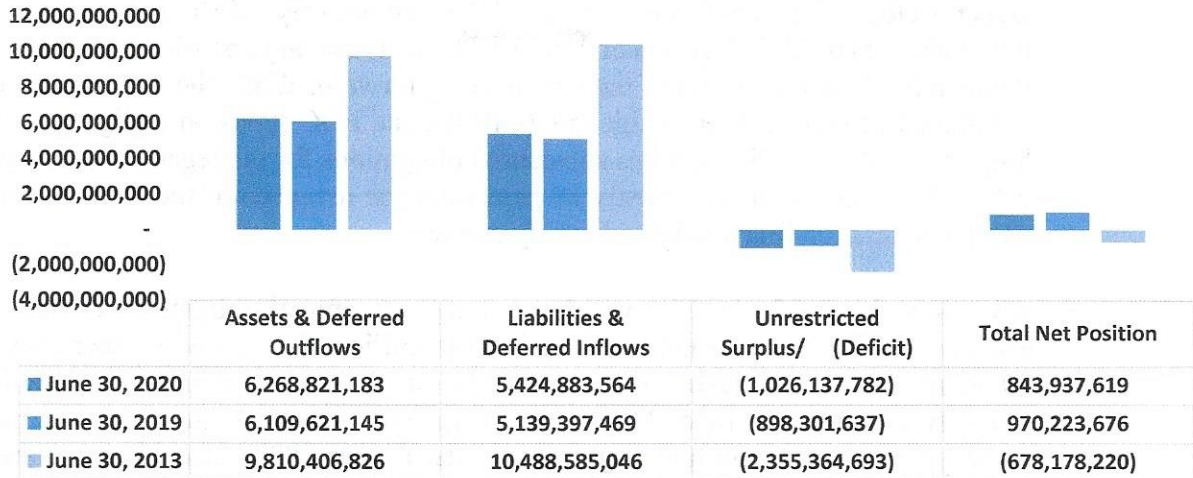
- Note: the government-wide financial statements are designed to provide readers with a broad overview of the City’s finances, in a manner similar to a private sector business. The government-wide financial statements are used to best assess the City’s citywide financial condition since their measurement focus is primarily long-term. For government-wide statement of net position (i.e., balance sheet), how net position (total assets and deferred outflows less total liabilities and deferred inflows) changes over time can indicate how well a government is covering future cost of governmental operations with available resources over the long-term.

The governmental activities and business-type activities financial statements comprise the primary government’s (citywide) financial statements: Government activities- most of the City’s basic services, such as police and fire, are reported under this category. Taxes and intergovernmental revenue generally fund these services; Business-type activities- the City charges fees to customers to help it cover all or most of the cost of services it provides, such as water and transportation.

- Over time, increases and decreases in net position measure whether the City’s citywide financial condition is improving or eroding. The primary government’s (citywide) net position (net worth) was \$843.9 million, meaning total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$843.9 million at June 30, 2020, a decrease of \$126.3 million from the \$970.2 billion net position at June 30, 2019. The decrease was mainly due to approximately \$99 million⁶ net position restatement which was the result of not removing land parcels that were sold or transferred during prior fiscal years.
- The graph below shows the primary government’s financial results for fiscal years 2020, 2019 and 2013.

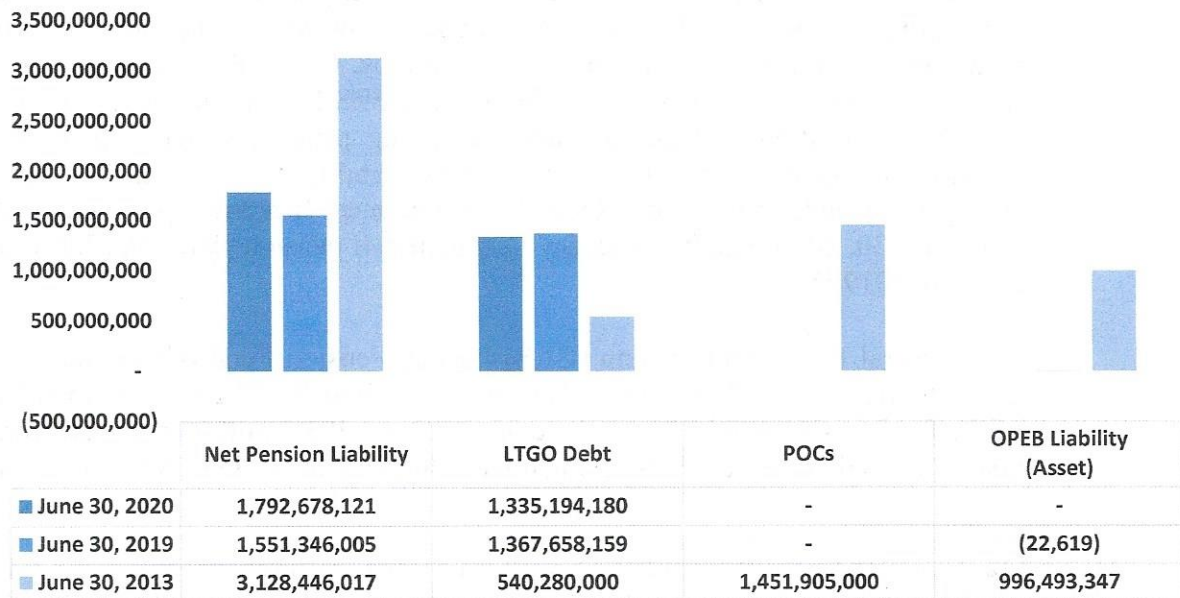
⁶ Page 54 of the 2020 CAFR, Note 1, Prior Period Adjustment

Primary Government Financial Results



- The decreases in assets and liabilities from June 30, 2013 are mainly due to the bifurcation and transfer of the regional water and sewer systems' assets and liabilities to the Great Lakes Water Authority (GLWA), which included \$5.1 billion of revenue bonds.⁷
- As the above graph shows, the primary government's unrestricted net position deficit was \$1.03 billion, which means there was a shortage of assets available to meet all the City's obligations if they were immediately due and payable on June 30, 2020. This was mainly due to the City's large legacy pension and debt obligations which are detailed below for fiscal years 2020, 2019, and 2013.

Primary Government Legacy Debt Burden



⁷ Page 122 of the 2016 CAFR.

- The City's net pension liability of \$1.793 billion and \$1.335 billion of LTGO (Limited Tax General Obligation) debt⁸ are 33% and 25%, respectively, of the primary government's total liabilities of \$5.377 billion on June 30, 2020. These large pension and debt obligations threaten the financial health of the City moving forward. While the bankruptcy reduced or eliminated pension, retiree health care (OPEB), and POC (Pension Obligation Certificate) long-term debt, the City still has substantial obligations for the legacy pension and LTGO debt. The LTGO debt will mostly be paid from the revenues of the General Fund which will leave less funding available for City services.
- After June 30, 2023, the City will have significant annual obligations to fund pensions, especially if the Net Pension Liability is not significantly reduced by then. Beginning in 2024, the Plan of Adjustment assumed that the UAAL (Unfunded Actuarial Accrued Liability⁹) would be funded over 30 years and projected an annual General Fund contribution of \$111 million beginning in fiscal year 2024. Based on the latest OCFO projections, the anticipated General Fund contributions starting in FY 2024 are projected to be \$178 million¹⁰. Fortunately, the OCFO has taken action to mitigate the pension required contributions in 2024 by setting aside \$184.7 million from General Fund surpluses in the Retirement Protection Trust Fund as of June 30, 2020.
- Of the primary government's \$1.793 billion net pension liability at June 30, 2020, \$793.8 million was attributable to the General Retirement System (GRS), and \$998.9 million was attributable to the Police and Fire Retirement System (PFRS)¹¹. The primary government's net pension liability significantly increased \$241.3 million from the \$1.551 billion balance on June 30, 2019 mainly due to low return on pension investments.
- Of the GRS primary government net pension liability of \$793.8 million, \$789.9 million was attributable to the GRS legacy Component II pension plan, and \$3.8 million to the Component I new pension plan per the bankruptcy. Of the PFRS net pension liability of \$998.9 million, all of it was attributable to the PFRS legacy Component II pension plan, and (\$37.3) million (net pension asset, meaning pension system's plan fiduciary net position exceeds pension system's total pension liability) to the Component I new pension plan per the bankruptcy. The GRS legacy Component II pension plan was 65.8% funded as of June 30, 2019. The PFRS legacy Component II pension plan was 72.8% funded as of June 30, 2019.¹²
- The General Retirement System (GRS) Legacy Pension Fund (Component II) had total expenditures of \$245.7 million for the year ended June 30, 2020¹³. The total Net Position of the fund was \$1.608 billion at June 30, 2020, a \$203.5 million decrease from the prior year¹⁴. The GRS Legacy Pension Fund has a high payout ratio (1:6.5) compared to its net

⁸ Limited Tax General Obligation (LTGO) debt is typically paid from General Fund revenues. Unlimited Tax General Obligating (UTGO) debt is typically paid from a property tax debt millage that was approved by the voters.

⁹ The Unfunded Actuarial Accrued Liability (UAAL) represents the amount of actuarially accrued liabilities greater than the actuarially value of assets of a pension plan.

¹⁰ Page 14, OCFO Pension Funding Presentation before PFRS Trustees on 8/20/2020

¹¹ Pages 110-111 of the 2020 CAFR and from 2019 actuarial reports

¹² Pages 103 and 104 of the 2020 CAFR, Schedule of Changes in Net Pension Liability

¹³ GRS (Component II) "total expenditures" is synonymous with "total deductions" on page 199 of the 2020 CAFR.

¹⁴ Page 199 of the 2020 CAFR

position, meaning if GRS pension expenditures continue at this rate, total GRS pension net position would be depleted in approximately six years and 6 months. The Net Pension Liability to the GRS Legacy Pension Fund was \$934.7 million as of June 30, 2020.¹⁵ The City's pension obligations are a burden that have to be closely monitored.

- The Police and Fire Retirement (PFRS) Legacy Pension Fund had total expenditures of \$304.7 million for the year ended June 30, 2020¹⁶. The total Net Position of the fund was \$2.422 billion at June 30, 2020, a \$253.6 million decrease from the prior year¹⁷. The PFRS Legacy Pension Fund has a lower payout ratio (1:8.0, meaning the total PFRS pension net position would be depleted in approximately eight years at this rate of PFRS pension expenditures) than the GRS Legacy Pension Fund but it is still of concern. The City's Net Pension Liability to the PFRS Legacy Pension Fund was \$998.9 million as of June 30, 2019.¹⁸
- The primary government (citywide) had \$2.155 billion in total revenue for the year ended June 30, 2020, an increase of \$22.8 million from the prior fiscal year. The primary government had \$2.182 billion in total expenses for the year ended June 30, 2020, an increase of \$118.3 million from the prior fiscal year. As a result, total primary government expenses exceeded total revenues by \$27.4 million. In the prior fiscal year 2019, total primary government revenues exceeded total expenses by \$68.1 million.

Highlights from the City's Enterprise Fund Financial Statements in the 2020 CAFR (Long-term perspective)

- The City's enterprise funds¹⁹ had a net position of \$1.283 billion at June 30, 2020, an increase of \$24.4 million from the \$1.259 billion net position at June 30, 2019. The enterprise fund cumulative unrestricted net position totaling \$759.7 million in FY 2020, a decrease of \$13.5 million from the \$773.2 million in FY 2019.
- In FY 2020 Water and the Sewage Disposal Funds had unrestricted net positions of \$457.1 million and \$553.9 million, respectively, mainly due to the bifurcation which exchanged the water and sewer regional systems assets and liabilities including long term debt to GLWA for \$50.0 million in annual lease payments over 40 years effective January 1, 2016. The unrestricted net position increased \$186,221 for Water and \$10.8 million for Sewage in FY 2020 from the prior year.
- While the Water and Sewage Disposal Funds have large unrestricted net positions at June 30, 2020, both funds have large capital and infrastructure repair and replacement needs and

¹⁵ Page 103 of the 2020 CAFR. Per page 102 of the 2020 CAFR, as permitted by GASB No. 68, the City has chosen to use June 30, 2019 as its measurement date for the net pension liability (asset) for its fiscal year 2020 financial statements.

¹⁶ PFRS (Component II) "total expenditures" is synonymous with "total deductions" on page 200 of the 2020 CAFR.
¹⁷ Page 200 of the 2020 CAFR

¹⁸ Page 110 of the 2020 CAFR. Per page 102 of the 2020 CAFR, as permitted by GASB No. 68, the City has chosen to use June 30, 2019 as its measurement date for the net pension liability (asset) for its fiscal year 2019 financial statements.

¹⁹ The 2020 CAFR classifies "enterprise funds" as "business-type activities" in the City's government-wide financial statements.

debt obligations to GLWA that will require a large share of that unrestricted net position. A benefit of the net unrestricted net position is that water and sewer rate increases to Detroit customers will be mitigated, as the unrestricted net position through the annual \$50 million lease payment from GLWA, will provide a significant amount of the funding for both Funds' capital, infrastructure, and debt obligation needs.

- In FY 2020, both the Water and the Sewage Disposal Funds had positive net income (Change in Net Position) of \$21.7 million and \$31.5 million, respectively.²⁰ It is remarkable that the water and sewer funds realized positive net income even during the economic impact of the COVID-19 pandemic.
- The lease receivable from GLWA on DWSD's financial statements does not agree with the lease payable on GLWA's financial statements. GLWA shows the lease to be \$24.5 million less than DWSD for the Water Fund and \$29.9 million less for the Sewage Disposal Fund.²¹ Detailed below is the difference. GLWA and DWSD use a different discount rate which causes the difference in the reported amounts.

	Water			Sewer		
	DWSD	GLWA	Difference	DWSD	GLWA	Difference
Receivable From GLWA	\$ 440.9	416.5	24.5	\$ 538.9	509.0	29.9

- As of June 30, 2020, the Sewage Disposal Fund shows a balance of \$26.5 million in a liability account entitled "shortfall loan payable to Great Lakes Water Authority".²² The balance in this liability as of June 30, 2020 decreases by \$17.5 million from the balance as of June 30, 2019. This appears to be attributable to a negative balance caused by a budget shortfall of \$47.8 million for the DWSD sewer fund which exceeds the two percent threshold (i.e., actual receipts falling short of budget for either the water fund or sewer fund by greater than two percent) per the 2018 MOU. The budget shortfall not cured by the end of the fiscal year following the year in which they arise shall be repaid in full, in installments over a period not to exceed three fiscal years. The installment payments will include a surcharge based on the three-year U.S. Treasury note plus 150 basis points.²³
- **The City needs to closely observe the financial performance of the Water and Sewage Disposal Funds after the bifurcation to ensure revenues cover expenses and essential services are provided.**
- The Transportation Fund had an unrestricted net position deficit at June 30, 2020²⁴ of \$288.1 million, a \$32.4 million increase from the \$255.7 million deficit on June 30, 2019, mainly due to a \$24.9 million increase in net pension liability. The General Fund

²⁰ Page 31 of the 2020 CAFR

²¹ Page 16 of DWSD FY 2020 audited financial statements, Note 4 and page 72 of GLWA's FY 2020 audited financial statements, Note 14

²² Page 29 of the 2020 CAFR

²³ Note 20. Subsequent Events on page 76 of the 2018 GLWA CAFR.

²⁴ Page 29 of the 2020 CAFR

contributed \$45.9 million in subsidies to the Transportation Fund in FY 2020²⁵, which is \$15.6 million less than the General Fund contribution of \$61.5 million made in FY 2019.

- The Public Lighting Authority of Detroit (the “PLA”) had a \$39.5 million net position at June 30, 2020²⁶, a \$3.6 million increase from the \$35.9 million on June 30, 2019. In addition, the City provided a subsidy of \$10.5 million to the PLA. The PLA had an unrestricted net position of \$39.2 million in the FY 2020 CAFR, which is mainly due to the \$22.8 million excess utility user tax revenues collected that will be used to pay its future debt obligations (the PLA collects \$12.5 million in utility users’ tax annually from the General Fund to meet annual debt service requirements).²⁷
- Nonmajor Enterprise Funds include the Airport Fund and Parking Fund. The Parking Fund net position at June 30, 2020 was zero, a decrease of \$27.8 million from the \$27.8 million net position on June 30, 2019. The Parking Fund transferred \$11.8²⁸ million to the General Fund to complete the merger of the Parking Fund into the General Fund. The Airport Fund had a \$2.4 million unrestricted deficit net position at June 30, 2020, a decrease of \$4.4 million from the \$6.7 million unrestricted deficit net position on June 30, 2019. The General Fund subsidy to the Airport increased approximately \$3 million to \$5.3 million for FY 2020 from the \$2.2 million in FY 2019.
- The Internal Service Funds (Employees Benefit Plan Fund and Disability Income Protection Plan Fund) were reported with the Enterprise Funds as Governmental Activities in the FY 2020 CAFR. The Employee Benefit Plan Fund had a \$2.4 million net position at June 30, 2020. The Disability Income Protection Plan Fund had a \$1.1 million net position at June 30, 2020. An Internal Service Fund is a fund used in governmental accounting to account for goods or services shifted between departments on a cost reimbursement basis. The Employee Benefit Plan Fund provides the City’s employees health care (e.g., hospitalization premiums) and other insurance benefits such as life, dental, and vision. The Disability Income Protection Plan Fund provides the disability insurance for qualified disabled City employees. The Fund that the employee works in is responsible for reimbursing the Internal Service Fund for the costs incurred. We in LPD would like to see an Internal Service Fund created for Risk Management so that all claims, litigation and workers compensation costs can be properly accounted for and properly reimbursed.

City of Detroit’s Financial Condition has improved since its Emergence from Bankruptcy on December 10, 2014

Since bankruptcy, the City’s fiscal position has stabilized and strengthened²⁹. However, the COVID-19 pandemic has brought serious challenges that the Administration and City Council will have to keep monitoring and react to quickly if necessary:

- *The City now has achieved a balanced budget for the sixth consecutive year.* While the Finance Review Commission (FRC) has no active role any longer it will continue to exist

²⁵ Page 72 of the 2020 CAFR, Interfund Receivables, Payables and Transfers.

²⁶ Page 30 of the 2020 CAFR

²⁷ Attachment VI represents LPD’s calculation of the \$22.8 million in excess utility users tax revenues collected for the purpose of paying future PLD debt obligations.

²⁸ Page 14 of the 2020 CAFR

²⁹ Most of the information in this section is from pages iv and v of the 2020 CAFR

for a 10-year term. The City is still required to submit monthly financial reports, adopted budget and 4-year financial plan to the FRC each year. So long as the City continues to balance its budgets and meet other basic fiscal requirements, the FRC will stay inactive for the rest of its existence.³⁰

- We should note, however, even though the City has achieved operating surplus in every fiscal since FY 2015, the level of surplus has been diminishing (Except FY 2019). Detailed below are the General Fund surplus for FY 2015-2020:
 - General Fund surplus for FY 2015 \$384.3 million³¹
 - General Fund surplus for FY 2016 \$ 62.9 million
 - General Fund surplus for FY 2017 \$ 53.8 million
 - General Fund surplus for FY 2018 \$ 18.4 million
 - General Fund surplus for FY 2019 \$ 80.9 million
 - General Fund surplus for FY 2020 \$ 54.2 million
- Over the past few years, the City’s grants management reform efforts have reduced the City’s questioned costs by millions of dollars, decreased the number of audit findings, and helped to close numerous federal corrective action plans. As a result, the City is a more successful grantee and has secured hundreds of millions in public and private grants to support neighborhood revitalization and service improvements.
- Income tax revenue has increased 14% over six years (\$290.0 million in FY 2020 compared to \$253.8 million in FY 2014). This 14% increase would have been much higher without the COVID-19 pandemic impact which caused income tax revenue to decline by \$71 million from FY 2019 level of \$361.0 million.
- The Property tax collection rate has increased to 84% in FY 2020³² compared to 69% in FY 2014.
- In February 2018, the OCFO established an Administrative Issuance System, which includes key policies, process flows, standard operating procedures, and detailed work instructions for all operations with the OCFO. <https://detroitmi.gov/departments/office-chief-financial-officer/administrative-issuance-system> can be visited for a current listing of all policies.

It is Likely that the City of Detroit’s Financial Position will improve in the future (Economic condition perspective) - Major Observations on Economic Condition and City Improvements from the City’s Other Supplementary Information in the 2020 CAFR

Inevitably, a government’s financial position will be effected by its circumstances (e.g., the vitality and diversification of the local economy, the breadth and depth of the government’s tax base). Past experience often is vital to predicting future developments (e.g., Have intergovernmental revenues been increasing or decreasing over time? Has the government’s population been growing or

³⁰ 2020 CAFR, Note 13, pages 124-125

³¹ General Fund surplus for FY 2015 was unusually large due primarily to the one-time elimination of debt, pension liability and other liabilities, coupled with an extraordinary gain coming out of bankruptcy on December 10, 2014.

³² Page 221 of the FY 2020 CAFR, Schedule 8 Revenue Capacity – Property tax Levies and Collections.

shrinking?). Economic condition focuses on the likelihood that today's financial position will improve or deteriorate in the future. Much of the information needed for assessing economic condition involves either nonfinancial data (e.g., population and unemployment) or financial data presented for multiple years (e.g., 10-year trends). Such data typically are located either in the introductory section & transmittal letter of the CAFR, in the statistical section³³ of the CAFR and/or as part of the required supplementary information (RSI)³⁴.

The following major observations regarding the economic condition perspectives of the City and other initiatives are from LPD's review of the introductory section³⁵ in the 2020 CAFR:

- Since the Great Recession, the City has benefited from a period of economic growth. Small businesses emerged, large corporate attractions flourished, and Detroit gained a reputation as the Comeback City. The City has developed a suite of programmatic initiatives to address every sector, business size, and neighborhood throughout the community. These strategies bode well for the City as it looks to post-COVID economic rebound.
- In the last three years, Detroit's industrial sector expanded. In 2019, Fiat Chrysler Automobiles (FCA) announced its intent to invest \$2.5 billion in the construction of its new Mack Avenue Assembly Plant and to retool and modernize their existing Jefferson North Assembly Plant (JNAP) into a new assembly site. In 2020, General Motors (GM) announced a \$2.2 billion investment in its Detroit-Hamtramck Assembly Plant to become the company's first all-electric vehicle plant and will focus on producing electric and self-driving vehicles. At the Michigan Central Train Station, Ford is constructing a 1.2 million square-foot facility that will serve as an innovation hub to develop and design and test mobility solutions.
- In early August 2020, Amazon announced that it will be making \$400 million investment in a 3.8 million square-foot fulfillment center on the site of the former Michigan State Fairgrounds. In 2018, Chemical Bank announced that it will relocate to Detroit and conclude a merger with Minnesota-based TCF Bank. With merger completed on August 1, 2020, TCF Bank will soon occupy its new headquarters in downtown Detroit in a \$104 million, 20-story building currently under construction.
- Due to the Covid-19 Pandemic, in the Spring of 2020, the Administration projected a \$348 million revenue shortfall over 15 months. In response, the Administration and City Council worked together and acted quickly to address the shortfall.
- In fiscal year 2020, the City documented over \$109 million in expenses incurred in response to COVID-19 that were charged to the City's CARES Act grant. These expenses were charged to City's CARES Act grant in fiscal year 2020., removing that additional burden from the General Fund and other related funds.
- History of total primary government net position:³⁶

³³ Page 204 of the 2020 CAFR

³⁴ Page 129 of the 2020 CAFR

³⁵ Pages i to vi of the 2020 CAFR

³⁶ Information is from statistical section of 2020 CAFR, pages 206 and 207.

