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City of Detroit

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TO: Honorable City Council

FROM: David Whitaker, Director 
Legislative Policy Division Staff

DATE: July 20, 2022