- FY 2020 \$ 843.9 million
- FY 2019 \$ 970.2 million
- FY 2018 \$ 898.0 million
- FY 2017 \$ 812.1 million
- FY 2016 \$ 994.5 million
- FY 2015 \$(2,074.9) million
- FY 2014 \$(4,040.8) million

Since FY 2014, the impact of the bankruptcy, the bifurcation of Water and Sewer, and overall improvement in City finances has resulted in positive primary government net position figures in recent years.

- History of general fund unassigned surplus (deficit) and total general fund balance:³⁷
 - FY 2020 \$109 million unassigned surplus; \$746 million total general fund balance
 - FY 2019 \$123 million unassigned surplus; \$692 million total general fund balance
 - FY 2018 \$131 million unassigned surplus; \$611 million total general fund balance
 - FY 2017 \$169 million unassigned surplus; \$592 million total general fund balance
 - FY 2016 \$143 million unassigned surplus; \$501 million total general fund balance
 - FY 2015 \$ 71 million unassigned surplus; \$438 million total general fund balance
 - FY 2014 \$(145) million unassigned deficit; \$53 million total general fund balance

Since FY 2014, coming out of bankruptcy, with better economic conditions and with the institution of greater financial controls, the City's main operating account, the general fund, has experienced healthier financial results.

City of Detroit's Risk Factors and Potential Opportunities

Although the City of Detroit has increased its financial position in recent years, and it is likely that the City's economic condition will continue to improve post-COVID, the following represent economic and fiscal risks that should be considered³⁸:

- Additional waves of COVID-19 and mandatory closures.
- Extended and more severe COVID-19 economic recession.
- Potential Federal and State budget pressures.
- Worse than expected remote work refund liability and casino capacity limitations.
- Permanent reductions in economic activity due to capacity limits and behavior changes (e.g., office work, restaurants, hotels, entertainment).
- Negative COVID impact on commercial property values and collection rates.
- Potential losses in casino revenue if new or expanded casinos or other gaming substitutes open nearby, and if past revenue trends do not continue.
- Reduction of Statutory State Revenue Sharing dollars due to challenges in the State's budget from declining finances and other critical issues.

³⁷ Information is from statistical section of 2020 CAFR, pages 212 and 213.

³⁸ Fiscal risks and potential opportunities are primarily from the September 2020 Detroit Revenue Estimating Conference report, which can be accessed at:

https://detroitmi.gov/sites/detroitmi.localhost/files/migrated_docs/financial-reports/Sept2020DetroitRECPresentationv7.pdf

- Lower census numbers result in loss of federal/state funds tied to population.
- Potential recession in the near future and uncertainty regarding the COVID-19 pandemic.

The following represent potential opportunities for the City of Detroit to further improve revenues:

- Additional Federal fiscal relief and economic stimulus.
- New and ongoing development projects throughout the City.
- Expiring tax abatements and taxable values uncapping from property tax.
- Internet gaming and sports betting implementation.
- Potential for increased economic development to increase the City's tax base and generate additional revenues for the City.
- Sales tax on internet purchases may increase state local share distributions to city/villages/townships.
- Increased State-shared revenues from recreational marijuana sales.
- Increased wagering tax revenue from online gaming and sports betting legislation, assuming no adverse substitution effect to existing brick and mortar gaming.
- Potential revenue from Marijuana businesses expected to open soon in the City.

Other highlights/observations from the Review of the 2020 CAFR

Below are additional observations from LPD's review of the 2020 CAFR.

In Note 14 of the 2020 CAFR, the City disclosed the programs and the estimated amount of taxes abated during FY 2020, which was \$39.1 million, an increase of \$18.6 million from the \$20.6 million on June 30, 2019. Listed below is a comparison of the taxes abated in 2020 and 2019.

Program	Legislation	Abatement Amount			Comment
		2020 Total Taxes	2019 Total Taxes	Difference Total Taxes	
Brownfield Redevelopment Act (BRA)	PA 381 1996	\$ 1,402,168	\$ 1,179,840	\$ 222,328	Cleanup of Environmental Issues
Industrial Facilities Act (IFT)	PA 198 1974	646,351	426,216	220,135.00	Redevelopment of Facility
Commercial Rehabilitation Act (CRA)	PA 210 2005	2,644,724	1,966,521	678,203.00	Rehabilitation of Qualified Facility
Commercial Redevelopment Act (CFT)	PA 255 1978	249,457	6,573	242,884.00	Redevelopment of Commercial Property
Renaissance Zone Act (RZ)	PA 376 1996	8,454,372	5,094,819	3,359,553.00	Economic Development in Designated Area
Obsolete Property Rehab Act (OPRA)	PA 146 2000	2,864,604	1,729,275	1,135,329.00	Redevelopment of Obsolete and Blighted Buildings
Neighborhood Enterprise Zone (NEZ)	PA 147 1992	7,112,526	4,278,780	2,833,746.00	Financial Investment in Property
Land Bank Fast Track Act (LB)	PA 258-263 2003	1,071,669	483,462	588,207.00	Improvement of Property
Eligible Manf. Personal Property (EMPP)	PA 328 1998	8,576,108	-	8,576,108.00	Exempts Personal Property from Tax
Sr. Citizen/Disabled Fam. Hous. Exempt.	PA 78 2016	126,052	63,652	62,400.00	Manage Sr. Citizen & Disabled Family Housing
MSHDA	PA 346 1966	5,997,924	5,360,686	637,238.00	Provide 7 Manage Low-Income Housing
Totals		\$ 39,145,955	\$ 20,589,824	\$ 18,556,131	

- The Solid Waste Fund had a \$43.5 million Fund Balance at June 30, 2020 compared to a \$67.4 million fund balance on June 30, 2019. In addition, the Street Fund had a \$117.4 million Fund Balance at June 30, 2020. It appears the City has not properly allocated pension and legacy costs and other reimbursable costs (such as central staff services, workers compensation, and litigation costs) to these funds which have the means to pay for them and relieve the General Fund of these costs. In the questions section we ask the OCFO what methodology will be explored to ensure these Special Revenue Funds are reimbursing the General Fund for reimbursable costs.

- As of June 30, 2020, the City lacked proper controls to ensure compliance with laws and regulations, which included: 1) the City failed to comply with Michigan's Unclaimed Property Act, Public Act 29 of 1995 and escheat balances to the State of Michigan; and 2) the City was not in compliance with the State's Public Act 2 of 1968, Uniform Budgeting and Accounting Act, because in some accounts actual expenditures exceeded appropriations approved by Council.
- Several funds had a large unassigned fund balance deficit or unrestricted net position deficit on June 30, 2020, including: the COVID-19 Revenue Fund (Special Revenue Fund) a \$1.7 million deficit; the Detroit Transportation Corporation (Component Unit) a \$3.9 million deficit; the Local Development Finance Authority (Component Unit) a \$9.3 million deficit; the Museum of African American History (Component Unit) a \$1.6 million deficit; the Detroit Library (Component Unit) a \$3.2 million deficit; the Transportation Fund (DDOT) (Enterprise Fund) a \$288.1 million deficit; and the Airport Fund (Enterprise Fund) a \$2.4 million deficit. However, the City is not required to file a deficit elimination plan with the State for any of these funds or component units because they either had positive working capital (current assets/resources exceed current liabilities) or Fund's deferred inflows of resources equal/or exceed the unassigned fund deficit as of June 30, 2020³⁹.
- As LPD noted in prior fiscal years, the Management's Discussion and Analysis (MD&A) in the 2020 CAFR was not sufficiently detailed to explain major variances and other relevant financial information. As a result, we have unanswered questions concerning major changes to the City's assets, liabilities, revenues and expenses for the year ended June 30, 2020. In the questions section of our report we are asking the OCFO to explain the significant changes in FY 2020 so we can gain better knowledge of the City's financial condition on June 30, 2020.

Introduction

The Budget, Finance and Audit standing committee is in the process of reviewing and analyzing the 2020 CAFR; and the Legislative Police Division (LPD) provides this report to facilitate the committee's review of the 2020 CAFR.

The 2020 CAFR was issued on December 17, 2020 before the deadline of December 31, 2020. LPD acknowledges and commends the efforts of the OCFO (Office of the Chief Financial Officer) staff to complete the 2020 CAFR before the deadline for third consequent year.

Independent Auditor's Report on the City's 2020 CAFR

The City's independent auditor, Plante & Moran PLLC gave the City's 2020 audited financial statements and related notes to the financial statements included in the 2019 CAFR an unqualified ("clean") opinion.

A "clean" opinion means that the audited financial statements are free of material misstatements and present fairly the financial position of the City as of June 30, 2020 in accordance with U.S. generally accepted accounting principles. As a result, investors, creditors, rating agencies and other interested parties reading the City's 2020 CAFR can rely on the audited financial statements and

³⁹ Page 56 of the 2020 CAFR, Note 2.

the information contained therein. The clean opinion, however, does not mean that Plante & Moran is signifying that the City has a financial clean bill of health.

Focus and Questions Considered while Reviewing the City’s 2020 CAFR

The table below represents LPD’s focus while reviewing the City’s 2020 CAFR.

Focus	Question
Near-term financing situation	Will the City of Detroit be able to pay its bills (both expected and unexpected) on time?
Financial position	Is the City of Detroit’s financial health improving or deteriorating?
Impact of bankruptcy after June 30, 2015	To what extent has the City’s emergence from bankruptcy on December 10, 2014 improved the City’s financial condition?
Economic position	Is it likely that today’s financial position for the City of Detroit will improve or deteriorate in the future?

Highlights from the City’s General Fund Financial Statements in the 2020 CAFR (Near-term perspective)

The governmental fund financial statements (general fund, special revenue fund, debt service fund, capital projects fund, and permanent fund) are used to assess a local government’s near-term financing situation since their measurement focus is primarily near-term. The governmental fund financial statements shows for the fiscal year the revenues collected and the services they were spent on such as public protection, recreation, debt and capital. It answers the question “What did you do with the money we gave you?”

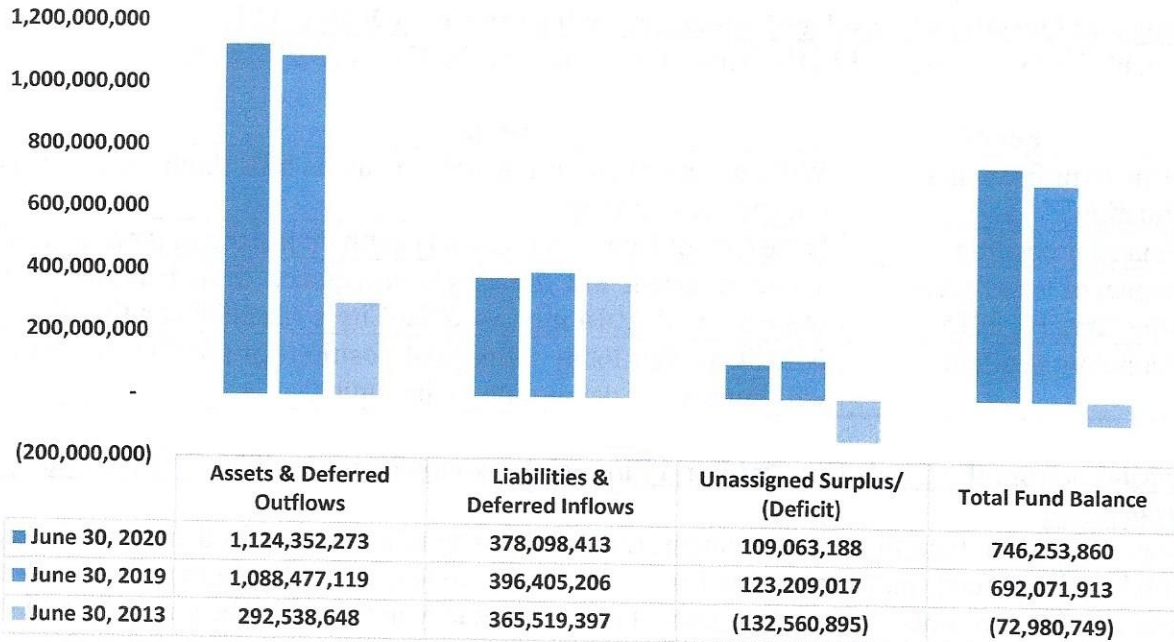
The chief governmental fund is the general fund. The general fund financial statement is based on modified accrual accounting, which means that the general fund also represents the City’s check book of receipts and disbursements for the day to day operations to provide the City’s most basic services (police, fire, administration, recreation, etc.) over a one-year period. As a result, the state of the general fund requires a near-term focus to ensure the bills are being paid on time.

Attachments I and II are respectively, the General Fund’s FY 2020 Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances compared to FY 2019 and FY 2013. These statements show the City’s General Fund’s financial condition: pre-bankruptcy (FY 2013); and post-bankruptcy (FY 2020 and FY 2019). The following analysis of Attachments I and II provides details on the major issues and variances for the General Fund in the FY 2020 CAFR when compared to FY 2019 and FY 2013.

General Fund Bankruptcy Impact as of June 30, 2020. As can be seen in Attachments I and II, the City eliminated its General Fund deficit and has greatly improved since FY 2013 due to the bankruptcy settlements. The General Fund is now able to pay its bills on time and its financial health is improving. The future outlook for the City’s financial health is relatively good as of June 30, 2020. However, there are still many issues such as the COVID-19 pandemic impact, legacy pension and debt obligations, education system, poverty levels, low property assessed values and low tax base that could impair the City’s financial recovery if not satisfactorily addressed.

The General Fund's fund balance went from a deficit of \$73.0 million in FY 2013 to a surplus of \$746.3 million in FY 2020, an increase of \$819.2 million due to the bankruptcy settlements and issuance of new debt for restructuring and Quality of Life projects.

General Fund Financial Results



General Fund's Fund Balance. The General Fund's fund balance was \$746.3 million at June 30, 2020, an \$54.2 million increase from the \$692.1 million balance at June 30, 2019⁴⁰. The following chart reflects the change in fund balance.

General Fund Balance Summary (in millions)

	2020	2019	2013
Nonspendable:			
Prepaid Expenditures and Advances	\$ 77,939,197	71,707,370	4,050,006
Restricted for:			
Capital Acquisitions	-	-	979,826
Retiree Benefits	184,724,028	129,540,325	
QOL Program	2,727,880	24,445,977	
Debt service	27,500,000	27,500,000	
Committed for:			
Risk Management Operations	20,000,000	20,000,000	54,550,314
Assigned for:			
Budget Reserve	107,280,192	77,280,192	
Continuing Appropriations	85,678,097	-	
Subsequent Appropriations	77,381,658	56,312,495	
Blight and Capital	-	105,500,000	
Pension	-	-	
Risk Management Operations	53,959,620	56,576,537	
Unassigned:			
General Fund Surplus	109,063,188	123,209,017	(132,560,895)
Total Fund Balances (Deficit)	\$ 746,253,860	692,071,913	(72,980,749)

⁴⁰ Page 24 of the 2020 CAFR and page 22 of the 2019 CAFR.

The \$54.2 million increase in the fund balance in FY 2020 to \$746.3 million was mainly due to use of federal CARES Act grant to soften the General Fund burden regarding the COVID-19 pandemic. The General Fund nonspendable, restricted and assigned fund balances increased \$39.7 million in FY 2020 from the prior year. This was due to: (1) \$6.2 million increase in nonspendable for prepaid expenditures and advances mainly due to prepaid appealed lawsuits; (2) \$55.2 million increase in restricted for retiree benefits due to the City's contribution to the Retiree Protection Trust Fund and interest earned on the fund's assets; and (3) \$21.7 million decrease in Quality of Life bankruptcy exit financing proceeds used for capital projects.

The fund balance committed for the Risk Management operations was \$20.0 million in FY 2020 in accordance with the City ordinance that requires a minimum \$20.0 million fund balance for that fund. An additional fund balance assigned for Risk Management operations of \$54 million for FY 2020 is to provide for projected future payments from the fund.

The fund balance assigned for Continuing and Subsequent Appropriations was \$163.1 million and will fund additional approved appropriations in FY 2020. The fund balance assigned for pension contributions was \$184.7 million and will be set aside in the Retiree Protection Trust Fund to help stabilize City pension contributions beginning in FY 2024 when per the POA the City must begin to fund the legacy pension systems (Component II).

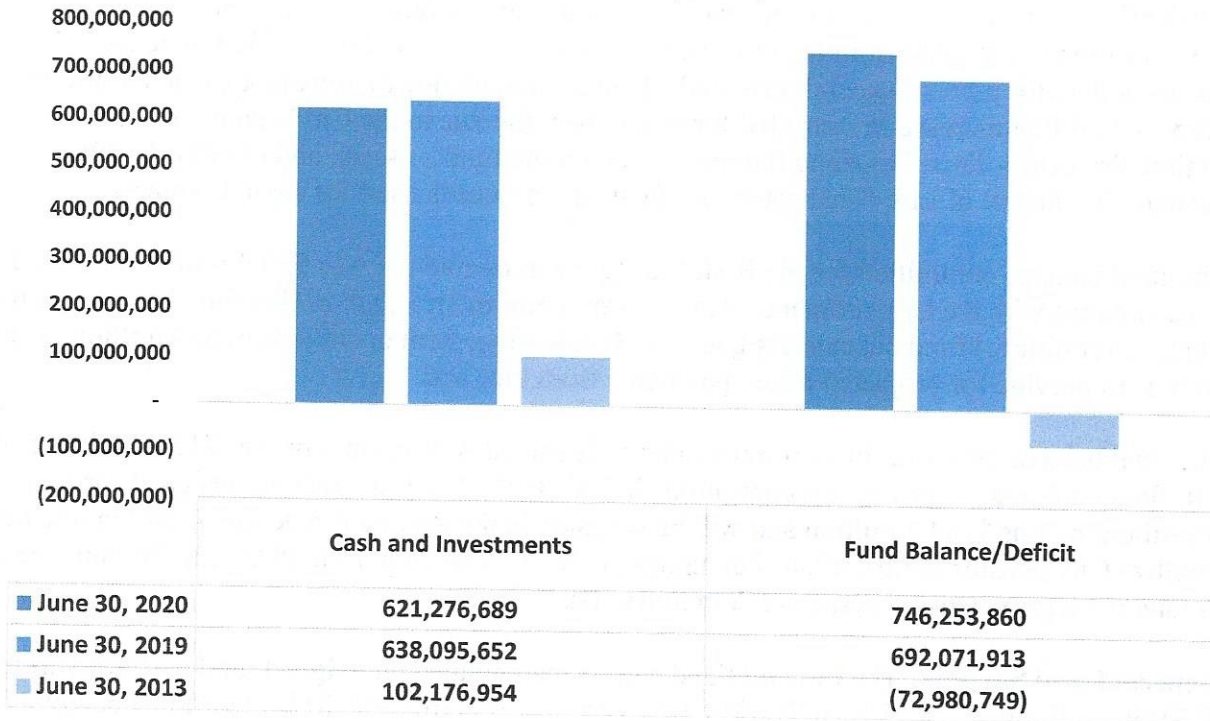
General Fund Surplus. The General Fund had an accumulated unassigned fund balance (surplus) of \$109.1 million at June 30, 2020 a \$14.1 million decrease from the \$123.2 million accumulated surplus on June 30, 2019 and \$241.6 million increase from the \$132.6 million accumulated deficit on June 30, 2013. The FY 2020 General Fund unassigned surplus decreased \$14.1 million to \$109.1 million from FY 2019 because the \$54.2 million increase in Fund Balance (revenues less expenditures and other financing sources and uses) was offset by the \$68.3 million increase in the General Fund nonspendable, restricted and assigned fund balances, as described above.⁴¹

General Fund Solvency. The General Fund's liquidity and solvency was slightly less than at June 30, 2020 than it was on June 30, 2019. The General Fund assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$746.3 million, and cash and investments totaled \$621.3 million.⁴² In FY 2013 the City's liabilities exceeded its assets by \$73.0 million and it only had \$102.2 million in cash and investments. The main reason for the General Fund's improved liquidity and solvency was the elimination of certain obligations from the bankruptcy. While the bankruptcy substantially reduced the City's obligations, especially legacy pension and retiree health costs, challenges and risks remain to secure the liquidity to fund the resources necessary to provide satisfactory City services such as public protection and transportation. The City's liquidity risk will continue until the changes adopted under the Plan of Adjustment are implemented effectively by the City over the long-term and other quality of life issues plaguing the City are also addressed satisfactorily.

⁴¹ Pages 23, 24, 26 and 27 of the 2020 CAFR, Attachment I and Attachment II.

⁴² Pages 23 and 24 of the 2020 CAFR

General Fund Liquidity



An additional cautionary note regarding General Fund liquidity is warranted. Although \$621.3 million in General Fund cash and investments as of June 30, 2020 is sizable, the lion share of it is either obligated (there is \$165.3 liabilities as of June 30, 2020), restricted (for instance there was \$27.5 million in unspent exit financing bond proceeds restricted for debt services as of June 30, 2020 that at some point will be spent) or assigned (for instance \$107.3 million represents the budget reserve and another \$184.7 million represents the pension payment going to the Retiree Protection Trust Fund as of June 30, 2020) to a specific purpose. As a result, available cash for discretionary spending is minimal.

General Fund Cash. In FY 2016 the OCFO classified restricted cash for the first time for cash that was restricted such as for debt service, grants, and escrow requirements.⁴³ A total of \$280.4 million of restricted cash was included on the General Fund's balance sheet on June 30, 2020 compared to \$302.6 million on June 30, 2019. The General Fund had \$621.3 million of cash on June 30, 2020 which included \$280.4 million of restricted cash compared to \$638.1 million of cash on June 30, 2019 including the \$302.6 million of restricted cash.

General Fund Advances to Other Funds. Advances to other funds were \$46.4 million on June 30, 2020 a decrease of \$1.5 million from the \$47.9 million on June 30, 2019. These advances are for the refunding of the 2014 B(1) and B(2) bonds in FY 2019 and the allocable share of the refunded bonds to the City's enterprise agencies.

General Fund Advances to Component Units. Advances to component units totaled \$23.3 million on June 30, 2020, a \$7.4 million increase from the \$15.9 million on June 30, 2019.

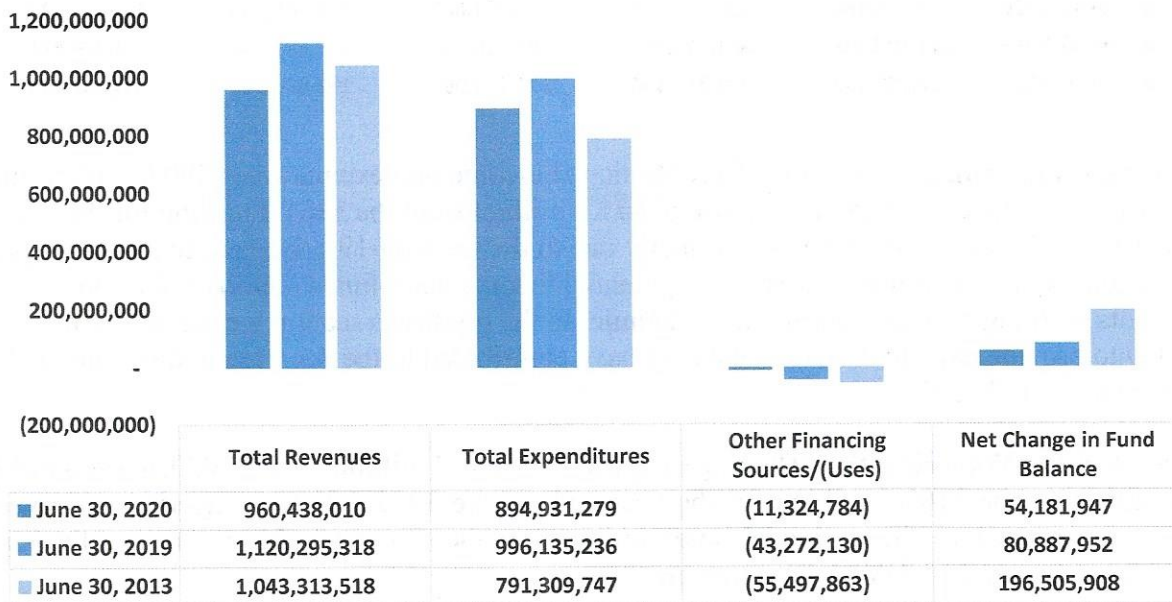
⁴³ Page 22 and 69 of the 2016 CAFR, Note 4.

General Fund Chargebacks. For accounting purposes, the transfer of delinquent property taxes receivable to Wayne County is recognized as a sale, with a corresponding liability recorded for the estimated amount that will be charged back to the City. The amount owed to Wayne County for chargebacks is included in the line item due to other governmental agencies on the General Fund Balance Sheet. Total amount of delinquent property tax to Wayne County was not disclosed in the FY 2020 CAFR as it had been in previous years. We will include a question regarding it in our questions to the Administration.

General Fund Deferred Inflows of Resources. The deferred inflows of resources was \$212.7 million on June 30, 2020, a decrease of \$8.4 million from the \$221.1 million on June 30, 2019.⁴⁴ The \$165.8 million future amount due from the DIA and Foundations per the “Grand Bargain” in the Plan of Adjustment cannot be recognized as revenue in the General Fund because they have not been received within 60 days of the end of the City’s fiscal year per the City’s modified accrual basis of accounting.⁴⁵ Per the “Grand Bargain” annual amounts will be received by the General Fund through June 30, 2023. While they are accounts receivable, they are considered deferred inflows of resources and not recognized as revenue until actually received.

General Fund Revenue and Expenditures. The following chart shows the General Fund’s revenues, expenditures, and net change in fund balance for fiscal years 2020, 2019, and 2013.

General Fund Net Change in Fund Balance



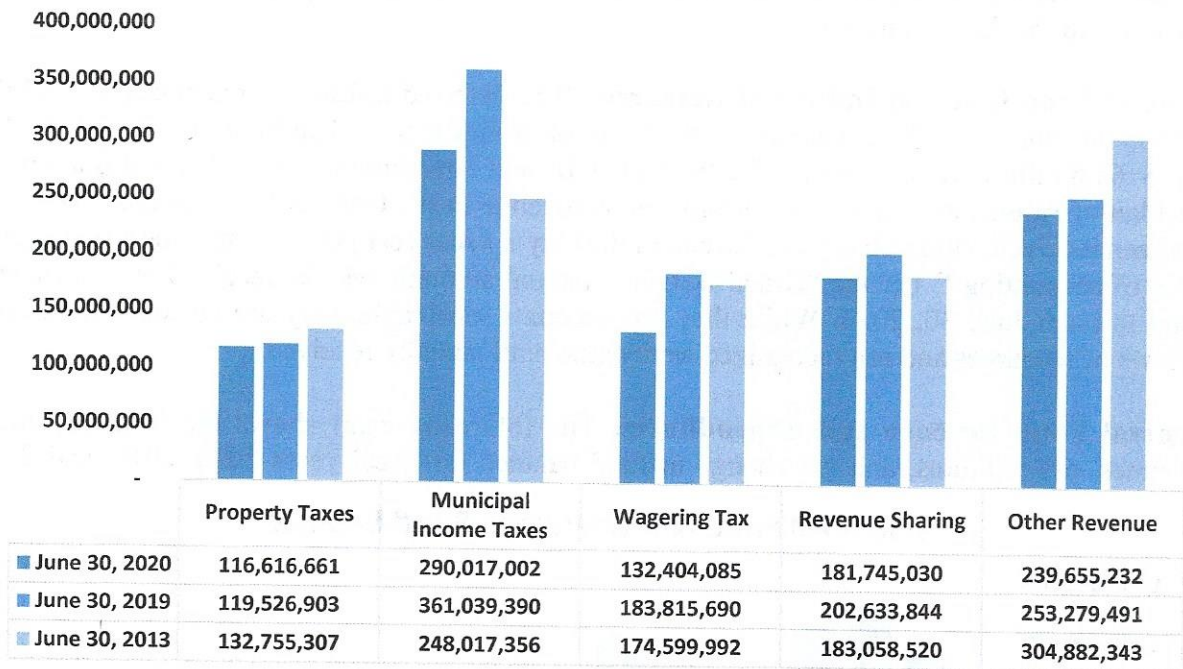
The General Fund’s total revenues decreased \$159.9 million in FY 2020 mainly due to decreases in: (1) Municipal income tax revenue (\$71 million); (2) Wagering tax revenues (\$51.4 million); (3) State shared revenue (\$20.9 million); and (4) Financing revenue (\$25.8 million), primarily due to the economic impact of the COVID-19 pandemic. The \$54.2 million net change in fund balance for the year ended June 30, 2020 was the sixth straight year since the exit from bankruptcy that the General Fund had operating surplus.

⁴⁴ Page 23 of the 2020 CAFR and page 21 of the 2019 CAFR

⁴⁵ Page 47 of the 2020 CAFR, Measurement Focus and Basis of Accounting, Note 1.

The table below details the major sources of General Fund revenue for fiscal years 2020, 2019, and 2013.

Major Sources of General Fund Revenues



General Fund Municipal Income Tax. Municipal income tax revenue was \$290.0 million for the year ended June 30, 2020, a decrease of \$71.0 million from the \$361.0 million for the year ended June 30, 2019. The decrease was mainly due to the COVID-19 pandemic economic impact and additional \$23.5 million set-aside for potential income tax refunds liability⁴⁶ for non-residents working remotely during the pandemic. In the questions section we are asking the OCFO to provide any other factors that may have contributed to the decrease in the municipal income tax in FY 2020.

General Fund Wagering Tax. The wagering tax was \$132.4 million for FY 2020, a \$51.4 million decrease from the \$183.8 million for the year ended June 30, 2020. The wagering tax revenue decrease was due to the casino closures ordered by the Governor during the public health emergency due to the COVID-19 pandemic.

General Fund State Local Community Stabilization Authority. In FY 2019 and after, the State Local Community Stabilization Authority revenue is classified as an intergovernmental revenue by the City and the City reported \$8.7 million in FY 2020. This was for the State's reimbursement of the City's share of personal property taxes that were phased out by the State law passed in 2014. The City had reported these revenues as property tax revenue in fiscal years FY 2018 and prior.

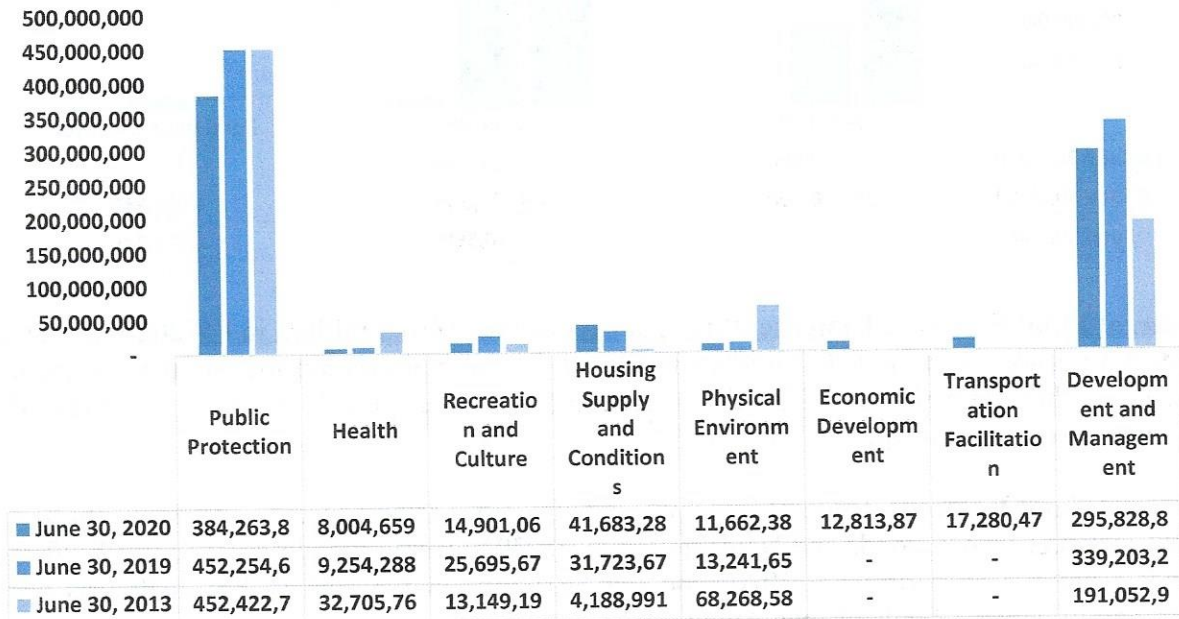
General Fund DIA and Foundation Revenue. The DIA and Foundation revenue was \$18.7 million for the year ended June 30, 2020 and no change from previous fiscal year.

⁴⁶ Page 15 of the FY 2020 CAFR – Management's Discussion and Analysis.

General Fund Expenditures. General Fund expenditures totaled \$894.9 million in FY 2020, a decrease of \$101.2 million from the \$996.1 million total in FY 2019. The largest changes in expenditures for FY 2020 were: (1) decrease of \$68.0 million in public protection; (2) decrease of \$10.8 million in recreation and culture; (3) increase of \$17.3 million in transportation facilitation; (4) decrease of \$43.4 million in development and management; (5) increase of \$15.5 million debt service payment (interest and principal); (6) decrease of \$14.6 million in capital outlay.

The table below details the major sources of General Fund expenditures for fiscal years 2020, 2019, and 2013.

General Fund Expenditure Detail



General Fund Public Protection Expenditures. Public protection expenditures were \$384.3 million in FY 2020, a \$68.0 million decrease from the \$452.3 million in FY 2019. In the questions section we ask the OCFO to explain the decrease in public protection expenses.

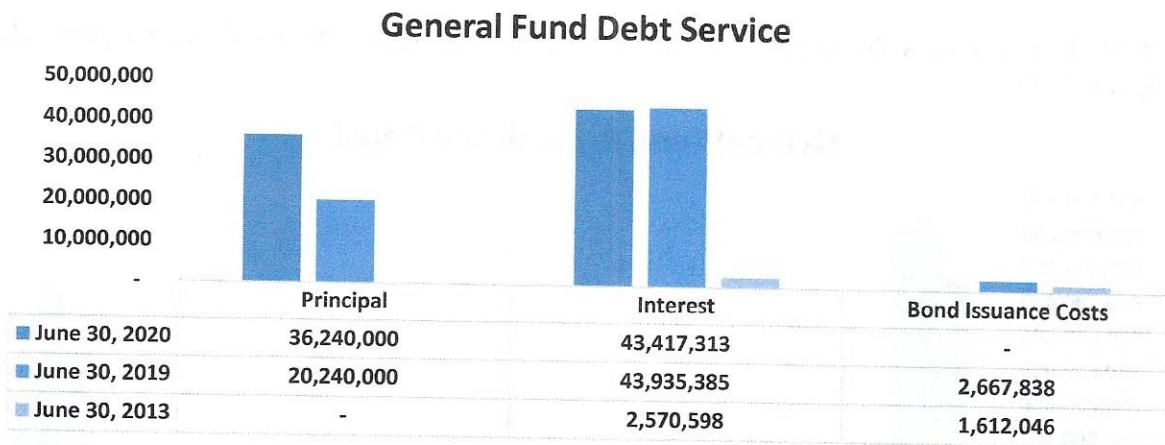
General Fund Development and Management Expenditures. Development and management expenditures were \$295.8 million in FY 2020, a \$43.4 million decrease from the \$339.2 million in FY 2019. In the questions section we ask the OCFO to explain the decrease in development and management expenses.

General Fund Housing Supply and Conditions Expenditures. Housing supply and conditions expenditures were \$41.7 million in FY 2020, an increase of \$10.0 million from the \$31.7 million in FY 2019. This appears to be due to the increase in blight and demolition costs paid by the General Fund in FY 2020. In the questions section we ask the OCFO to explain the increase in housing supply and conditions expenses.

General Fund Transportation Facilitation Expenditures. Transportation facilitation expenditures were \$17.3 million in FY 2020, an increase of \$17.3 million from FY 2019

expenditures. In the questions section we ask the OCFO to explain the increase in transportation facilitation expenses.

General Fund Debt Service. The following chart details the General Fund debt service for fiscal years 2020, 2019, and 2013.



General Fund Principal Expense. Principal expense was \$36.2 million in FY 2020, an increase of \$16.0 million from the \$20.2 million in FY 2019. The main reason for the increase from FY 2019 was that there was a \$52.3 million redemption of the 2014 C bonds in FY 2018 which skewed the principal expense in FY 2019⁴⁷.

General Fund Proceeds. General Fund proceeds from bonds and notes were \$4.2 million in FY 2020. Proceeds from Bonds and Notes Issued in FY 2020 were much lower than in FY 2019 (no bonds were issued during FY 2020) and the \$4.2 million reported in FY 2020 was project borrowing financing for Joe Louis Arena (JLA) demolition.

General Fund Subsidies Included in Transfers Out. The General Fund subsidies in FY 2020 to the Transportation Fund, Airport and Public Lighting Authority were \$45.9 million, \$5.3 million and \$10.5 million, respectively. The General Fund subsidies in FY 2019 to the Transportation Fund, Airport, and Public Lighting Authority were \$61.5 million, \$2.2 million and \$10.1 million, respectively⁴⁸.

Financial Review Commission

Michigan Public Act 181 of 2014, M.C.L. §§ 141.1631, *et seq.* (Act 181) established the Detroit Financial Review Commission (the “Commission”) as of the Effective Date (December 10, 2014) to monitor the City’s compliance with the Plan of Adjustment and Public Act 181 and to provide oversight of the City’s financial activities. The Commission has broad authority to obtain and review the City’s financial records on an ongoing basis, approve budgets and contracts, and conduct financial audits of the City. Michigan Public Act 182 of 2014, M.C.L. 117.4s-t, imposes further requirements, including that the City adopt a multi-year financial plan and appoint a chief financial officer (CFO).

⁴⁷ Page v of the 2018 CAFR, Introduction to the Report

⁴⁸ Page 72 of the 2020 CAFR and pages 69 of the 2019 CAFR

On April 30, 2018, the City of Detroit exited active state financial oversight, achieving full self-governance for the first time in four decades. The FRC voted unanimously to end active oversight after the City delivered its third consecutive audited balanced budget⁴⁹.

The FRC will continue to exist for a 10-year term, although it will play no active role in the City of Detroit operations. The City will be required to submit monthly financial reports and will also submit its adopted budget and 4-year financial plan each year. So long as the City continues to balance its budgets and meet other basic financial fiscal requirements, the FRC will stay inactive for the rest of its existence.

The nature of the oversight is scaled back. The Commission must waive many of the requirements such as budget and contract approval on an annual basis. The Commission may rescind the waiver if it determines that there is a substantial likelihood that certain criteria will occur, including the City failing to pay debt when due, the City incurring a budget deficit in any year in excess of 5 percent of expenditures in that year, or the City failing to comply with the revised municipal finance act or to obtain the prior approval of the Commission to issue debt. If the Commission waives the requirements for 10 consecutive years, the Commission is dissolved. The Commission granted its third annual waiver on June 29, 2020, which extends through June 30, 2021.⁵⁰

Highlights from the City's Government-Wide Financial Statements in the 2020 CAFR (Long-term perspective)

The government-wide financial statements are used to best assess local government's financial condition since their measurement focus is primarily long term. They include the Primary Government, Governmental and Business (Enterprise Funds) – Type Activities and Component Units of the City.

The government-wide financial statements are designed to provide a broad overview of the City's finances and operations, in a manner similar to a private sector business. They show how current services are funded and the full cost of the services provided. They answer the question "Did this year's taxpayer pay the full cost of the services delivered this year?" The financial statements include the Statement of Net Position (i.e., *balance sheet*), and the Statement of Activities (i.e., *income statement*). These statements are prepared using the economic resources measurement focus and accrual basis of accounting.

The Statement of Net Position and the Statement of Activities are two financial statements that report information about the City as a whole, and about its activities that should help answer this question: How has the City's financial position, as a whole, changed as a result of this year's activities? These statements include all non-fiduciary assets and liabilities. The Statement of Net Position presents all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position measure whether the City's financial position is improving or eroding.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying

⁴⁹ Pages 124-125 of the 2020 CAFR

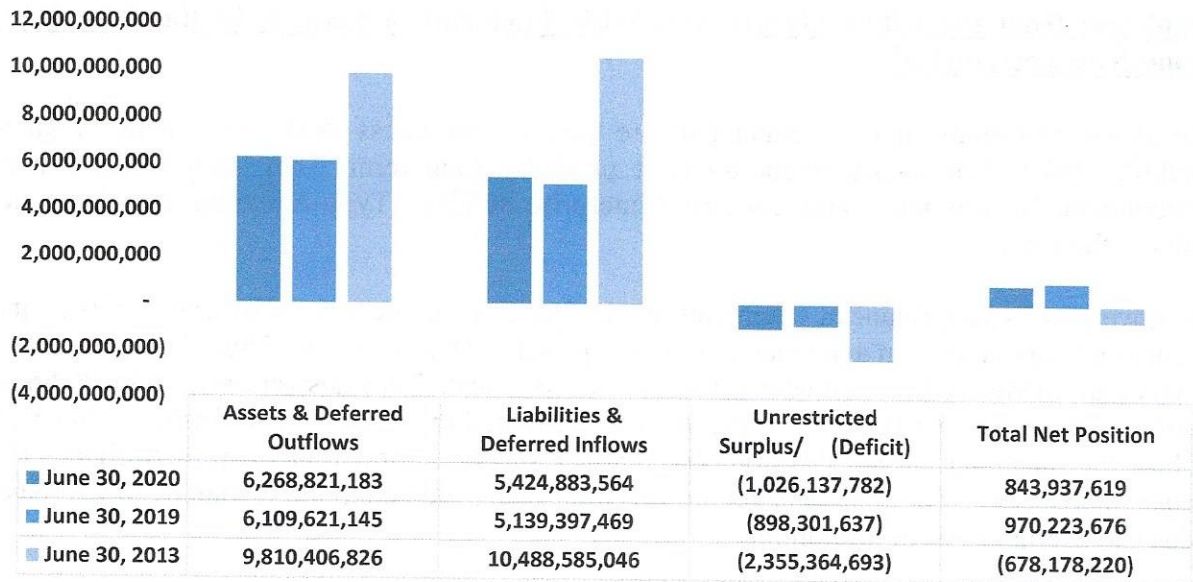
⁵⁰ Page 125 of the 2020 CAFR (Note 13)

events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and, earned but unused vacation leave).

Attachments III and IV are respectively, the Primary Government’s FY 2020 Statement of Net Position and Statement of Activities (Changes in Net Position) compared to FY 2019 and FY 2013. These statements show the City’s Primary Government’s financial condition: (1) pre-bankruptcy (FY 2013); and (2) post-bankruptcy (FY 2019 and FY 2020). The following analysis of Attachments III and IV provides details on the major issues and variances for the Primary Government’s Government-Wide financial statements in the FY 2020 CAFR when compared to FY 2019 and FY 2013.

Primary Government’s Statement of Net Position. At June 30, 2020, the City’s primary government had a Net Position of \$843.9 million, a decrease of \$126.3 million from the \$970.2 million Net Position on June 30, 2019⁵¹. The decrease was mainly due to the approximately \$99 million restatement⁵² of governmental activities ending Net Position on June 30, 2019.

Primary Government Financial Results



The decreases in assets and liabilities from June 30, 2013 are mainly due to the bifurcation and transfer of the regional water and sewer systems’ assets and liabilities to GLWA, which included \$5.1 billion of revenue bonds⁵³.

Bankruptcy Impact as of June 30, 2020. As can be seen in Attachments III and IV, the bankruptcy enabled the City to reduce its legacy pension and OPEB (retiree benefits) and debt costs. The net pension liability was \$2.918⁵⁴ billion in FY 2015 and was actually based on the amount due as of June 30, 2014, which was prior to the bankruptcy exit on December 10, 2014.

⁵¹ Pages 20 and 21 of the 2020 CAFR and Pages 18 and 19 of the 2019 CAFR

⁵² Page 54 of the 2020 CAFR, Note 1.

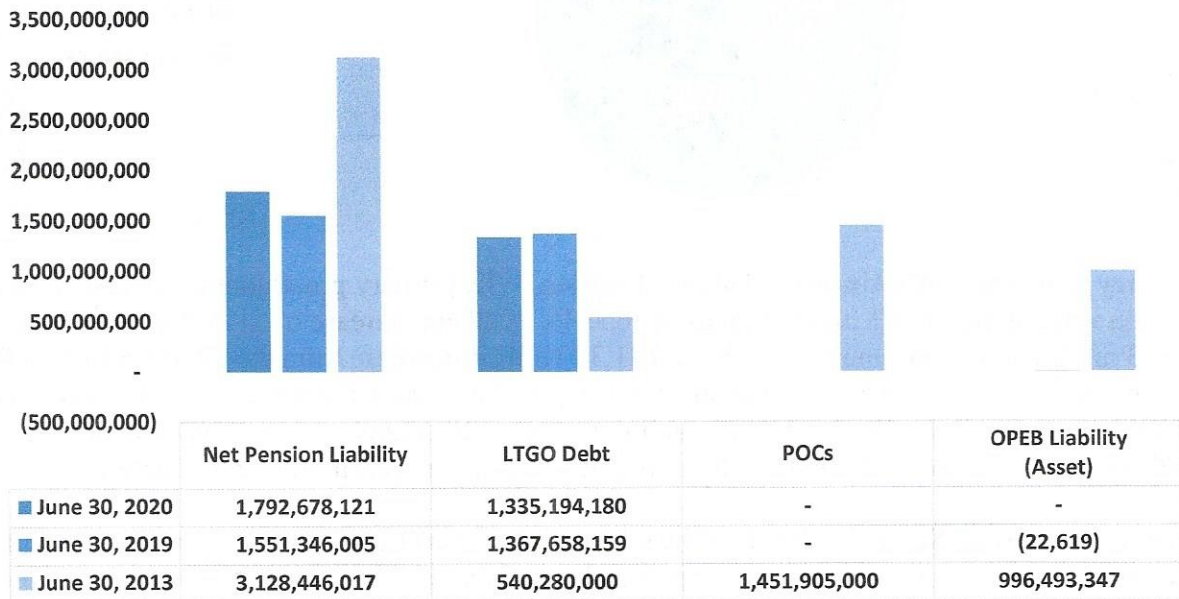
⁵³ Page 122 of the 2016 CAFR

⁵⁴ Page 128 of the FY 2015 CAFR

The net pension liability post-bankruptcy on June 30, 2019 was \$1.793 billion or \$1.125 billion less due to the changes agreed to in the bankruptcy.

The City, since the bankruptcy, still has a large net pension liability and other large debt obligations which will be a challenge to the future fiscal health of the City. Furthermore, there are many other social and economic issues such as the education system, poverty levels, low property assessed values, low tax base and COVID-19 economic impact that could impair the City’s financial recovery if not satisfactorily addressed.

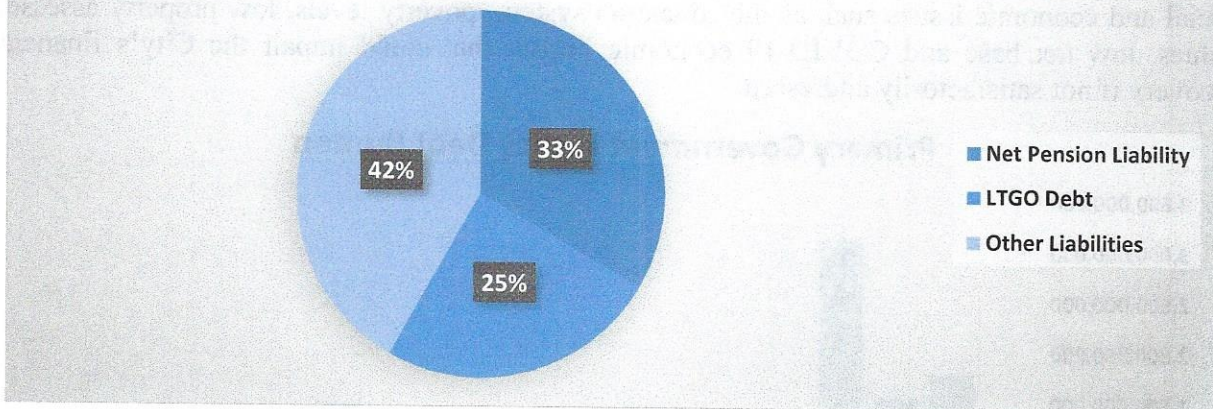
Primary Government Legacy Debt Burden



The large net pension liability and LTGO (Limited Tax General Obligation) debt is of concern. While the bankruptcy reduced or eliminated pension, retiree health care (OPEB), and POC (Pension Obligation Certificate) long-term debt, the City still has substantial obligations for the legacy pension and LTGO debt. The LTGO debt increased due to the exit financing and other debt issued per the City’s Plan of Adjustment. This debt will mostly be paid from the revenues of the General Fund which will leave less funding available for City services.

The chart below shows that the net pension liability and LTGO debt are 33% and 25% of the primary government’s total liabilities of \$5.4 billion on June 30, 2020. A financially healthy government would have no or very small percentages of total liabilities for such legacy costs.

Primary Government Legacy Obligations Compared to All Other Obligations



Primary Government's Unrestricted Net Position. The primary government's unrestricted net position was a deficit of \$1.026 billion as of June 30, 2020, an increase of \$127.8 million from the \$898.3 million deficit at June 30, 2019⁵⁵ and \$1.329 billion decrease from the \$2.355 billion deficit on June 30, 2013.⁵⁶ A deficit in unrestricted net position means there was a shortage of assets available to meet all the City's obligations if they were immediately due and payable on June 30, 2020. The City's legacy debt and pension liabilities are major contributors to the deficit.

Retiree Protection Fund. Under the City's bankruptcy plan of adjustment, the City's required pension contributions to its legacy plans are based on a fixed schedule through FY 2023. Beginning in FY 2024, the City's required pension contributions to its legacy plans will be based on a funding policy to be established by the Retirement Systems to amortize the remaining unfunded actuarial accrued liabilities of each legacy plan. Under these requirements, the City's General Fund required contributions will increase from zero in FY 2023 to an actuarially determined annual amount beginning in FY 2024. To meet this challenge, the City developed and began executing a funding strategy during 2017. Under the strategy, the City will contribute \$335 million to the newly established Retiree Protection Fund (RPF) through FY 2023 to build up trust assets that will be used to partially offset the City's required pension plan contributions that resume in FY 2024⁵⁷. This process allows the City to gradually build up its capacity to meet the annual required pension contributions from its General Fund budget. The RPF is an irrevocable IRC Section 115 trust established in August 2017 under new legislation adopted by the City. Each year, the City will continue revising its funding plan as new information becomes available in conjunction with the annual budget and planning process.⁵⁸ The City deposited \$170 million into the fund through June 30, 2020. With investment earnings the balance was \$184.7 million on June 30, 2020.⁵⁹ Based on the latest OCFO projections, the anticipated General Fund contributions starting in FY 2024 are projected to be \$178⁶⁰ million. The POA assumed the contribution would be \$111 million in FY 2024.

⁵⁵ Page 20 of the FY 2020 CAFR and page 18 of the Fy 2019 CAFR

⁵⁶ Page 20 of the 2020 CAFR and Page 35 of the 2015 CAFR

⁵⁷ Page 118 of the 2019 CAFR, Note 13

⁵⁸ Page iv of the 2018 CAFR

⁵⁹ Page 24 of the 2020 CAFR

⁶⁰ Page 14 of OCFO's Pension Funding Presentation before PFRS Trustees on 8/20/2020

Primary Government's Cash and Investments. The City's cash and investments were \$1.539 billion on June 30, 2012, an increase of \$89.1 million from the \$1.450 billion on June 30, 2019.⁶¹ The increase was mainly due to the bankruptcy impact which reduced legacy expenses and Federal Cares Act grants.

Primary Government's Advance to Component Unit. The advance due from component units totaled \$23.3 million on June 30, 2020.⁶² The advance due from the Detroit Land Bank Authority (DLBA) was \$12 million, the DLBA's financial statements indicate it was an advance ("bridge funds") for the Hardest Hit Fund demolitions until the grant funds are received and the City can be reimbursed from MSHDA. The City has granted the DLBA a \$20.0 million line of credit. The advance due from the Detroit Public Library (DPL) was \$3.8 million. This was for the DPL's share of the 2014 C Bonds redeemed in FY 2018 and 2014 B bonds refunded in FY 2019. The advance due from the Detroit Brownfield Redevelopment Authority (DBRA) was \$7.5 million, the DBRA's financial statements indicate that the authority has a loan agreement with the City in order to assist with the redevelopment and improvement to the Mack Engine Plant on behalf of Fiat Chrysler Automobiles (FCA).

Primary Government's Receivable from GLWA. On January 1, 2016⁶³, the City entered into lease agreements and related service agreements with the Great Lakes Water Authority (GLWA) under which GLWA will operate the regional water and sewage system for the term of 40 years. The lease receivable from GLWA was \$1.063 billion⁶⁴ on June 30, 2020. The lease receivable mainly represents the present value of the \$50.0 million annual lease payment over the remainder of the lease term. The annual lease payment from GLWA to the Water Fund is \$22.5 million and the present value of the lease receivable from GLWA on June 30, 2020 was \$440.9 million. The annual lease payment from GLWA to the Sewage Disposal Fund is \$27.5 million and the present value of the lease receivable from GLWA on June 30, 2020 was \$538.9 million⁶⁵.

Primary Government's Capital Assets. Total primary government capital assets were \$2.90 billion on June 30, 2020, an increase of \$76.4 million from the restated \$2.82 billion at June 30, 2019.⁶⁶ The Automobile Parking Fund transferred assets with a net book value of \$22.9 million to governmental activities.⁶⁷ Major capital assets acquired and projects completed or in progress during the year ended June 30, 2020 included the following:⁶⁸

- \$35.0 million for road construction and resurfacing
- \$13.3 million for renovation of parks and recreation centers
- \$11.0 million for Public Works machinery, trucks and equipment
- \$6.2 million for police purchases of 92 vehicles, machinery and communication equipment
- \$4.3 million for police purchases of new building and precinct capital improvements
- \$4.2 million for recreation and general service departments machinery and equipment

⁶¹ Page 19 of the FY 2020 CAFR and Page 17 of the 2019 CAFR

⁶² Page 71 of the FY 2020 CAFR, Note 5

⁶³ Page 10 of the Water and Sewer audited financial statements, Note 1

⁶⁴ Page 19 of the FY 2020 CAFR

⁶⁵ Page 16 of the Water and Sewer audited financial statements, Note 4

⁶⁶ Page 16 of the 2020 CAFR, Management's Discussion and Analysis

⁶⁷ Page 73 of the 2020 CAFR

⁶⁸ Page 17 of the 2020 CAFR, Management's Discussion Analysis.

- \$4.1 million for General Services Department machinery and equipment
- \$3.3 million for Fire Department Purchase of 7 ambulances, 31 vehicles and lifesaving equipment
- \$1.5 million for Fire Department installation of generators and transfer switches
- \$1.5 million for City Council Chamber renovations
- \$1.4 million for DPW facility generators improve\$ents

Primary Government's Deferred Outflows of Resources. The deferred outflows of resources increased \$79.3 million in FY 2020 from the prior year mainly due to the net difference between projected and actual earnings on pension plan investments and differences between expected and actual experience for both the GRS and PFRS pension systems⁶⁹. Deferred outflows of resources, represents a consumption (expense) of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows on June 30, 2020 for the two pension funds were based on a measurement date of June 30, 2019 and the pension contributions received subsequent to the measurement date even though received in FY 2020 will be recognized as an expense and reduction of the net pension liability in the year ended June 30, 2021.⁷⁰

Primary Government's Net Pension Liability. The primary government's net pension liability on June 30, 2020 was \$1.793 billion (GRS - \$793.8 million and PFRS - \$998.9 million⁷¹), a significant increase of \$241.3 million from the \$1.551 billion (GRS - \$692.2 million and PFRS - \$859.1 million) on June 30, 2019. The primary government's \$1.793 billion net pension liability in the June 30, 2020 CAFR's Statement of Net Position is based on the actuarial report dated June 30, 2019⁷². The Police and Fire Retirement System (PFRS) and General Retirement System (GRS) Legacy Pension Plans (Component II) and the new pension plan (Component I) are detailed in Footnote 8 of the FY 2019 CAFR⁷³. GLWA and the Library respectively have \$133.0 million and \$12.1 million of the total net pension liability of \$938.8 million for the City's GRS Component I and II pension plans. The GRS legacy Component II pension plan was 65.8% funded as of June 30, 2019⁷⁴. The PFRS legacy Component II pension plan was 72.78% funded as of June 30, 2019⁷⁵

⁶⁹ Page 19, 105 and 106 (Note 8) of the FY 2020 CAFR and pages 17, 102 and 103 (Note 8) of the FY 2019 CAFR

⁷⁰ Pages 105 and 106 of the 2020 CAFR, Note 8

⁷¹ Pages 110-111 of the 2020 CAFR and from 2019 actuarial reports.

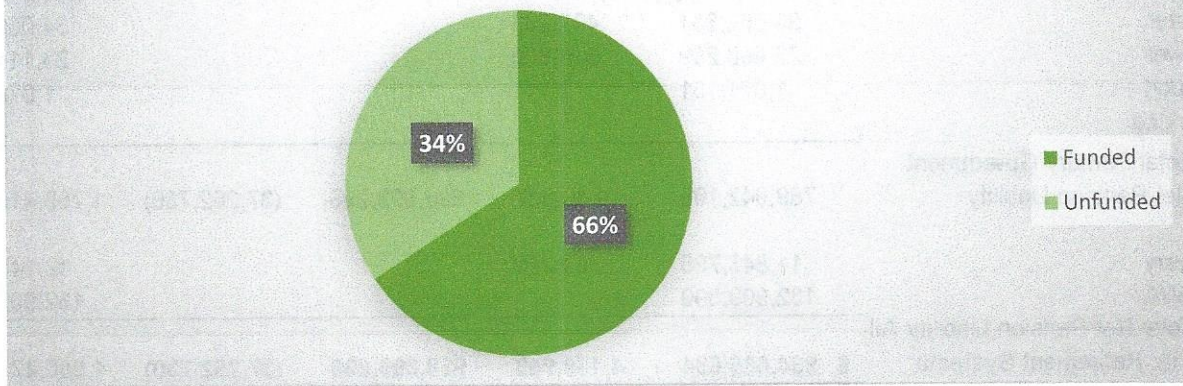
⁷² Pages 20, 103-104 of the 2020 CAFR

⁷³ Pages 103-104 and 110-111 of the 2020 CAFR

⁷⁴ Page 103 of the 2020 CAFR.

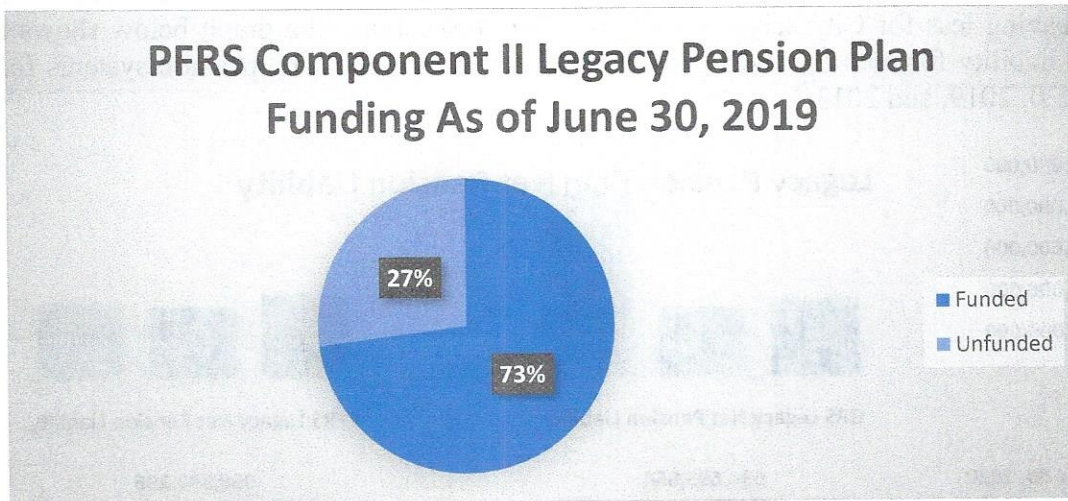
⁷⁵ Page 104 of the 2020 CAFR.

GRS Component II Legacy Pension Plan Funding As of June 30, 2019



The PFRS legacy Component II pension plan was 72.8% funded as of June 30, 2019.⁷⁶

PFRS Component II Legacy Pension Plan Funding As of June 30, 2019



The GRS net pension liability increased \$106.2 million in FY 2020 mainly due low return on pension investments. Investment rate of return was 3.4% for FY 2019 compared to 6.5% in FY 2018. The PFRS legacy net pension liability increased \$139.7 million in FY 2020 due low return on pension investments. Investment rate of returns was 5.1% for FY 2019 compared to 8.2% in FY 2018.⁷⁷

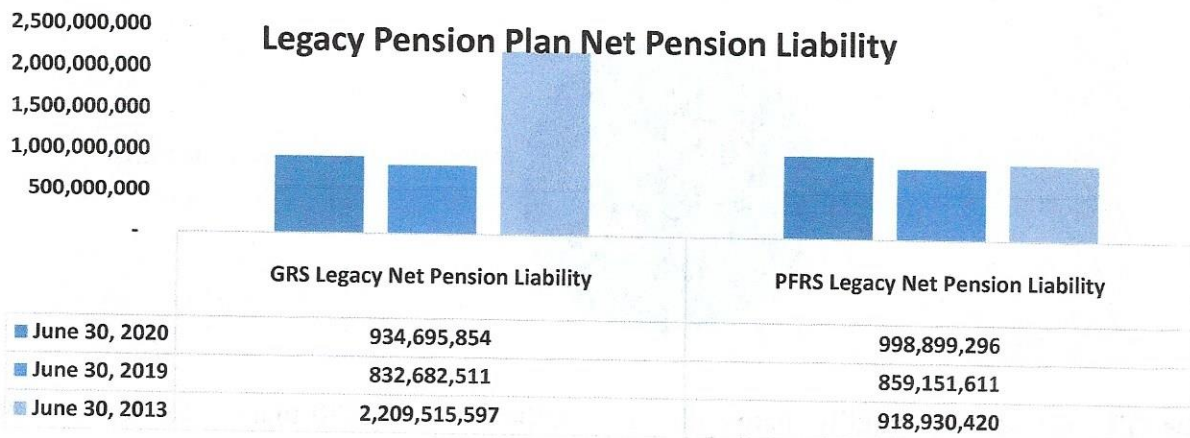
The net pension liability is summarized below by retirement system plan and by City reporting category.

⁷⁶ Page 104 of the 2020 CAFR

⁷⁷ The GRS and PFRS Pension Plans investment rate of return net of fees and expenses were 3.4% and 5.1%, respectively for the year ended June 30, 2020 per the FY 2020 Pension Financial Statements (Page 8 GRS and Page 8 PFRS).

	GRS Comp II	GRS Comp I	PFRS Comp II	PFRS Comp I	Total
Governmental Activities	\$ 485,815,548	1,170,273	998,899,296	(37,262,730)	1,448,622,387
DDOT	246,904,349	1,615,210			248,519,559
Water	33,652,861	433,263			34,086,124
Sewer	22,498,259	615,800			23,114,059
Airport	1,071,151	2,111			1,073,262
Parking	-	-			-
Total Primary Government Net Pension Liability	789,942,168	3,836,657	998,899,296	(37,262,730)	1,755,415,391
Library	11,843,796	303,286			12,147,082
GLWA	132,909,890	-			132,909,890
Total Net Pension Liability All City Retirement Systems	\$ 934,695,854	4,139,943	998,899,296	(37,262,730)	1,900,472,363

The net pension liability significantly decreased from the \$3.128 billion on June 30, 2013. However, it is still substantial and will consume large amounts of General Fund revenues in the future leaving less for City services such as public protection. The graph below shows the net pension liability for both the GRS and PFRS legacy (Component II) pension systems for fiscal years 2020, 2019, and 2013⁷⁸.



During November 2015, the actuary for each of the plans revised the calculation of the Unfunded Actuarial Accrued Liabilities (UAAL) for the frozen plans using updated mortality tables and other assumptions. The effect of the revised calculations was to increase the UAAL for the frozen plans by approximately \$491 million. Beginning in 2024, the Plan of Adjustment assumed that the UAAL would be funded over 30 years and projected an annual General Fund contribution of \$111 million beginning in fiscal year 2024. Based on the revised calculations, as of November 2015, the General Fund contribution was projected to be \$194 million per year. In fiscal year 2016, the City

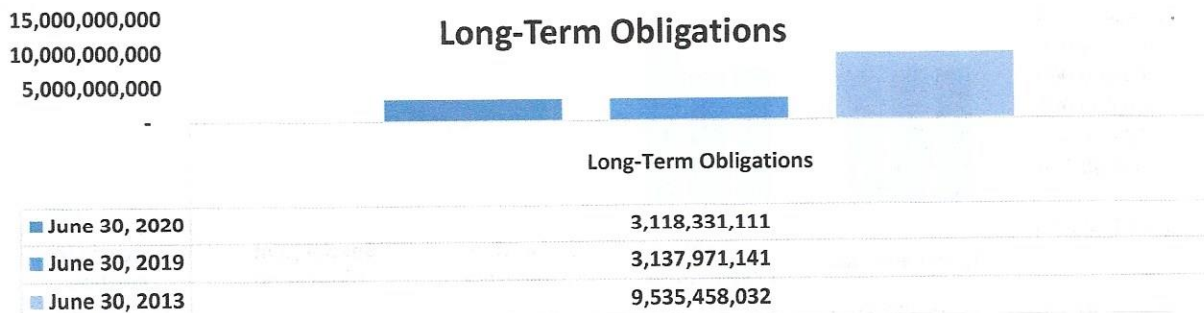
⁷⁸ The FY 2013 net pension liability of \$3,128,446,017 (GRS - \$2,209,515,597 and PFRS - \$918,930,420) billion is from the FY 2015 CAFR, page 99 of Note VII (f). In FY 2013, GASB 68 net pension liability reporting was not required. However, we are including it here for comparison purposes to show the reductions resulting from the Plan of Adjustment. In FY 2014 the net pension liability totaled \$2,918,025,938 (GRS - \$1,786,441,192 and PFRS - \$1,131,584,746).

began to set aside funds in a restricted fund - Retirement Protection Fund (RPF) for application to a portion of its annual General Fund contribution obligation to the plans beginning in fiscal year 2024 to allow the City to better manage its liability at that time. On June 30, 2020 the balance of the RPF was \$184.7 million. Based on the latest OCFO projections, the anticipated General Fund contributions starting in FY 2024 are projected to be \$178 million.⁷⁹

The pension plan fiduciary net position as a percentage of total Pension liability (i.e., unfunded liability) for the City’s four pension plans as of June 30, 2019⁸⁰ are detailed below.

<u>Pension Plan</u>	<u>FY 2019 Percentage Funded</u>	<u>FY 2018 Percentage Funded</u>
PFRS Component II Legacy	72.8%	76.9%
PFRS Component I New	130.6%	135.0%
GRS Component II Legacy	65.8%	70.0%
GRS Component I New	96.9%	98.7%

Primary Government’s Long-Term Obligations. Total primary government long-term obligations were \$3.118 billion at June 30, 2020, a decrease of \$19.6 million from the \$3.138 billion at June 30, 2019.⁸¹ The long-term obligations decrease is mainly due to the drawdown of \$38.5 million Michigan Transportation Fund bonds (MTF) in FY 2020 offset by normally long-term principal payment in FY 2020; and reductions to estimated liabilities for compensated absences, workers’ compensation, and claims and lawsuits.



The decreases in long-term obligations from June 30, 2013 are mainly due to the bifurcation and transfer of the regional water and sewer systems’ assets and liabilities to GLWA, which included \$5.1 billion of revenue bonds⁸². Also, the reductions in retiree health care (OPEB) and POCs resulting from the bankruptcy contributed to the decrease in long-term obligations from 2013.

⁷⁹ Page 14, OCFO Pension Funding Presentation before PFRS Trustees on 8/20/2020.

⁸⁰ Pages 134–137 of the FY 2020 CAFR and Pages 130–133 of the 2019 CAFR

⁸¹ Page 20 of the 2020 CAFR and page 18 of the 2019 CAFR

⁸² Page 122 of the 2016 CAFR

City Debt Ratings. The City’s credit ratings on uninsured general obligation bonds as of June 30, 2020⁸³ were:

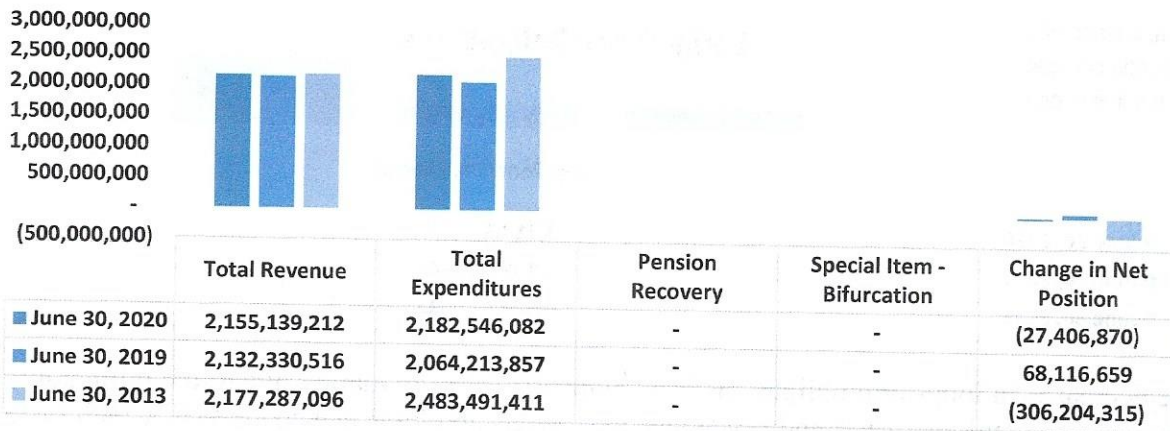
Moody’s Investor Service, Inc.	Ba3
Standard & Poor’s Corporation	BB-

City debt ratings have improved because of the improved financial condition of the City and the revenues securing the payment of the debt. The City credit ratings for the uninsured general obligation bonds are below investment grade due to weakness in Detroit’s economic base relative to its peers. Because of the credit rating below investment grade the City will have higher borrowing costs.⁸⁴

Primary Government’s Deferred Inflows of Resources. Deferred inflows of resources were \$47.8 million on June 30, 2020, an increase of \$8.5 million from the \$39.4 million on June 30, 2019.⁸⁵ Deferred inflows of resources, represents an acquisition (Asset) of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows of resources from pensions result from three transactions: the variance between the plans’ actual investment earnings compared to the plans’ assumed investment earnings, the variance between the plans’ actual experience compared to the plans’ assumed experience, and changes in assumptions⁸⁶.

Primary Government Change in Net Position. The chart below details the primary government’s change in net position for fiscal years 2020, 2019, and 2013 (Attachment IV).

Primary Government Change in Net Position



Primary Government’s Revenues. The chart below details the primary government’s major revenues for fiscal years 2020, 2019, and 2013 and shows the sources of some of the City’s main revenues.

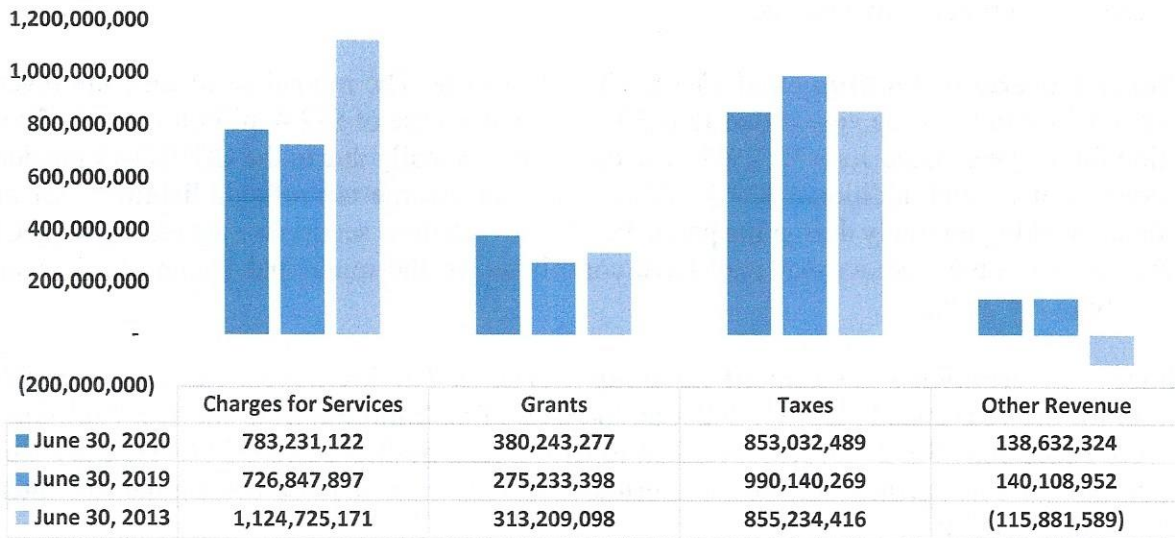
⁸³ Page 18 of the 2020 CAFR, Management’s Analysis and Discussion

⁸⁴ Ibid

⁸⁵ Page 20 of the 2020 CAFR and Page 18 of the 2019 CAFR

⁸⁶ Page 47 and pages 106-107 of the 2016 CAFR

Primary Government Revenues



Primary Government's Charges for Services. The charges for services revenue was \$783.2 million on June 30, 2020, an increase of \$56.4 million from the \$726.8 million at June 30, 2019.⁸⁷ Detailed below is a comparison of the various charges for services for FY 2020 and FY 2019.

	FY 2020	FY 2019	Difference
Public Protection	79,340,103	85,794,552	(6,454,449)
Health	1,440,641	2,326,609	(885,968)
Recreation and Culture	1,442,388	4,162,855	(2,720,467)
Economic Development	19,386,799	21,974,750	(2,587,951)
Housing Supply and Conditions	864,612	817,929	46,683
Physical Environment	44,372,872	41,766,310	2,606,562
Transportation Facilitation	35,452,937	4,695,448	30,757,489
Development and Management	123,827,642	122,447,673	1,379,969
Water	114,814,401	101,609,566	13,204,835
Sewer	331,693,766	297,703,405	33,990,361
Transportation (DDOT)	15,116,575	20,190,340	(5,073,765)
Automobile Parking	-	10,149,706	(10,149,706)
Airport	451,812	571,913	(120,101)
Public Lighting Authority	15,026,574	12,636,841	2,389,733
Total	783,231,122	726,847,897	56,383,225

The following had significant changes in charges for services revenue: (1) public protection \$6.5 million decrease; (2) transportation facilitation \$30.8 million increase; (3) water \$13.2 million increase (4) sewer \$34.0 million increase; (5) transportation (DDOT) \$5.1 million decrease. In the questions section we are asking the OCFO to explain these major changes in the charges for services revenues for FY 2020.

Primary Government's Property Tax Revenue. The property tax revenue was \$189.6 million for the year ended June 30, 2020, an increase of \$8.3 million from the \$181.4 million for the year

⁸⁷ Pages 21-22 of the 2020 CAFR and pages 19-20 of the 2019 CAFR

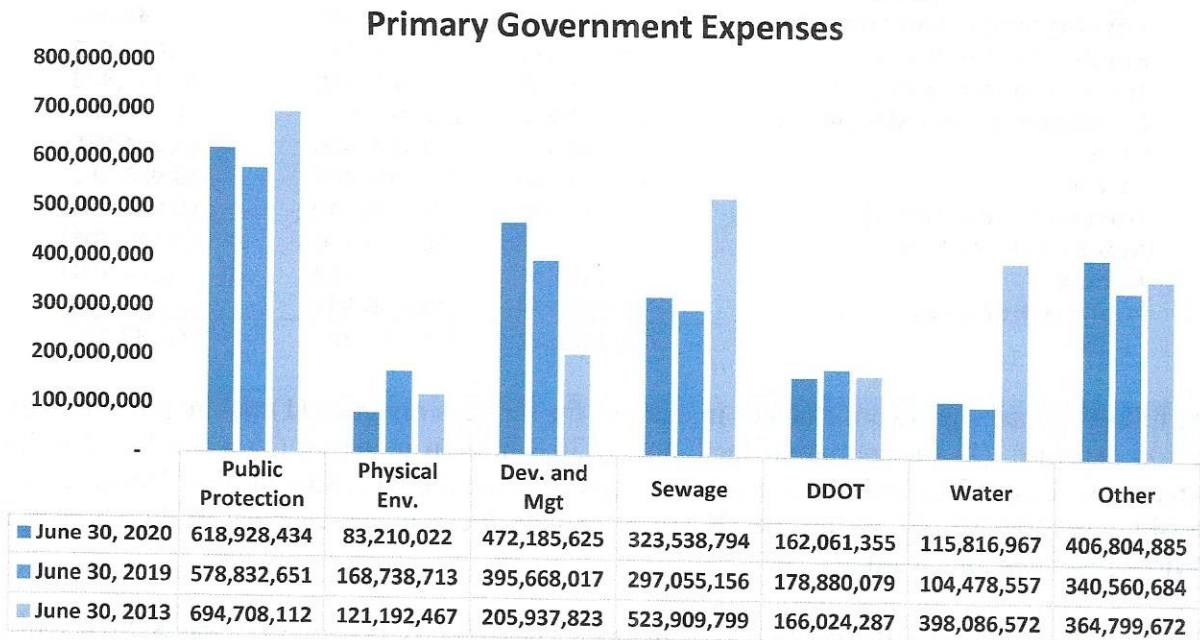
ended June 30, 2019. Collections have continued to improve in FY 2020 which contributed to the increase in the property tax revenue.

Primary Government’s Municipal Income Tax Revenue. The municipal income tax revenue was \$304.3 million for the year ended June 30, 2020, a decrease of \$72.4 million from the \$376.7 million for the year ended June 30, 2019. The decrease was mainly due to the COVID-19 pandemic economic impact and additional \$23.5 million potential income tax refunds liability⁸⁸ for non-residents working remotely during the pandemic. In the questions section we are asking the OCFO to provide any other factors that may have contributed to the municipal income tax revenue decrease in FY 2020.

Primary Government’s Investment Earnings Revenue. The investment earnings were \$29.1 million for the year ended June 30, 2020, an increase of \$2.2 million from the \$26.9 million for the year ended June 30, 2019. Improvement in City’s cash position; and OCFO Treasury’s cash and investment management strategies contributed to the slight increase despite the low interest rates during FY 2020.

Primary Government’s Miscellaneous Revenue. Miscellaneous revenue was \$92.2 million for the year ended June 30, 2020, a decrease of \$21.1 million from the \$113.3 million for the year ended June 30, 2019. In the questions section we are asking the OCFO to explain the increase in miscellaneous revenue for FY 2020.

Primary Government’s Expenditures. The chart below details the primary government’s major Expenditures for fiscal years 2020, 2019, and 2013 and shows the major programs that the City expends funds for.



Primary Government’s Public Protection Expenses. Public protection expenses were \$618.9 million in FY 2020, an increase of \$40.1 million from the \$578.8 million amount in FY 2019. In

⁸⁸ Page 15 of the FY 2020 CAFR, Management’s Discussion and Analysis

the questions section we are asking the OCFO to explain why public protection expenses increased so much in FY 2020.

Primary Government's Health Expenses. Health expenses were \$63.9 million in FY 2020, an increase of \$28.0 million from the \$35.9 million in FY 2019. The increase is likely due to COVID-19 public health emergency response. In the questions section we are asking the OCFO to explain why public protection expenses increased so much in FY 2020.

Primary Government's Recreation and Culture Expenses. Recreation and culture expenses were \$37.8 million, an increase of \$8.4 million from the \$29.4 million in FY 2019. In the questions section we are asking the OCFO to explain why recreation and culture expenses increased in FY 2020.

Primary Government's Economic Development Expenses. Economic development expenses were \$78.8 million for the year ended June 30, 2020, a decrease of \$21.1 million from the \$99.9 million for the year ended June 30, 2019. In the questions section we are asking the OCFO to explain why the economic development expenses decreased so much in FY 2020.

Primary Government's Transportation Facilitation Expenses. Transportation facilitation expenses were \$96.8 million for the year ended June 30, 2020, an increase of \$33.0 million from the \$63.8 million for the year ended June 30, 2019. The increase in FY 2020 expenses appears to be spending on the street maintenance projects. In the questions section we are asking OCFO to explain why the transportation facilitation expenses increased in FY 2020.

Primary Government's Housing and Supply Conditions Expenses. Housing and supply conditions expenses were \$41.9 million in FY 2020, an increase of \$7.8 million from the \$34.1 million in FY 2019. The increase in blight and demolition activity contributed to the increase in FY 2020.

Primary Government's Physical Environment Expenses. Physical environment expenses were \$83.2 million in FY 2020, a decrease of \$85.5 million from the \$168.7 million amount in FY 2019. In the questions section we are asking the OCFO to explain why physical environment expenses decreased in FY 2020.

Primary Government's Development and Management Expenses. Development and management expenses were \$472.2 million in FY 2020, an increase of \$76.5 million from the \$395.7 million in FY 2019. In the questions section we are asking the OCFO to explain why development and management expenses increased in 2020.

Primary Government's Interest on Long-term Debt. Interest on long-term debt was \$63.6 million in FY 2020, an increase of \$29.6 million from the \$34.0 million in FY 2019. In the questions section we ask the OCFO to explain why the interest on long-term debt increased so much in FY 2020.

Primary Government's Water Expense. Water expenses were \$115.8 million in FY 2020, an increase of \$11.3 million from the \$104.5 million in FY 2019. In the questions section we ask the OCFO to explain why water expenses increased in FY 2020.

Primary Government's Sewage Expense. Sewage expenses were \$323.5 million in FY 2020, an increase of \$26.5 million from the \$297.1 million in FY 2019. In the questions section we ask the OCFO to explain why Sewage expenses increased in FY 2020.

Primary Government's Transportation (DDOT) Expense. Transportation expenses were \$162.1 million in FY 2020, a decrease of \$16.8 million from the \$178.9 million in FY 2019. In the questions section we ask the OCFO why the transportation (DDOT) expense decreased in FY 2020.

Primary Government's Automobile Parking Expenses. Effective July 1, 2019, the Automobile Parking Fund was merged with the General Fund and its activity is now reported in the General Fund (Governmental activity).⁸⁹

Primary Government's Airport Expense. Airport expenses were \$1.0 million in FY 2020, a decrease of \$4.0 million from the \$5.0 million in FY 2019. In the questions section we ask the OCFO why the Airport expense decreased in FY 2020.

CITY'S LONG-TERM OBLIGATIONS POST-BANKRUPTCY. The bankruptcy exit provides the City relief from legacy costs mainly OPEB and pension obligations. However, LPD provides the following observations:

- While the City eliminated a substantial amount of its obligations with the bankruptcy settlements, it did incur additional debt to provide for some of the settlements and restructuring/Quality of Life projects. Much of the new debt such as the 2014 B(1) and B(2) bonds was limited tax general obligation (LTGO) debt and will have to be paid from the general revenues of the City. This along with other "secured" LTGO bond debt issued before the bankruptcy will divert the City's General Fund's revenues, which could have been used for core City services such as police and fire, to pay off the debt service. Of the City's primary government's \$1.665 billion of General Obligation bond debt at June 30, 2020⁹⁰, a total of \$1.335 billion⁹¹ is LTGO debt which will ultimately have to be paid mainly from the general revenue. Furthermore, much of the debt issued for the bankruptcy settlements was structured to defer principal payments for several years and will have a greater adverse impact on the General Fund in future years.
- On December 13, 2018, the City issued its 175,985,000 Distributable State Aid Fifth Lien Financial Recovery Refunding Bonds (LTGO) series 2018 Bonds (the, "2018 DSA Bonds") to the Michigan Finance Authority for the purpose of purchasing a portion of its Financial Recovery Bonds, Series 2014-(1), and), and its Financial Recovery Bonds, Series 2014-B(2) (together, the "Financial Recovery Bonds, Series 2014-B"), and paying the costs of issuance associated with the 2018 DSA Bonds. The 2018 DSA Bonds are secured by a pledge of the City's Distributable State Aid on a statutory fifth lien priority basis and a pledge of the limited tax full faith and credit of the City.⁹²

⁸⁹ Page 14 of the 2020 CAFR, Management's Discussion and Analysis

⁹⁰ Pages 90-91 of the 2020 CAFR, Note 7

⁹¹ Ibid

⁹² Page 88 of the 2020 CAFR, Note 7

- On December 13, 2018, the City purchased and canceled, at a discount from par, \$197,652,356 of its Financial Recovery Bonds, Series 2014B (specifically \$192,227,454 of Financial Recovery Bonds, Series 2014-B(1) at a purchase price of \$87 per \$100 in principal amount and \$5,424,902 of Financial Recovery Bonds, Series 2014-B(2) at a purchase price of \$85 per \$100 in principal amount), which had been tendered pursuant to the City's December 5, 2018 acceptance of offers.⁹³
- On December 13, 2018, the City deposited into escrow funds to redeem \$3,075,000 of its Financial Recovery Income Tax Revenue and Refunding Bonds, Series 2014-B. The redemption occurred on January 22, 2019.⁹⁴
- Above debt issuances were completed by the City in order to reduce the gross debt service for the fiscal years 2025-2030 by approximately \$155 million. Debt service beginning in fiscal year 2025 would have increased by approximately \$31 million per year through fiscal year 2030. In addition to the reduced debt service, the City will also save approximately \$10 million as a result of these issuances⁹⁵.
- In addition, on December 10, 2018, the City issued \$135,000,000 Unlimited Tax General Obligation Bonds, Series 2018 for the purpose of financing the cost of certain capital projects of the City and paying cost of issuance associated with the 2018 UTGO Bonds. The 2018 UTGO Bonds are secured by the debt millage on City property taxes. The 2018 UTGO Bonds are tax exempt and mature on April 1, 2038⁹⁶.
- Also, pension obligations have only been reduced and not eliminated even though the City's required contributions are limited by the Plan of Adjustment through June 30, 2023. After June 30, 2023, the City will have significant annual obligations to fund pensions, especially if the Net Pension Liability is not significantly reduced by then. Beginning in 2024, the Plan of Adjustment assumed that the UAAL would be funded over 30 years and projected an annual General Fund contribution of \$111 million beginning in fiscal year 2024. Based on the latest OCFO estimate the anticipated General Fund contributions starting in FY 2024 are projected to be \$178 million⁹⁷. As mentioned previously, the OCFO has taken action to mitigate the pension required contributions in 2024 by setting aside \$187.7 million in the Retirement Protection Trust Fund as of June 30, 2020.
- **Legacy GRS Pension System Payout Ratio.** The General Retirement System (GRS) Legacy Pension Fund (Component II) had total expenditures of \$245.7 million for the year ended June 30, 2020⁹⁸. The total Net Position of the fund was \$1.608 billion at June 30, 2020⁹⁹, a decrease of \$203.5 million from the prior year.¹⁰⁰ The GRS Legacy Pension Fund has a high payout ratio (1:6.5) compared to its net position, meaning if GRS pension expenditures continue at this rate, total GRS pension net position would be depleted in

⁹³ Page 88 of the FY 2020 CAFR, Note 7

⁹⁴ Ibid

⁹⁵ Ibid

⁹⁶ Page 87 of the 2020 CAFR, Note 7

⁹⁷ PPage 14, OCFO Pension Funding Presentation before PFRS Trustees on 8/20/2020.

⁹⁸ GRS (Component II) "total expenditures" is synonymous with "total deductions" on Page 199 of the 2020 CAFR.

⁹⁹ Ibid

¹⁰⁰ Page 199 of the 2020 CAFR and Page 189 of the 2019 CAFR

approximately six years and six months. The Net Pension Liability to the GRS Legacy Pension Fund was \$934.7 million as of June 30, 2019.¹⁰¹ The City's pension obligations are a burden that have to be closely monitored.

- **PFRS Pension System Payout Ratio.** The Police and Fire Retirement (PFRS) Legacy Pension Fund had total expenditures of \$304.7 million for the year ended June 30, 2020.¹⁰² The total Net Position of the fund was \$2.422 billion at June 30, 2020, a \$253.6 million decrease from the prior year.¹⁰³ The PFRS Legacy Pension Fund has a lower payout ratio (1:8.0, meaning the total PFRS pension net position would be depleted in approximately eight years at this rate of PFRS pension expenditures) than the GRS, but it is still of concern. The City's Net Pension Liability to the PFRS Legacy Pension Fund was \$998.9 million as of June 30, 2019.¹⁰⁴
- **If new revenue sources are not established, and revenues as projected in the Plan of Adjustment do not materialize, the City will severely struggle to maintain a viable government without strong cost containment measures. The years after June 30, 2023 will be challenging as the City resumes making regular pension contributions and much of the principal on the debt issued from the bankruptcy settlements become due.**

Highlights from the City's Enterprise Fund Financial Statements in the 2020 CAFR (Long-term perspective)

Enterprise Fund's Net Position. The City's enterprise funds had a net position of \$1.283 billion at June 30, 2020, an increase of \$24.4 million from the \$1.259 billion net position at June 30, 2019. The enterprise fund cumulative unrestricted net position was a surplus totaling \$759.7 million in FY 2020 a decrease of \$13.5 million from the \$773.2 million in FY 2019¹⁰⁵.

Water and Sewage Disposal Funds. In FY 2020 Water and the Sewage Disposal Funds had unrestricted net positions of \$457.1 million and \$553.9 million, respectively, mainly due to the bifurcation which exchanged the water and sewer regional systems assets and liabilities including long term debt to GLWA for \$50.0 million in annual lease payments over 40 years.¹⁰⁶ The Water Fund unrestricted net position increased by \$186,221 and the Sewage Disposal Fund unrestricted net position decreased by \$10.8 million from the FY 2019 balances.

¹⁰¹ Page 103 of the 2020 CAFR. Per page 102 of the 2020 CAFR, as permitted by GASB No. 68, the City has chosen to use June 30, 2019 as its measurement date for the net pension liability (asset) for its fiscal year 2020 financial statements. The net pension liability (asset) was calculated using the total pension liability and the Systems' fiduciary net position as of June 30, 2019. The June 30, 2019 total pension liability was determined by an actuarial valuation performed as of June 30, 2018, which updated procedures to roll forward the estimated liability to June 30, 2019.

¹⁰² PFRS (Component II) "total expenditures" is synonymous with "total deductions" on Page 199 of the 2020 CAFR.
¹⁰³ Page 199 of the 2020 CAFR and page 190 of the 2019 CAFR

¹⁰⁴ Page 104 of the 2020 CAFR. Per page 102 of the 2020 CAFR, as permitted by GASB No. 68, the City has chosen to use June 30, 2019 as its measurement date for the net pension liability (asset) for its fiscal year 2020 financial statements. The net pension liability (asset) was calculated using the total pension liability and the Systems' fiduciary net position as of June 30, 2019. The June 30, 2019 total pension liability was determined by an actuarial valuation performed as of June 30, 2018, which updated procedures to roll forward the estimated liability to June 30, 2019.

¹⁰⁵ Pages 29-32 of the 2020 CAFR and pages 27-30 of the 2019 CAFR

¹⁰⁶ Pages 29 and 30 of the 2020 CAFR

The Sewage Disposal Fund shows a balance of \$26.5 million in a liability account entitled “shortfall loan payable to Great Lakes Water Authority” on June 30, 2020.¹⁰⁷ This appears to be attributable to a negative balance caused by a budget shortfall for the Sewage Disposal Fund which exceeds the two percent threshold (i.e., actual receipts falling short of budget for either the water fund or sewer fund by greater than two percent) per the 2018 MOU. The budget shortfall not cured by the end of the fiscal year following the year in which they arise shall be repaid in full, in installments over a period not to exceed three fiscal years. The installment payments will include a surcharge based on the three-year U.S. Treasury note plus 150 basis points.¹⁰⁸ As of November 7, 2018, DWSD has discussed options to cure this shortfall with its Board of Commissioners and at a Reconciliation Committee meeting on October 19, 2018. A written agreement was under discussion to document the plan to cure.¹⁰⁹ In response to LPD’s FY 2019 CAFR review, DWSD management stated that the shortfall is determined based on cash collected from customers, not the accounting of revenue and expenses.

While the Water and Sewage Disposal Funds have large unrestricted net positions at June 30, 2020, both funds have large capital and infrastructure repair and replacement needs and debt obligations to GLWA that will require a large share of that unrestricted net position. According to DWSD representatives, a benefit of the net unrestricted net position is that water and sewer rate increases to Detroit customers will be mitigated, as the unrestricted net position through the annual \$50 million lease payment from GLWA, will provide a significant amount of the funding for both Funds’ capital, infrastructure, and debt obligation needs.

Per page 16 of DWSD’s FY 2020 audited financial statements, there is \$979.9 million lease receivable from GLWA as of June 30, 2020. The receivable was for the present value of the \$50.0 million annual lease payment due over the remainder of the 40 year lease agreement the City has with GLWA. The annual lease payment from GLWA to the Water Fund is \$22.5 million and the present value of the receivable from GLWA on June 30, 2020 was \$440.9 million. The annual lease payment from GLWA to the Sewage Disposal Fund is \$27.5 million and the present value of the receivable from GLWA on June 30, 2019 was \$538.9 million¹¹⁰.

It should be noted that the \$50 million lease payment is funded from a portion of the common-to-all revenue requirements for the regional systems. The lease payments follow the flow of funds under the related GLWA Master Bond Ordinance. The parties to the Leases anticipated that, due to efficiencies, restructuring opportunities, local and regional capital improvements underway or planned for the future, and other cost savings, funding of the lease payment would not increase the revenue requirements for the regional systems by more than 4 percent per year. Nothing in the Leases changes the obligation of GLWA to comply with the rate covenant under the Master Bond Ordinances. The lease payments are not treated as a GLWA operation and maintenance expense and may be applied by the City, solely at the City’s direction and discretion, to the cost of improvements to the local system infrastructure located within the City (payable after debt service and pension liability payments in the flow of funds), the payment of debt service on GLWA Bonds associated with such improvements, or the City’s share of debt service on GLWA Bonds associated with common-to-all improvements. Any bonds to finance regional system improvements or

¹⁰⁷ Page 29 of the 2020 CAFR.

¹⁰⁸ Note 20. Subsequent Events on page 76 of the 2018 GLWA CAFR.

¹⁰⁹ Note 20. Subsequent Events on page 76 of the 2018 GLWA CAFR.

¹¹⁰ Page 16 of DWSD’s FY 2020 audited financial statements, Note 4

DWSD local infrastructure are now issued by the GLWA and are secured by the net revenue (as defined in the Master Bond Ordinances) of the systems.

Pursuant to the Leases, GLWA has exclusive right to establish rates for water and sewer service for both wholesale and retail (City of Detroit) customers; however, GLWA may delegate rate setting to an agent and under the Water and Sewer Services Agreement, and as provided in a December 15, 2015 Court Order, has delegated to the City’s Board of Water Commissioners its rights to set rates and collect revenue with respect to retail customers of the City.

As a result of the Leases, DWSD reports activity only related to City retail customers (Detroit retail class). Per the Water and Sewer Services agreement between DWSD and GLWA and the Master Bond Ordinances, the Detroit retail class continues to pay its common-to-all share of debt service revenue requirements and its allocated share of debt service revenue requirements associated with improvements to the local water and sewer systems based on a percentage of total debt service¹¹¹.

The lease receivable from GLWA on DWSD’s financial statements does not agree with the lease payable on GLWA’s financial statements for FY 2020. GLWA shows the lease to be \$24.5 million less than DWSD for the Water Fund and \$29.9 million less for the sewage Disposal Fund. The difference is due to GLWA using a different discount rate, which is higher than DWSD but produces a lower obligation. Detailed below is the difference¹¹². In the questions section we ask the OCFO is DWSD in recent negotiations with GLWA for GLWA to consider using DWSD’s discount rate as DWSD is carrying an overstated lease receivable on City’s books.

	in Millions					
	Water			Sewer		
	DWSD	GLWA	Difference	DWSD	GLWA	Difference
Receivable From GLWA	\$ 440.9	416.5	24.5	\$ 538.9	509.0	29.9

In FY 2020, the Water Fund had \$23.6 million in operating income while the Sewage Disposal Fund had \$27.7 million in operating income.¹¹³ Both Water and Sewage Disposal Fund revenues and expenses were up from FY 2019 levels.

The Water and Sewage Disposal Funds show pension expenses of \$12.2 million and \$15.9 million FY 2020¹¹⁴ respectively. In addition, the Water and Sewage Disposal Funds show GLWA’s share of the pension recovery (operating revenue) in FY 2020 (\$7.3 million for Water Fund and \$13.0 million for Sewage Fund).

Of a concern is the GLWA \$221.6 million Net Position deficit at June 30, 2020 and the impact it will have on rates to DWSD’s customers. As LPD report in FY 2019 CAFR review report, GLWA is technically insolvent as its liabilities and deferred inflows exceed its assets and deferred outflows. GLWA will need to increase its rates to its wholesale customers including DWSD to

¹¹¹ Pages 123 of the 2020 CAFR

¹¹² Page 16 of DWSD’s FY 2020 audited financial statements, Note 4 and page 72 GLWA’s FY 2020 CAFR, Note 14

¹¹³ Page 31 of the 2020 CAFR (Operating Income (Loss) line)

¹¹⁴ Page 31 of the 2020 CAFR

meet its obligations. The following schedule details GLWA's deficits¹¹⁵ and net position for FY 2018 to FY 2020.¹¹⁶

	Fiscal Year		
	2018	2019	2020
Unrestricted Deficit	(903,746,081)	(126,936,239)	(24,711,448)
Net Position	(178,754,764)	(200,824,621)	(221,577,503)
Change in Net Position	(75,919,771)	(22,069,857)	(20,752,882)

The City needs to closely observe the financial performance of the Water and Sewage Disposal Funds after the bifurcation to ensure the funds maintain solvency and the resources to provide the City's citizens with excellent water and sewage service.

Transportation Fund (DDOT). The Transportation Fund had an unrestricted net position deficit at June 30, 2020 of \$288.1 million, an increase of \$32.4 million from the \$255.7 million deficit on June 30, 2019. This was mainly due to the \$24.9 million increase in the net pension liability from \$223.6 million at June 30, 2019 to \$248.5 million at June 30, 2020. The General Fund provided \$45.9 million in subsidies to the transportation Fund in FY 2020 compared to \$61.5 million in FY 2019.¹¹⁷ DDOT's operating revenues and operating expenses were down from FY 2019 levels.

Public Lighting Authority. In substance, the Public Lighting Authority (PLA) is part of the City's operation and its financial statements are blended (Blended Component Unit) with the City's financial statements in the CAFR's Enterprise Funds section. The PLA had a \$39.5 million net position at June 30, 2020, an increase of \$3.6 million from the \$35.9 million at June 30, 2019.¹¹⁸ The PLA had revenues of \$15.0 million including \$12.5 million transferred from the General Fund's utility users' tax revenues. In addition, the City provided a subsidy of \$10.5 million to the PLA. The PLA had \$14.8 million of expenses for the year ended June 30, 2020. The PLA debt service was \$8.1 million.¹¹⁹

The PLA had an unrestricted net position of \$39.2 million¹²⁰ in the FY 2020 CAFR, which is mainly due to the \$22.8 million of excess utility users tax revenues collected that will be used to pay its future debt obligations, which is shown in the table below. It is our opinion that the excess utility users tax revenues of \$22.8 million should be a restricted fund balance, because these revenues are committed to paying the PLA's debt service on its bonds. This would leave the unrestricted balance at \$16.4 million. In the questions section, LPD raises a question on this issue.

The PLA also has received General Fund subsidies from the City's General Fund. Article 4 of the Interlocal Agreement between the City and PLA¹²¹ requires the City pay PLA for its operating and

¹¹⁵ Page 9 of the GLWA FY 2019 CAFR - GLWA's Unrestricted Deficit decreased significantly in FY 2019 because of an accounting change in the calculation of the Net Investment in Capital Assets which significantly reduced the amount of that account.

¹¹⁶ Pages 8 and 11 of GLWA's FY 2020 CAFR

¹¹⁷ Page 72 of the 2020 CAFR, Note 5 and page 69 of the 2019 CAFR, Note 5

¹¹⁸ Page 32 of the 2020 CAFR and page 30 of the 2019 CAFR

¹¹⁹ Page 32 of the 2020 CAFR

¹²⁰ Page 30 of the 2020 CAFR

¹²¹ Interlocal Agreement between the City of Detroit and Public Lighting Authority for the Operation, Maintenance and Management of a Public Lighting System

maintenance, extraordinary maintenance, and administrative costs. In addition, the agreement requires that the City, in no event, be obligated to pay more than \$8,024,000 (Annual Cap Amount) in any given year, excluding any payments for extraordinary maintenance. Article 5 of the agreement requires quarterly payments to the PLA and a reconciliation by the PLA of actual expenses with the quarterly payment made. If the reconciliation discloses an overpayment by the City, the Authority shall credit the difference to the City against the next amounts that may become due under the Agreement. As can be seen from the table below, from FY 2013 through June 30, 2020 a total of \$56.1 million in subsidy has been paid to the PLA. The PLA has incurred \$64.5 million of operating expenses from FY 2013 through FY 2020.

The table below shows the \$22.8 million excess utility user's tax, General Fund subsidy to the PLA, and PLA revenue and expenses from FY 2013 through FY 2020.¹²²

	2013 & 2014	2015	2016	2017	2018	2019	2020	Total
Utility User Tax	\$ 18,749,994	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000	\$ 93,749,994
City Subsidy	757,500	5,527,177	8,886,743	10,039,058	10,302,828	10,099,883	10,453,826	56,067,015
Other Revenue	2,660	1,246,321	1,142,791	1,072,660	835,724	136,841	2,526,574	6,963,571
Total Revenue	19,510,154	19,273,498	22,529,534	23,611,718	23,638,552	22,736,724	25,480,400	156,780,580
Operating Expense	1,466,532	5,589,821	8,157,578	7,813,490	12,711,589	13,958,851	14,830,343	64,528,204
Other Expense				10,493	(205,540)	(526,096)	(1,028,201)	(1,749,344)
Debt Service	585,489	8,997,509	8,600,792	8,509,892	8,385,092	8,255,294	8,086,541	51,420,609
Bond Issuance	916,636	2,119,241		5,000	5,000	-	-	3,045,877
Total Expense	2,968,657	16,706,571	16,758,370	16,338,875	20,896,141	21,688,049	21,888,683	117,245,346
Surplus/(Deficit)	<u>\$ 16,541,497</u>	<u>2,566,927</u>	<u>5,771,164</u>	<u>7,272,843</u>	<u>2,742,411</u>	<u>1,048,675</u>	<u>3,591,717</u>	<u>\$ 39,535,234</u>
Principal Paid	-	2,970,000	3,030,000	3,120,000	3,245,000	3,749,458	374,458	16,488,916
Excess UUT	17,247,869	(1,586,750)	869,208	865,108	864,908	495,248	4,039,001	\$ 22,794,592

Other Enterprise Funds. Other Enterprise Funds include the Airport Fund and Parking Fund.

The General Fund subsidy to the Airport increased \$3.0 million to \$5.3 million for FY 2020 from \$2.2 million in FY 2019. The Airport Fund had a \$2.4 million unrestricted deficit net position at June 30, 2020, a decrease of \$4.4 million from the \$6.7 million unrestricted net position deficit at June 30, 2019. The decrease in net position deficit was mainly due to increased General Fund subsidy and \$2.5 million claims recovery. The claims recovery appears to be the result of a lawsuit settlement and in the questions section we ask the OCFO to explain the \$2.5 million claims recovery amount.

The Parking Fund net position on June 30, 2020 was zero, a decrease of \$27.8 million from the \$27.8 million net position on June 30, 2019. The Parking Fund transferred \$11.8¹²³ million to the General Fund to complete the merger of the Parking Fund into the General Fund.

¹²² FY 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020 PLA financial statements

¹²³ Page 14 of the 2020 CAFR

Other Highlights/Observations from the Review of the 2020 CAFR

Tax Abatement Disclosures. In the FY 2020 CAFR, Note 14, Tax Abatements are reported as required by GASB Statement No. 77, Tax Abatement Disclosures¹²⁴. The City disclosed the programs and the estimated amount of taxes abated during the most recent year. Detailed below is a summary of the programs and abated amounts for FY 2020.

Program	Legislation	Abatement Amount			Comment
		2020	2019	Difference	
		Total Taxes	Total Taxes	Total Taxes	
Brownfield Redevelopment Act (BRA)	PA 381 1996	\$ 1,402,168	\$ 1,179,840	\$ 222,328	Cleanup of Environmental Issues
Industrial Facilities Act (IFT)	PA 198 1974	646,351	426,216	220,135.00	Redevelopment of Facility
Commercial Rehabilitation Act (CRA)	PA 210 2005	2,644,724	1,966,521	678,203.00	Rehabilitation of Qualified Facility
Commercial Redevelopment Act (CFT)	PA 255 1978	249,457	6,573	242,884.00	Redevelopment of Commercial Property
Renaissance Zone Act (RZ)	PA 376 1996	8,454,372	5,094,819	3,359,553.00	Economic Development in Designated Area
Obsolete Property Rehab Act (OPRA)	PA 146 2000	2,864,604	1,729,275	1,135,329.00	Redevelopment of Obsolete and Blighted Buildings
Neighborhood Enterprise Zone (NEZ)	PA 147 1992	7,112,526	4,278,780	2,833,746.00	Financial Investment in Property
Land Bank Fast Track Act (LB)	PA 258-263 2003	1,071,669	483,462	588,207.00	Improvement of Property
Eligible Manf. Personal Property (EMPP)	PA 328 1998	8,576,108	-	8,576,108.00	Exempts Personal Property from Tax
Sr. Citizen/Disabled Fam. Hous. Exempt.	PA 78 2016	126,052	63,652	62,400.00	Manage Sr. Citizen & Disabled Family Housing
MSHDA	PA 346 1966	5,997,924	5,360,686	637,238.00	Provide 7 Manage Low-Income Housing
Totals		\$ 39,145,955	\$ 20,589,824	\$ 18,556,131	

In FY 2020 the City gave an estimated \$39.1 million of tax abatements so as to be competitive in Southeastern Michigan to encourage business and residency growth. This was \$18.6 million more than the \$20.6 million in tax abatements for FY 2019, which was mainly due to adding back the personal property tax exemptions which were omitted in FY 2019 and increases in Renaissance Zone (RZ) and Neighborhood Enterprise Zone (NEZ) abatements. The increase in RZ is mainly due to increase in values that bulk of it is attributable to Flex N Gate; and the increase in NEZ is due to projects that have come online such as City Modern. Above explanations for the increases in RZ nad NEZ abatements were provided by OCFO team.

Fair Allocation of Legacy Costs to Solid Waste Fund. The City is not properly allocating the pension and legacy costs to the Solid Waste Fund and some other City funds (e.g., BSEED, and Street Funds) that have the means to pay for them. Legacy costs were allocated to funds based on payroll costs. The Solid Waste Fund was partially privatized for waste disposal and recycling services in FY 2014. When a Fund is privatized and the City payroll is reduced or eliminated and there is no process to properly allocate all the legacy costs that the Fund has incurred. The General Fund is left having to pay for those legacy costs. The Solid Waste Fund had a \$43.5 million fund balance at June 30, 2020, which was a decrease of \$24.0 million from the \$67.4 million fund balance at FY 2019.¹²⁵ The Solid Waste, Cosntruction Code and Street Funds were not charged for their share of the settlements for OPEB (e.g., retiree health care) through the 2014 B(1) and B(2) bonds (VEBA Bonds) and the POCs in FY 2015 - FY 2020. The Solid Waste and Street Funds have large fund balances as they are not paying their fair share of the legacy costs. In the questions section we ask the OCFO what methodology will be explored to ensure these Special Revenue Funds are reimbursing the General Fund for reimbursable costs.

¹²⁴ Pages 125-127 of the 2020 CAFR, Note 14

¹²⁵ Page 161 of the 2020 CAFR and page 157 of the 2019 CAFR

Other Governmental Entities. The other governmental entities' June 30, 2020 financial statements and related management letters should at least be presented to the Council's Budget, Finance and Audit (B, F&A) committee since the elected officials of the primary government are financially accountable of the legally separate organizations termed "Discretely Presented Component Units". As a result, the B, F&A role is more critical to the legislative body's role of maintaining fiduciary responsibility for the City.

Non Compliance with Legal and Contractual Provisions. The City was not in compliance with legal and contractual provisions for the year ended June 30, 2020 (see Note 2 in the CAFR)¹²⁶, which included:

- The City was not in compliance with the State of Michigan's Uniform Unclaimed Property Act, Public Act 29 of 1995. The City failed to properly escheat balances to the State as required. As a result, the City is subject to interest and penalties on the amount that should have been escheated.
- The City was not in compliance with: the State of Michigan Public Act 2 of 1968, Uniform Budgeting and Accounting Act, Section 141.435(2), which requires total budgeted expenditures not to exceed estimated revenue plus accumulated fund balance. The City's final budget for several non-major special revenue funds resulted in a projected deficit. The City was not in compliance with the State of Michigan 2 of 1968, Uniform Budgeting and Accounting Act, Section 141.438(3) which requires the City to not incur expenditures against an appropriation account in excess of the amount appropriated by the City Council and the City incurred expenses against certain appropriations in excess of the amount appropriated by City Council and all funds must have a legally adopted budget.

COVID-19. Since the World Health Organization's identification of COVID-19 as a global health emergency and the subsequent implementation of national, state, and local emergency declarations, significant dislocations in normal economic activity have occurred at all levels. On March 10, 2020, the Michigan Department of Health and Human Services identified the first two presumptive-positive cases of COVID-19, in the state of Michigan (the "State"). Since then, the governor has issued a series of executive orders declaring a state of emergency and a state of disaster in the State in response to COVID-19, indicating that the state of emergency and state of disaster will terminate on the earlier of a specified date or when emergency and disaster conditions no longer exist. The duration, severity, and degree of any impact of COVID-19 is uncertain and difficult to predict at this time due to the dynamic nature of the COVID-19 outbreak. The City has experienced a loss in revenue and an increase in costs associated with mitigating the impacts of the COVID-19 pandemic on the residents of the City, including public health, emergency response, support to homeless and vulnerable populations, small businesses support, and food assistance, among others.¹²⁷

In April 2020, the City estimated revenue shortfalls of \$154 million in its fiscal year 2020 and \$194 million in its fiscal year 2021 due to casino closures; income tax reductions due to layoffs and furloughs; anticipated state revenue-sharing reductions; and reduced transportation, parking,

¹²⁶ Page 56-57 of the 2020 CAFR, Note 2

¹²⁷ Page 127 of the 2020 CAFR, Note 15

and permitting revenue. The City reduced spending through laying off over 200 employees and temporarily reducing the hours of over 2,000 employees, as well as issuing other spending controls. Following these spending reductions, the City enacted budget amendments to bring the fiscal year 2020 General Fund into balance and completed a balanced fiscal year 2021 budget. To date, the City has been awarded \$306 million in grants that originate from federal stimulus sources, and it projects to receive an additional \$22 million. In its September 2020 Revenue Estimating Conference, the City estimated an additional \$66 million General Fund revenue shortfall in its fiscal year 2021 due to the continued duration of the pandemic. In order to maintain a balanced budget, the City plans to offset the projected revenue shortfall entirely with identified savings and other adjustments to the City's fiscal year 2021 budget.¹²⁸

Subsequent Events¹²⁹.

Debt Issuance. On October 27, 2020, the City issued its \$80,000,000 Unlimited Tax General Obligation Bonds, Series 2020 (the "2020 UTGO Bonds"), for the purpose of financing the cost of certain capital projects of the City and paying costs of issuance associated with the 2020 UTGO Bonds. The 2020 UTGO Bonds are secured by a pledge of the full faith and credit of the City. The 2020 UTGO Bonds are tax-exempt and mature on April 1, 2040.

During 2020, HUD offered Section 108 loan relief nationally for borrowers impacted by COVID-19. The program provided a mechanism for deferring Section 108 principal payments due on August 1, 2020. Subsequent to June 30, 2020, the City participated in the program by issuing 10 HUD promissory notes in the total amount of \$4.864 million, the proceeds of which were used to pay the City's August 1, 2020, Section 108 loan principal payments. The new 108 loans are variable rate and can be converted to fixed rate through inclusion in a future HUD public offering.

Debt Policy. In September 2020, the City revised its Debt Issuance and Management Policy by setting specific debt affordability limits based on the ratio of debt service to expenditures. In addition to setting debt limits, the policy requires the tracking of debt metrics and sets forth targets to consider the long-term impact of proposed borrowings. Finally, the policy states that as General Fund debt service as a percentage of the General Fund decreases over time, the City should use General Fund revenue to support legacy pension obligations, make contributions to the budget reserve, and/or support capital investment on a pay-go basis.

Prospective Indebtedness. On July 21, 2020, the City Council authorized the issuance of \$250 million of Neighborhood Improvement Bonds, and it was approved by the City's electors on November 3, 2020. As a result of these approvals, the City expects to issue approximately a \$175 million portion of the authorized Neighborhood Improvement Bonds in 2021.

¹²⁸ Page 127 of the 2020 CAFR, Note 15

¹²⁹ Page 128 of the 2020 CAFR, Note 16 Subsequent events

Questions for the Administration

Listed below are LPD’s questions for the City’s Administration on the 2020 CAFR. LPD respectfully requests that the Administration respond to these question in four weeks. LPD wants to thank the Administration in advance for their responses.

1. We noted a Fund Balance discrepancy issue on page 27 of the FY 2020 CAFR. The FY 2020 General Fund beginning Fund Balance in the Oracle system was different than the FY 2019 published CAFR ending fund balance by \$1,746,331 (See Attachment VII). How was the General Fund FY 2020 CAFR beginning fund balanced calculated? Was the ending FY 2019 CAFR General Fund ending fund balance wrong?
2. The Solid Waste and Street Funds had fund balances of \$43.5 million and \$117.4 million, respectively at June 30, 2020. It appears the City has not properly allocated pension and legacy costs and other reimbursable costs (such as central staff services, workers compensation, and litigation costs) to these funds which have the means to pay for them and relieve the General Fund of these costs. After LPD’s review of FY 2019 CAFR, we asked OCFO to provide the methodology that will be explored to ensure these Special Revenue Funds are reimbursing the General Fund for reimbursable costs and response was that OCFO was in the process of updating the cost allocation plan that will be used to properly allocate costs. What is the status of updating the cost allocation plan?
3. The lease receivable from GLWA on DWSD’s FY 2020 audited financial statements does not agree with the lease payable on GLWA’s FY 2020 audited financial statements. GLWA shows the lease to be \$24.5 million less than DWSD for the Water Fund and \$29.9 million less for the sewage Disposal Fund. The difference is due to GLWA using a different discount rate, which is higher than DWSD’s but produces a lower obligation. Detailed below is the difference:

		in Millions					
		Water			Sewer		
		DWSD	GLWA	Difference	DWSD	GLWA	Difference
Receivable From GLWA	\$	440.9	416.5	24.5	\$ 538.9	509.0	29.9

LPD understands DWSD’s response for FY 2019 CAFR question that the department consulted with Plante Moran concerning the appropriated accounting treatment. However, LPD believes it is prudent DWSD uses GLWA’s discount rate instead of carrying overstated lease receivable on DWSD’s books. Is DWSD considering using GLWA’s discount rate and adjust the lease receivable balances for Water and Sewage Disposal Funds?

4. After review of the 2019 CAFR, LPD asked if OCFO was amendable establishing the Risk Management Fund as Internal Service Fund; and OCFO indicated that it will review the applicable GASB pronouncements and consult with external auditors to determine if the Risk Management Fund meets the requirements of a GASB Internal Service Fund. What is the status of OCFO’s review?

5. Attachment VI shows LPD's calculation of the \$22.8 million in excess utility users tax payments to the Public Lighting Authority (PLA) through FY 2020. Utility users tax payments are used strictly for the use of making debt service (principal and interest) payments. On page 30, the 2020 CAFR shows a \$39.2 million unrestricted surplus figure for the PLA, which appears to be misleading. After review of FY 2019 CAFR, LPD requested that OCFO team work with PLA's CFO to show excess utility users tax payments to PLA as restricted for debt service in future PLA financial statements that are eventually incorporated into the City's CAFR. Response LPD received was that PLA agreed to work with their auditors to classify the excess utility users tax amount as restricted for debt service in their future audited financial statements. However, FY 2020 again does not show the excess utility users tax amount as restricted for debt service. Has OCFO brought this to the attention of PLA's CFO? Attachment IX represents PLA's FY 2019 calculation of the excess utility users tax payments. Does the amount of excess UUT allocated to PLA can be used for operating or is it restricted for future PLA debt service payments? Please update this schedule to include FY 2020 activity.
6. The City's total bonded debt at June 30, 2020 was \$2.10 billion, an increase of \$55 million from the June 30, 2019 balance (page 6 of 2020 CAFR). Please explain the increase.
7. The Water Fund had a net position of \$564.9 million at June 30, 2020, an increase of \$21.7 million from the prior year net position of \$543.3 million. The change in the Water Fund's net position was primarily due to changes from the pension actuarial report which had an increase in pension recovery of \$17 million. The Water Fund also receive principal forgiveness from their State Revolving Fund Loans equal to \$4.7 million (page 13 of 2020 CAFR). Please explain the Water Fund's "pension recovery". Also, please explain how Water Fund was able to achieve "principal forgiveness" from the State Revolving Fund.
8. What is driving the huge \$288.1 million deficit in the Transportation Fund (DDOT) (pages 29 and 56 of 2020 CAFR)? Are there any plans to reduce this deficit?
9. During FY 2020, the nonmajor governmental funds transferred \$21.2 million to other funds. Included in this is a transfer from the Solid Waste Fund to the General Fund to repay an operating loan (page 72 of 2020 CAFR). What was the amount of the loan to the Solid Waste Fund and why was this loan needed? Why did not this loan come to City Council for approval?
10. Please explain "Continuing appropriations" and "Subsequent year budget" terminology used under "Assigned Fund Balance" on page 24 of 2020 CAFR. Eliminated from 2020 CAFR is the category "Blight and Capital". Please explain.
11. The City was not in compliance with: the State of Michigan Public Act 2 of 1968, Uniform Budgeting and Accounting Act, Section 141.435(2), which requires total budgeted expenditures not to exceed estimated revenue plus accumulated fund balance. The City's final budget for several non-major special revenue funds resulted in a projected deficit. Are the non-major special revenue funds that resulted in a projected deficit reflected in the Other Supplemental Information-Budgetary Comparison Schedules component of the 2020 CAFR?

12. The City was not in compliance with the State of Michigan 2 of 1968, Uniform Budgeting and Accounting Act, Section 141.438(3) which requires the City to not incur expenditures against an appropriation account in excess of the amount appropriated by the City Council and the City incurred expenses against certain appropriations in excess of the amount appropriated by City Council and all funds must have a legally adopted budget. Please provide a schedule showing the appropriations that were exceeded by expenses. Were these appropriations with deficits closed out?
13. In the Required Supplemental Information section (pages 130-133), why did the OCFO use a much more detailed format, rather than a summary format, for the Budget and Actual-General Fund schedules?
14. Attachment VIII represents a footnote entitled "Pension Settlements" that was a part of the Note 13-Bankruptcy footnote in the 2019 CAFR. This footnote provided the reader valuable information on the spike of the City's pension obligation starting in FY 2024, and the establishment of the Retiree Protection Fund to increase the City's capacity to meet this pension obligation spike that resumes in FY 2024. Why was this footnote omitted from the notes in the 2020 CAFR?

Note: Attachments I and II provide the account variance analysis for most of the following questions:

15. On page 23 of the FY 2020 CAFR, the General Fund had \$621.3 million of cash at June 30, 2020 which included \$280.4 million of restricted cash. What makes up the restricted cash amount besides amounts restricted for Retiree Protection, QOL Program, Debt Service and Budget Reserve? Please provide list of items that make up the total restricted cash.
16. In previous fiscal years, the City disclosed the (See note 1 on page 51 of the FY 2020 CAFR) total amount of delinquent property tax transferred to Wayne County as well as the chargeback amount. Why was this omitted from the FY 2020 CAFR Property Tax disclosure?
17. General Fund Due from Other Funds increased \$67.5 million in FY 2020 compared to FY 2019 Due from Other Funds balance. In addition, Due to Other Funds decreased \$46.8 million in FY 2020 compared to FY 2019 Due to Other Funds balance. Why did the FY 2020 Due from Other Funds and Due to Other Funds balances fluctuate so much from FY 2019 levels?
18. General Fund municipal income tax revenue decreased \$71.0 million in FY 2020 compared to FY 2019 level. We believe the COVID-19 pandemic economic impact and the \$23.5 million additional potential income tax refunds liability (See page 15 of the FY 2020 CAFR - MD&A) are the main reasons. Were there other factors that impacted the FY 2020 municipal income tax?
19. General Fund Revenue from Use of Assets (Sale of assets) was 18.0 million for the year ended June 30, 2020, an increase of \$14.5 million from the \$3.6 million for FY 2019. What assets were sold during FY 2020 to account for the \$14.5 million increase?

20. General Fund Public Protection expenditures were \$384.3 million in FY 2020, a \$68.0 million decrease from the \$452.3 million in FY 2019. Why did the public protection expenses decrease in FY 2020?
21. General Fund Development and Management Expenditures. Development and Management expenditures were \$295.8 million in FY 2020, a \$43.4 million decrease from the \$339.2 million in FY 2019. Why did development and management expenses decrease in FY 2020?
22. General Fund Transportation Facilitation expenditures increased by \$17.3 million in FY 2020. Why did the transportation facilitation expenses increase so much in FY 2020?
23. General Fund Housing Supply and Conditions expenditures were \$41.7 million in FY 2020, an increase of \$10.0 million from the \$31.7 million in FY 2019. Why did housing supply and conditions expenses increase in FY 2020?
24. General Fund Capital Outlay expenditures were \$28.8 million in FY 2020, a decrease of \$14.6 million from the \$43.4 million in FY 2019. Why did the Capital Outlay expenditures decrease in FY 2020?

Note: Attachments III and IV provide the account variance analysis for most of the following questions:

25. Primary government Unearned Revenue liability was \$42.2 at June 30, 2020, an increase of \$13.7 million from the \$28.5 million on June 30, 2019. What caused the Unearned Revenue liability to increase in FY 2020?
26. On page 54 of the FY 2020 CAFR (Note 1), the City disclosed that it restated its FY 2020 beginning governmental activities net position reducing it by approximately \$99.0 million to correct a misstatement resulting from land parcels that were not removed from the City's capital assets upon sale or transfer. Please explain what led to OCFO's internal controls not catching such a large error.
27. On page 21 of the FY 2020 CAFR, the primary government charges for services revenue was \$783.2 million at June 30, 2020, an increase of \$56.4 million from the \$726.8 million at June 30, 2019. Detailed below is a comparison of the various charges for services for FY 2020 and FY 2019.

	FY 2020	FY 2019	Difference
Public Protection	79,340,103	85,794,552	(6,454,449)
Health	1,440,641	2,326,609	(885,968)
Recreation and Culture	1,442,388	4,162,855	(2,720,467)
Economic Development	19,386,799	21,974,750	(2,587,951)
Housing Supply and Conditions	864,612	817,929	46,683
Physical Environment	44,372,872	41,766,310	2,606,562
Transportation Facilitation	35,452,937	4,695,448	30,757,489
Development and Management	123,827,642	122,447,673	1,379,969
Water	114,814,401	101,609,566	13,204,835
Sewer	331,693,766	297,703,405	33,990,361
Transportation	15,116,575	20,190,340	(5,073,765)
Automobile Parking	-	10,149,706	(10,149,706)
Airport	451,812	571,913	(120,101)
Public Lighting Authority	15,026,574	12,636,841	2,389,733
Total	783,231,122	726,847,897	56,383,225

The following had significant changes for charges for services revenue: (1) public protection \$6.5 million decrease; (2) transportation facilitation \$30.8 million increase; (3) water \$13.2 million increase; (4) sewer \$34.0 million; (5) transportation (DDOT) \$5.1 million decrease. Please explain the significant changes in the charges for services revenues for FY 2020.

28. Primary government operating grants revenue was \$345.7 million for the year ended June 30, 2020, an increase of \$96.0 million from the \$249.7 million for the year ended June 30, 2019. Is this increase mainly due to the Federal CARES Act funds that the City received in April 2020?
29. Primary government municipal income tax revenue was \$304.3 million for the year ended June 30, 2020, a decrease of \$72.4 million from the \$376.7 million for the year ended June 30, 2019. Is the decrease mainly due to the COVID-19 pandemic economic impact and additional \$23.5 million potential income tax refunds liability for non-residents working remotely during the pandemic? Are there any other factors that may have contributed to the municipal income tax revenue decrease in FY 2020?
30. Primary government miscellaneous revenue was \$92.2 million for the year ended June 30, 2020, a decrease of \$21.1 million from the \$113.3 million for the year ended June 30, 2019. Please explain why the miscellaneous revenue decrease by \$21.1 million in FY 2020.
31. Primary government public protection expenses were \$618.9 million in FY 2020, an increase of \$40.1 million from the \$578.8 million amount in FY 2019. Why did public protection expenses increase so much in FY 2020?
32. Primary government health expenses were \$63.9 million in FY 2020, an increase of \$28.0 million from the \$35.9 million in FY 2019. Was the increase in health expenses due to COVID-19 public health emergency response?

33. Primary government recreation and culture expenses were \$37.8 million, an increase of \$8.4 million from the \$29.4 million in FY 2019. Why did recreation and culture expenses increase in FY 2020?
34. Primary government economic development expenses were \$78.8 million for the year ended June 30, 2020, a decrease of \$21.1 million from the \$99.9 million for the year ended June 30, 2019. Why did the economic development expenses increase in FY 2020?
35. Primary government transportation facilitation expenses were \$96.8 million for the year ended June 30, 2020, an increase of \$33.0 million from the \$63.8 million for the year ended June 30, 2019. Why did the transportation facilitation expenses increase so much in FY 2020?
36. Primary government physical environment expenses were \$83.2 million in FY 2020, a decrease of \$85.5 million from the \$168.7 million in FY 2019. Why did physical environment expenses decrease so much in FY 2020?
37. Primary government development and management expenses were \$472.2 million in FY 2020, an increase of \$76.5 million from the \$395.7 million in FY 2019. Why did development and management expenses increase so much by \$76.5 million in FY 2020?
38. Primary government interest on long-term debt was \$63.6 million in FY 2020, an increase of \$29.6 million from the \$34.0 million in FY 2019. Why did the interest on long-term debt increase so much in FY 2020?
39. Primary government sewage disposal expenses were \$323.5 million in FY 2020, an increase of \$26.5 million from the \$297.1 million in FY 2019. Why did the Sewage Disposal expenses increase in FY 2020.
40. Primary government water expenses were \$115.8 million in FY 2020, an increase of \$11.3 million from the \$104.5 million in FY 2019. Why did the water expenses increase in FY 2020?
41. Primary government transportation expenses were \$162.1 million in FY 2020, a decrease of \$16.8 million from the \$178.9 million in FY 2019. Why did the transportation expense decrease FY 2020?
42. On page 191 of the FY 2020, the Airport Fund shows \$2.5 million claims recovery as a reduction to expenses. In addition, the Airport Fund's expenses in FY 2020 were \$4.0 million less than FY 2019 expenses. Is the claims recovery from a lawsuit settlement? Please also explain why Airport Fund's expenses decrease by \$4.0 million compared to FY 2019 level.

Conclusion

LPD commends the Administration for issuing the FY 2020 CAFR before the December 31, 2020 deadline during a global pandemic that forced OCFO's staff to work remotely.

LPD encourages the Budget, Finance and Audit committee to continue its due diligence in understanding and examining the 2020 CAFR, and future CAFRs to come.

Please let us know if we can be of any more assistance.

Attachments

cc: Jay Rising, Acting CFO
John Naglick, Chief Deputy CFO/Finance Director
Tanya Stoudemire, Chief Deputy CFO/Financial Services
Steven Watson, Deputy CFO/Budget Director
Eric Higgs, Deputy CFO/Controller
Avery Peoples, Mayor's Office

Attachment I

Balance Sheet
General Fund

	Balance June 30, 2020	Balance June 30, 2019	Variance	Balance June 30, 2013
ASSETS				
Cash and Investments	\$ 340,900,125	335,494,256	5,405,869	3,745,156
Investments	-	-	-	98,431,798
Accounts and Contracts Receivable:				
Estimated Withheld Income Taxes Receiv	20,360,873	25,060,264	(4,699,391)	26,324,313
Utility Users' Taxes Receivable	2,827,227	2,335,565	491,662	922,059
Property Taxes Receivable	17,292,125	16,876,420	415,705	229,037,260
Income Tax Assessments	133,503,591	87,578,648	45,924,943	34,395,579
Special Assessments	24,669,919	24,669,919	-	24,678,690
DIA and Foundation Receivable	165,798,602	172,808,995	(7,010,393)	-
Trade Receivables	204,784,096	212,550,219	(7,766,123)	182,223,491
Total Accounts and Contracts Receivable	569,236,433	541,880,030	27,356,403	497,581,392
Allowance for Uncollectible Accounts	(301,485,622)	(277,324,600)	(24,161,022)	(438,864,254)
Total Accounts and Contracts Receivable - Net	267,750,811	264,555,430	3,195,381	58,717,138
Due from Other Funds	130,471,733	62,989,777	67,481,956	37,213,151
Advances to Other Funds	46,423,800	47,941,170	(1,517,370)	-
Due from Fiduciary Funds	707,146	3,016,798	(2,309,652)	2,795,937
Due from Component Units	585,730	896,610	(310,880)	1,696,589
Due from Other Governmental Agencies	14,657,977	39,335,261	(24,677,284)	84,993,602
Advances to Component units	23,315,637	15,930,294	7,385,343	-
Prepaid Expenditures	8,199,760	7,835,906	363,854	-
Restricted Cash and Investments	280,376,564	302,601,396	(22,224,832)	-
Restricted Other Assets	10,870,395	7,786,068	3,084,327	-
Other Advances	-	-	-	4,050,006
Other Assets	92,595	94,153	(1,558)	895,271
Total Assets	1,124,352,273	1,088,477,119	35,875,154	292,538,648
DEFERRED OUTFLOWS OF RESOURCES				
Total Assets and Deferred Outflows of Resources	\$ 1,124,352,273	1,088,477,119	35,875,154	292,538,648
LIABILITIES				
Accounts and Contracts Payable	\$ 49,745,420	44,101,425	5,643,995	18,854,370
Accrued Liabilities	16,875,882	24,926,776	(8,050,894)	34,807,913
Accrued Salaries and Wages	38,034,746	29,569,650	8,465,096	19,265,344
Due to Other Funds	2,689,809	49,456,893	(46,767,084)	86,548,889
Due to Fiduciary Funds	-	-	-	44,439,265
Due to Other Governmental Agencies	10,604,347	10,026,955	577,392	81,863,033
Due to Component Units	-	460,244	(460,244)	1,985,328
Income Tax Refunds Payable	40,876,632	9,900,662	30,975,970	8,373,617
Deposits from Vendors and Customers	6,525,443	6,716,401	(190,958)	4,986,969
Unearned Revenue	-	122,099	(122,099)	45,260,341
Other Liabilities	-	-	-	14,892,981
Accrued Interest Payable	-	-	-	4,241,347
Claims and Judgments	-	-	-	365,519,397
Total Liabilities	\$ 165,352,279	175,281,105	(9,928,826)	365,519,397
DEFERRED INFLOWS OF RESOURCES				
	212,746,134	221,124,101	(8,377,967)	-
FUND BALANCES (DEFICIT)				
Nonspendable:				
Prepaid Expenditures and Advances	\$ 77,939,197	71,707,370	6,231,827	4,050,006
Restricted for:				
Capital Acquisitions	-	-	-	979,826
Retiree benefits	184,724,028	129,540,325	55,183,703	-
QOL Program	2,727,880	24,445,977	(21,718,097)	-
Debt service	27,500,000	27,500,000	-	-
Committed for:				
Risk Management Operations	20,000,000	20,000,000	-	54,550,314
Assigned for:				
Budget Reserve	107,280,192	77,280,192	30,000,000	-
Continuign Appropriations	85,678,097	-	85,678,097	-
Subsequent Appropriations	77,381,658	56,312,495	21,069,163	-
Blight and Capital	-	105,500,000	(105,500,000)	-
Risk Management Operations	53,959,620	56,576,537	(2,616,917)	-
Unassigned:				
General Fund Surplus	109,063,188	123,209,017	(14,145,829)	(132,560,895)
Total Fund Balances	746,253,860	692,071,913	54,181,947	(72,980,749)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit)	\$ 1,124,352,273	1,088,477,119	35,875,154	292,538,648

Attachment II
Statement of Revenues, Expenditures, And Changes In Fund Balances
General Fund

	Balance June 30, 2020	Balance June 30, 2019	Variance	Balance June 30, 2013
REVENUES:				
Taxes:				
Property Taxes	\$ 116,616,661	\$ 119,526,903	\$ (2,910,242)	\$ 132,755,307
Municipal Income Tax	290,017,002	361,039,390	(71,022,388)	248,017,356
Utility Users' Tax	26,864,531	28,358,585	(1,494,054)	35,299,844
Wagering Tax	132,404,085	183,815,690	(51,411,605)	174,599,992
Other Taxes and Assessments	2,534,911	5,035,762	(2,500,851)	11,689,666
Interest and Penalties on Taxes	3,021,076	3,137,335	(116,259)	924,928
Licenses, Permits, and Inspection Charges	11,400,495	12,874,413	(1,473,918)	10,665,160
Intergovernmental:				
Federal				
State:	2,674,439	2,528,254	146,185	47,517,680
State Shared Revenue	181,745,030	202,633,844	(20,888,814)	183,058,520
Local Community Stabilization Authority	8,728,340	4,578,119	4,150,221	
State and Local Sources	601,867	1,087,803	(485,936)	8,990,794
Sales and Charges for Services	84,002,852	80,164,430	3,838,422	138,617,705
Ordinance Fines and Forfeitures	18,108,264	19,762,527	(1,654,263)	18,941,254
Revenue from Use of Assets	18,033,887	3,583,553	14,450,334	12,017,348
Investment Earnings (Losses)	21,144,638	18,626,707	2,517,931	(532,986)
DIA and Foundation Revenue	18,675,000	18,675,000	—	—
Other Revenue	23,864,932	29,063,699	(5,198,767)	20,750,950
Financing Revenue	—	25,803,304	(25,803,304)	—
Total Revenues	<u>960,438,010</u>	<u>1,120,295,318</u>	<u>(159,857,308)</u>	<u>1,043,313,518</u>
EXPENDITURES:				
Current:				
Public Protection	384,263,893	452,254,617	(67,990,724)	452,422,790
Health	8,004,659	9,254,288	(1,249,629)	32,705,761
Recreation and Culture	14,901,060	25,695,671	(10,794,611)	13,149,199
Economic Development	12,813,870	14,523,405	(1,709,535)	
Transportation Facilitation	17,280,471	—	17,280,471	—
Housing Supply and Conditions	41,683,286	31,723,679	9,959,607	4,188,991
Physical Environment	11,662,382	13,241,653	(1,579,271)	68,268,583
Development and Management	295,828,839	339,203,266	(43,374,427)	191,052,907
Debt Service:				
Principal	36,240,000	20,240,000	16,000,000	—
Interest	43,417,313	43,935,385	(518,072)	2,570,598
Bond Issuance Costs	—	2,667,838	(2,667,838)	1,612,046
Capital Outlay	28,835,506	43,395,434	(14,559,928)	25,338,872
Total Expenditures	<u>894,931,279</u>	<u>996,135,236</u>	<u>(101,203,957)</u>	<u>791,309,747</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>65,506,731</u>	<u>124,160,082</u>	<u>(58,653,351)</u>	<u>252,003,771</u>
OTHER FINANCING SOURCES (USES):				
Sources:				
Transfers In	32,365,895	15,014,307	17,351,588	9,256,416
Proceeds From Sale of Assets	24,768,323	4,079,982	20,688,341	
Proceeds From Bonds and Notes Issued	4,159,104	175,985,000	(171,825,896)	143,530,688
Premium on Debt Issuance	—	—	—	
Uses:				
Transfers Out	(72,618,106)	(79,755,322)	7,137,216	(208,284,967)
Principal Paid to Bond Agents for Refunded Bonds	—	(158,596,097)	158,596,097	
Total Other Financing Sources (Uses)	<u>(11,324,784)</u>	<u>(43,272,130)</u>	<u>31,947,346</u>	<u>(55,497,863)</u>
Net Change in Fund Balances	54,181,947	80,887,952	(26,706,005)	196,505,908
Fund Balances at Beginning of Year (Restated)	692,071,913	611,183,961	80,887,952	(269,486,657)
Fund Balances at End of Year	<u>\$ 746,253,860</u>	<u>\$ 692,071,913</u>	<u>\$ 54,181,947</u>	<u>\$ (72,980,749)</u>

Attachment III

	June 30, 2020	June 30, 2019	Variance	June 30, 2013
ASSETS				
Cash and Cash Equivalents	\$ 921,245,614	\$ 809,524,771	\$ 111,720,843	\$ 245,748,434
Restricted Cash and Cash Equivalents	618,123,656	604,888,607	13,235,049	
Investments	—	35,884,410	(35,884,410)	946,998,283
Accounts and Contracts Receivable - Net	385,216,608	370,205,350	15,011,258	300,747,636
Internal Balances	—	—	—	
Due from Primary Government	—	—	—	
Due from Fiduciary Funds	707,146	3,016,798	(2,309,652)	
Due from Component Units	818,665	1,544,985	(726,320)	2,890,675
Due from Other Governmental Agencies	83,433,550	99,078,642	(15,645,092)	111,724,029
Inventory	10,353,067	10,266,173	86,894	20,559,223
Prepaid Expenses	16,643,521	8,720,108	7,923,413	4,917,878
Long-Term Receivable	—	—	—	9,521,918
Loans, Notes, and Pledges Receivable	—	—	—	
Advance to Component Unit/Library	—	—	—	
Advance to Component Unit	23,315,637	15,930,294	7,385,343	24,016,604
Receivable from GLWA	1,063,483,169	1,069,040,494	(5,557,325)	
Other Assets	—	—	—	1,044,242
Net OPEB Asset	—	22,104	(22,104)	
Net Pension Asset	37,262,730	33,187,146	4,075,584	1,286,225,715
Deferred Charges	—	—	—	143,230,109
Restricted Assets	10,870,395	7,786,068	3,084,327	
Capital Assets:				
Non-Depreciable	567,187,786	566,374,817	812,969	931,442,832
Depreciable, Net	2,330,446,611	2,353,751,562	(23,304,951)	5,781,339,248
Total Capital Assets - Net	<u>2,897,634,397</u>	<u>2,920,126,379</u>	<u>(22,491,982)</u>	<u>6,712,782,080</u>
Total Assets	<u>6,069,108,155</u>	<u>5,989,222,329</u>	<u>79,885,826</u>	<u>9,810,406,826</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>199,713,028</u>	<u>120,398,816</u>	<u>79,314,212</u>	<u>-</u>
LIABILITIES				
Accounts and Contracts Payable	146,081,068	137,650,794	8,430,274	182,314,575
Accrued Liabilities	55,984,548	67,394,635	(11,410,087)	53,467,821
Accrued Salaries and Wages	46,808,063	36,201,128	10,606,935	23,330,097
Accrued Interest Payable	20,120,569	22,745,787	(2,625,218)	169,432,102
Income Tax Refunds Payable	40,876,632	9,900,662	30,975,970	
Due to Other Governmental Agencies	30,996,002	32,039,599	(1,043,597)	130,823,920
Due to Fiduciary Funds	1,687,489	—	1,687,489	
Due to Component Units	7,486,499	3,462,097	4,024,402	9,125,372
Due to Great Lakes Water Authority	32,041,306	30,895,913	1,145,393	
Deposits and Refunds	16,806,222	16,954,868	(148,646)	14,172,507
Unearned Revenue	42,151,764	28,455,197	13,696,567	18,678,599
Derivative Instruments - Swap Liability	—	—	—	296,488,744
Settlement Credit Contingent Liability	25,000,000	25,000,000	—	
Net Pension Liability	1,792,678,121	1,551,346,005	241,332,116	
Other Liabilities	—	—	—	55,293,277
Long-Term Obligations:				
Due within one year	216,076,045	196,533,372	19,542,673	342,480,094
Due in more than one year	2,902,255,066	2,941,437,769	(39,182,703)	9,192,977,938
Total Liabilities	<u>5,377,049,394</u>	<u>5,100,017,826</u>	<u>277,031,568</u>	<u>10,488,585,046</u>
DEFERRED INFLOWS OF RESOURCES	<u>47,834,170</u>	<u>39,379,643</u>	<u>8,454,527</u>	<u>-</u>
NET POSITION (DEFICIT)				
Net Investment in Capital Assets	1,617,233,051	1,608,516,845	8,716,206	1,358,091,011
Restricted for:				
Highway and Street Improvement	64,228,518	47,717,486	16,511,032	39,980,142
Construction Code	6,063,745	6,135,381	(71,636)	
Endowments and Trust (Expendable)	684,944	692,513	(7,569)	819,870
Endowments and Trust (Non-Expendable)	1,005,096	1,005,096	—	937,861
Capital Projects and Acquisitions	—	—	—	1,907,238
Debt Service	72,369,078	78,560,233	(6,191,155)	275,450,351
Water Affordability	1,463,004	1,334,862	128,142	
Improvements and Extensions	—	—	—	
Budget Stabilization	7,500,000	7,500,000	—	
Community and economic development	18,283,186	20,458,036	(2,174,850)	
Pension	—	—	—	
Grants	31,937,805	23,606,737	8,331,068	
Local Business Growth	—	478,084	(478,084)	
Police	5,848,903	5,070,312	778,591	
Rubbish Collection and Disposal	43,458,071	67,449,728	(23,991,657)	
Unrestricted (Deficit)	<u>(1,026,137,782)</u>	<u>(898,301,637)</u>	<u>(127,836,145)</u>	<u>(2,355,364,693)</u>
Total Net Position (Deficit)	<u>\$ 843,937,619</u>	<u>\$ 970,223,676</u>	<u>\$ (126,286,057)</u>	<u>\$ (678,178,220)</u>

Attachment IV
Statement of Changes In Net Position
Primary Government

	Balance June 30, 2020	Balance June 30, 2019	Variance	Balance June 30, 2013
Revenues				
Program revenues				
Charges for services	\$ 783,231,122	\$ 726,847,897	\$ 56,383,225	\$ 1,124,725,171
Operating grants	345,717,294	249,720,555	95,996,739	281,613,540
Capital grants	34,525,983	25,512,843	9,013,140	31,595,558
General revenues				
Property Taxes	189,638,983	181,383,741	8,255,242	199,191,923
Municipal Income Tax	304,292,369	376,668,182	(72,375,813)	248,017,356
Utility User Tax	26,866,308	28,358,585	(1,492,277)	35,299,844
Wagering Tax	132,404,085	183,815,690	(51,411,605)	174,357,416
Shared Taxes	194,142,893	211,656,989	(17,514,096)	183,058,520
Other Local Taxes	5,687,851	8,257,082	(2,569,231)	15,309,357
Investment Earnings	29,117,592	26,948,535	2,169,057	(135,001,916)
Miscellaneous	92,209,826	113,336,069	(21,126,243)	19,120,327
Gain/(Loss) on Sale of Capital Assets	17,304,906	(175,652)	17,480,558	
Total Revenues	<u>2,155,139,212</u>	<u>2,132,330,516</u>	<u>22,808,696</u>	<u>2,177,287,096</u>
Expenses				
Public Protection	618,928,434	578,832,651	40,095,783	694,708,112
Health	63,925,533	35,944,711	27,980,822	38,070,128
Education	-	-	-	37,040,734
Recreation and Culture	37,826,345	29,412,201	8,414,144	26,856,182
Economic Development	78,756,473	99,866,336	(21,109,863)	81,455,649
Transportation facilitation	96,823,521	63,778,403	33,045,118	20,745,859
Housing Supply and Conditions	41,892,422	34,110,578	7,781,844	5,086,777
Physical Environment	83,210,022	168,738,713	(85,528,691)	121,192,467
Development and Management	472,185,625	395,668,017	76,517,608	205,937,823
Interest on Long-term Debt	63,638,561	34,020,805	29,617,756	133,545,027
Sewage Disposal	323,538,794	297,055,156	26,483,638	523,909,799
Transportation	162,061,355	178,880,079	(16,818,724)	166,024,287
Water	115,816,967	104,478,557	11,338,410	398,086,572
Automobile Parking	-	16,141,807	(16,141,807)	20,089,165
Airport	1,025,146	5,071,698	(4,046,552)	1,910,151
Public Lighting Authority	22,916,884	22,214,145	702,739	
Total Expenses	<u>2,182,546,082</u>	<u>2,064,213,857</u>	<u>118,332,225</u>	<u>2,474,658,732</u>
Excess (deficiency) before	(27,406,870)	68,116,659	(95,523,529)	(297,371,636)
Gain on Sale of Capital Assets	-	-	-	(8,832,679)
Expenses - Pension Recovery	-	-	-	
Special Item - Bifurcation	-	-	-	
Increase/(decrease) in Net Position	<u>(27,406,870)</u>	<u>68,116,659</u>	<u>(95,523,529)</u>	<u>(306,204,315)</u>
Net Position, July 1 (Restated)	871,344,489	902,107,017	(30,762,528)	(371,973,905)
Net Position, June 30	<u>\$ 843,937,619</u>	<u>\$ 970,223,676</u>	<u>\$ (126,286,057)</u>	<u>\$ (678,178,220)</u>

ATTACHMENT V

Relevant for FY 2019: Questions on FY 2019 DWSD Financial Statements Net Position and DWSD Management Responses

- The lease receivable from GLWA on DWSD's Statement of Net Position does not agree with the lease payable on GLWA's Statement of Net Position for FY 2019. GLWA shows the lease to be \$25.5 million less than DWSD for the Water Fund and \$31.1 million less for the sewage Disposal Fund. The difference is due to GLWA using a different discount rate, which is higher than DWSD but produces a lower obligation.

Is DWSD in the process of negotiating with GLWA to have GLWA use DWSD's discount rate to agree on the calculation of the lease receivable from GLWA? If it is unlikely that GLWA would change its discount rate to reflect DWSD's discount rate, then would it be more prudent for DWSD to use GLWA's discount rate when calculating the lease receivable from GLWA to be recorded on the water and sewer financial statements?

DWSD's Response: DWSD believes that the discount rate used in the DWSD Statement of Net Position is correct. At the time of calculation DWSD consulted with Plante Moran concerning the appropriate accounting treatment and the calculation and set up of the receivable.

- The Sewage Disposal Fund shows a balance of \$44.0 million in a liability account entitled "shortfall loan payable to Great Lakes Water Authority" on June 30, 2019. As of November 7, 2018, DWSD has discussed options to cure this shortfall with its Board of Commissioners and at a Reconciliation Committee meeting on October 19, 2018. A written agreement was under discussion to document the plan to cure. Please provide us with an update on this loan payable to GLWA. Also, how does DWSD owe this loan when it has generated surpluses the past two fiscal years?
- **DWSD's Response: Based on the Memorandum of Understanding (MOU) signed in Fiscal Year 2018, any payback of a shortfall uses the terms described in the MOU and an additional agreement is unnecessary. The reason there was a shortfall, even though there was one year of surplus, is due to the fact that the shortfall is determined based on cash that is collected from customers, not the accounting of revenue and expenses.**

ATTACHMENT VI

Public Lighting Authority

Excess Subsidy and Utility User Tax (FY 2013-FY 2020)

	2013 & 2014	2015	2016	2017	2018	2019	2020	Total
Utility User Tax	\$ 18,749,994	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000	\$ 93,749,994
City Subsidy	757,500	5,527,177	8,886,743	10,039,058	10,302,828	10,099,883	10,453,826	56,067,015
Other Revenue	2,660	1,246,321	1,142,791	1,072,660	835,724	136,841	2,526,574	6,963,571
Total Revenue	19,510,154	19,273,498	22,529,534	23,611,718	23,638,552	22,736,724	25,480,400	156,780,580
Operating Expense	1,466,532	5,589,821	8,157,578	7,813,490	12,711,589	13,958,851	14,830,343	64,528,204
Other Expense				10,493	(205,540)	(526,096)	(1,028,201)	(1,749,344)
Debt Service	585,489	8,997,509	8,600,792	8,509,892	8,385,092	8,255,294	8,086,541	51,420,609
Bond Issuance	916,636	2,119,241		5,000	5,000	-	-	3,045,877
Total Expense	2,968,657	16,706,571	16,758,370	16,338,875	20,896,141	21,688,049	21,888,683	117,245,346
Surplus/(Deficit)	<u>\$ 16,541,497</u>	<u>2,566,927</u>	<u>5,771,164</u>	<u>7,272,843</u>	<u>2,742,411</u>	<u>1,048,675</u>	<u>3,591,717</u>	<u>\$ 39,535,234</u>
Principal Paid		2,970,000	3,030,000	3,120,000	3,245,000	3,749,458	374,458	16,488,916
Excess UUT	17,247,869	(1,586,750)	869,208	865,108	864,908	495,248	4,039,001	\$ 22,794,592

ATTACHMENT VII

General Fund FY 2020 Beginning Fund Balance

	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Ending Balance</u>
Per Oracle System	\$ 690,325,582	54,181,963	\$ 744,507,545
			-
Per - CAFR	692,071,913	54,181,947	746,253,860
Defference	<u><u>\$ (1,746,331)</u></u>	<u><u>\$ 16</u></u>	<u><u>\$ (1,746,315)</u></u>

Oracle System balances by Fund and account code:

<u>Fund code and description</u>	<u>Account Code</u>	<u>Balance</u>
1000-General Fund	311100	\$ 28,290,714
1000-General Fund	362100	433,954,276
1001-Risk Management Fund	362100	75,634,002
1002-Quality of Life Fund	362100	(117,398)
1003-Blight Remediation Fund	362100	(2,464,445)
1011-PLD Decommissioning Reserve Fund	362100	2,381,287
3100-Quality of Life - Special Revenue	362100	24,449,110
4533-City of Detroit Capital Projects	362100	(1,342,290)
7516-Retiree Protection Trust Fund	362100	129,540,325
Total		<u><u>\$ 690,325,582</u></u>

Year	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Population	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Area	100	100	100	100	100	100	100	100	100	100	100
Income	100	100	100	100	100	100	100	100	100	100	100
Production	100	100	100	100	100	100	100	100	100	100	100
Consumption	100	100	100	100	100	100	100	100	100	100	100
Investment	100	100	100	100	100	100	100	100	100	100	100
Government	100	100	100	100	100	100	100	100	100	100	100
Private	100	100	100	100	100	100	100	100	100	100	100
Total	100	100	100	100	100	100	100	100	100	100	100

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Note 13 - Bankruptcy (Continued)

Bankruptcy Appeals

A number of parties filed appeals of the Confirmation Order. All of these appeals have been dismissed or otherwise resolved in favor of the City. Two sets of appellants filed petitions with the United States Supreme Court, seeking writs of certiorari (i.e., asking the Supreme Court to hear their appeal). One petition, filed on February 9, 2017, was denied by the Supreme Court on April 17, 2017. The other petition, filed on April 14, 2017, was denied by the Supreme Court on June 19, 2017.

Pension Settlements

On the Effective Date, the City assumed the obligations related to the already-accrued benefits under the GRS pension plan and the PFRS pension plan, as those benefits were modified by the Plan. The old GRS and old PFRS plans (which were frozen on July 1, 2014) are closed to new participants, and vested active employees have not accrued additional pension benefits under the terms and conditions of those plans since that date. As of the Effective Date, the City retained the responsibility to fund all amounts necessary to provide the adjusted (reduced) pension benefits to its employees and retirees who accrued benefits in either of the old frozen GRS or PFRS pension plans, although the City's contributions are fixed through June 30, 2023 and are payable from the sources shown in the table below. Thereafter, the City will be required to contribute all amounts necessary to fund the frozen plans. During November 2015, the actuary for each of the plans revised the calculation of the unfunded actuarial accrued liabilities (UAAL) for the frozen plans using updated mortality tables and other assumptions. The effect of the revised calculations was to increase the UAAL for the frozen plans by approximately \$491 million. Beginning in 2024, the Plan assumed that the UAAL would be funded over 30 years and projected an annual General Fund contribution of \$111 million beginning in fiscal year 2024. Based on the latest actuarial valuation as of June 30, 2018, the anticipated General Fund contributions starting in FY 2024 are projected to be \$164.3 million for Component II.

Effective August 11, 2017, the City established the City of Detroit Retiree Protection Fund (the "RPF") to set aside additional funds, in trust, for future deposit, beginning in FY 2024, to the frozen GRS and PFRS pension plans to increase the City's capacity to meet required annual pension contributions that resume in FY 2024. The City deposited \$125 million through June 30, 2019. With investment earnings, the balance was \$129.5 million as of June 30, 2019. The FY 2020-2023 Four-Year Financial Plan includes an additional \$210 million for deposit to the RPF from FY 2020 to FY 2023. Once all monies in the RPF have been disbursed over several years, the RPF will be terminated.

The tables below details the actual FY 2019 contributions and anticipated pension contributions to the GRS and PFRS from December 10, 2014 through June 30, 2023 in accordance with the Plan of Adjustment:

Source of Pension Contributions	Required or Paid FY 2019	Anticipated Contributions per POA Through June 30, 2023	Beneficiary
General Retirement System			
GLWA/DWSD	\$ 45,400,000	\$ 428,600,000	GRS
DIA	375,000	40,511,828	GRS
General Fund	20,000,000	92,100,000	GRS
Library	2,500,000	22,500,000	GRS
Stub UTGO Bond	-	31,229,959	GRS
State of Michigan	-	98,800,000	GRS
Total GRS contributions	<u>\$ 68,275,000</u>	<u>\$ 713,741,787</u>	

June 30, 2019

Note 13 - Bankruptcy (Continued)

Source of Pension Contributions	Required or Paid FY 2019	Anticipated Contributions per POA Through June 30, 2023	Beneficiary
Police and Fire Retirement System			
Foundation for Detroit's Future	\$ 18,300,000	\$ 164,700,000	PFRS
DIA	-	19,487,744	PFRS
State of Michigan	-	96,000,000	PFRS
Total PFRS contributions	<u>\$ 18,300,000</u>	<u>\$ 280,187,744</u>	

The net pension liability for both retirement systems decreased by \$1,287,722,963 (\$731,824,895 for GRS and \$555,898,068 for PFRS) because of the pension settlements.

Great Lakes Water Authority

On September 8, 2014, the emergency manager and the mayor of the City executed a memorandum of understanding regarding the formation of the Great Lakes Water Authority with the county executives of the counties of Wayne, Oakland, and Macomb, Michigan (the "Counties") and the governor of the State, establishing a framework for the creation of a regional water and sewer authority.

On June 12, 2015, the GLWA board approved and the mayor and GLWA executed two separate leases (the "Leases") of the regional facilities comprising Regional Systems (the "Leased Facilities") and a water and sewer services agreement for the provision by GLWA of water supply and sewage disposal services to city retail customers (the "Water and Sewer Services Agreement"). Under the Leases, which became effective on January 1, 2016, the City leased the Leased Facilities and assigned and transferred its interest in all revenue derived from the sale of sewage disposal and water supply services to the wholesale customers and the retail customers of the systems to GLWA for an initial term of 40 years. The City conveyed to GLWA, for the term of the Leases, a leasehold interest in all of the City's right, title, and interest in and to the Leased Facilities in order to enable GLWA to operate the Leased Facilities.

The City, through its Water and Sewerage Department, under the oversight of the board of water commissioners, continues to own, operate, and be responsible for the operation and maintenance of all water supply and sewage disposal facilities that provide water supply and sewage disposal services directly to the retail customers (the "Local Facilities"). GLWA operates the regional systems, and all revenue of the systems is paid to GLWA by virtue of the assignment described above.

On December 15, 2015, effective as of the date the Leases became effective (January 1, 2016), the federal court, in *United States of America vs. City of Detroit, et al.*, Case No. 77-71100, entered an order (the "December 15, 2015 Order") modifying the court's prior orders in the case, restoring the powers of the board of water commissioners under the City Charter, Sections 7-1201 through 7-1204, and the power of the board of water commissioners to receive certain services from other city departments as long as such arrangements do not impair the City's ability to comply with its NPDES permit No. MI0022802; the Clean Water Act; or its obligations under the Leases, the Water and Sewer Services Agreement, or other agreements with GLWA. Furthermore, the court approved the transactions and arrangements contemplated by the Leases.

Attachment IX

	2013	2014	2015	2016	2017	2018	2019	Total
<u>Debt Service</u>								
Utility User Tax	\$ 1,200,000.00	\$ 17,549,994.00	\$ 12,500,000.00	\$ 12,500,000.00	\$ 12,500,000.00	\$ 12,500,000.00	\$ 12,500,000.00	\$ 81,249,994.00
<u>Debt Service</u>								
Interest	\$ -	\$ 585,489.00	\$ 9,039,171.00	\$ 8,975,250.00	\$ 8,884,350.00	\$ 8,759,550.00	\$ 8,629,750.00	\$ 44,873,560.00
Principal			\$ 2,970,000.00	\$ 3,030,000.00	\$ 3,120,000.00	\$ 3,245,000.00	\$ 3,375,000.00	\$ 15,740,000.00
Issuance Cost		\$ 916,636.00	\$ 2,109,741.00					\$ 3,026,377.00
Trustee Fees		\$ 2,500.00	\$ 9,500.00	\$ 3,500.00	\$ 3,500.00	\$ 3,500.00	\$ 3,500.00	\$ 22,500.00
Bond Rating Fees				\$ 5,000.00	\$ 5,000.00	\$ 5,000.00	\$ 5,000.00	\$ 10,000.00
Total Debt Service	\$ -	\$ 1,504,625.00	\$ 14,128,412.00	\$ 12,008,750.00	\$ 12,012,850.00	\$ 12,013,050.00	\$ 12,004,750.00	\$ 63,672,437.00
Excess UUT	\$ 1,200,000.00	\$ 16,045,369.00	\$ (1,628,412.00)	\$ 491,250.00	\$ 487,150.00	\$ 486,950.00	\$ 495,250.00	\$ 17,577,557.00

Required Reserve Accounts by Michigan Finance Authority

Reserve Account - 1039353
 Min Interest Account - 1039354
 Min Principal Account - 1039355

	Total
Allocated to PLA	
2013-2015	\$ 12,009,171.00
2015-2016	\$ 2,352,153.00
2016-2017	\$ 772,847.00
2017-2018	\$ 482,786.00 ##
2018-2019	\$ 491,250.00
Total	\$ 15,134,171.00

See attached bank statements

2013-2015 Allocated for PLA (##)

2012-13	\$ 1,200,000.00
2013-14	\$ 16,045,369.00
2014-15	\$ (1,628,412.00)
Funds transferred to Wilmington	\$ (15,134,171.00) Jul-14
Total	\$ 482,786.00 ##

BOND DEBT SERVICE

Michigan Finance Authority
 Local Government Loan Program Revenue Bonds
 Series 2014B (Public Lighting Authority Local Project Bonds)
 Structured for \$181m Total Available Project Funds
 Final Cash Flows

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
01/01/2015					
07/01/2015	2,970,000	3.000%	4,506,996.25	4,506,996.25	
12/31/2015			4,532,175.00	7,502,175.00	
01/01/2016					12,009,171.25
07/01/2016	3,030,000	3.000%	4,487,625.00	4,487,625.00	
12/31/2016			4,487,625.00	7,517,625.00	
01/01/2017					12,005,250.00
07/01/2017	3,120,000	4.000%	4,442,175.00	4,442,175.00	
12/31/2017			4,442,175.00	7,562,175.00	
01/01/2018					12,004,350.00
07/01/2018	3,245,000	4.000%	4,379,775.00	4,379,775.00	
12/31/2018			4,379,775.00	7,624,775.00	
01/01/2019					12,004,550.00
07/01/2019	3,375,000	5.000%	4,314,875.00	4,314,875.00	
12/31/2019			4,314,875.00	7,689,875.00	
01/01/2020					12,004,750.00
07/01/2020	3,545,000	5.000%	4,230,500.00	4,230,500.00	
12/31/2020			4,230,500.00	7,775,500.00	
01/01/2021					12,006,000.00
07/01/2021	3,725,000	5.000%	4,141,875.00	4,141,875.00	
12/31/2021			4,141,875.00	7,866,875.00	
01/01/2022					12,008,750.00
07/01/2022	3,910,000	5.000%	4,048,750.00	4,048,750.00	
12/31/2022			4,048,750.00	7,958,750.00	
01/01/2023					12,007,500.00
07/01/2023	4,105,000	5.000%	3,951,000.00	3,951,000.00	
12/31/2023			3,951,000.00	8,056,000.00	
01/01/2024					12,007,000.00
07/01/2024	4,310,000	5.000%	3,848,375.00	3,848,375.00	
12/31/2024			3,848,375.00	8,158,375.00	
01/01/2025					12,006,750.00
07/01/2025	4,525,000	5.000%	3,740,625.00	3,740,625.00	
12/31/2025			3,740,625.00	8,265,625.00	
01/01/2026					12,006,250.00
07/01/2026	4,750,000	5.000%	3,627,500.00	3,627,500.00	
12/31/2026			3,627,500.00	8,377,500.00	
01/01/2027					12,005,000.00
07/01/2027	4,990,000	5.000%	3,508,750.00	3,508,750.00	
12/31/2027			3,508,750.00	8,498,750.00	
01/01/2028					12,007,500.00
07/01/2028	5,240,000	5.000%	3,384,000.00	3,384,000.00	
12/31/2028			3,384,000.00	8,624,000.00	
01/01/2029					12,008,000.00
07/01/2029	5,500,000	5.000%	3,253,000.00	3,253,000.00	
12/31/2029			3,253,000.00	8,753,000.00	
01/01/2030					12,006,000.00
07/01/2030	5,775,000	5.000%	3,115,500.00	3,115,500.00	
12/31/2030			3,115,500.00	8,890,500.00	
01/01/2031					12,006,000.00
07/01/2031	6,065,000	5.000%	2,971,125.00	2,971,125.00	
12/31/2031			2,971,125.00	9,036,125.00	
01/01/2032					12,007,250.00
07/01/2032	6,365,000	5.000%	2,819,500.00	2,819,500.00	
12/31/2032			2,819,500.00	9,184,500.00	
01/01/2033					12,004,000.00
07/01/2033	6,685,000	5.000%	2,660,375.00	2,660,375.00	
12/31/2033			2,660,375.00	9,345,375.00	
01/01/2034					12,005,750.00
07/01/2034	7,020,000	5.000%	2,493,250.00	2,493,250.00	
12/31/2034			2,493,250.00	9,513,250.00	
01/01/2035					12,006,500.00
07/01/2035	7,370,000	5.000%	2,317,750.00	2,317,750.00	
12/31/2035			2,317,750.00	9,687,750.00	
01/01/2036					12,005,500.00
07/01/2036	7,740,000	5.000%	2,133,500.00	2,133,500.00	
12/31/2036			2,133,500.00	9,873,500.00	
01/01/2037					12,007,000.00
07/01/2037	8,125,000	5.000%	1,940,000.00	1,940,000.00	
12/31/2037			1,940,000.00	10,065,000.00	
					12,005,000.00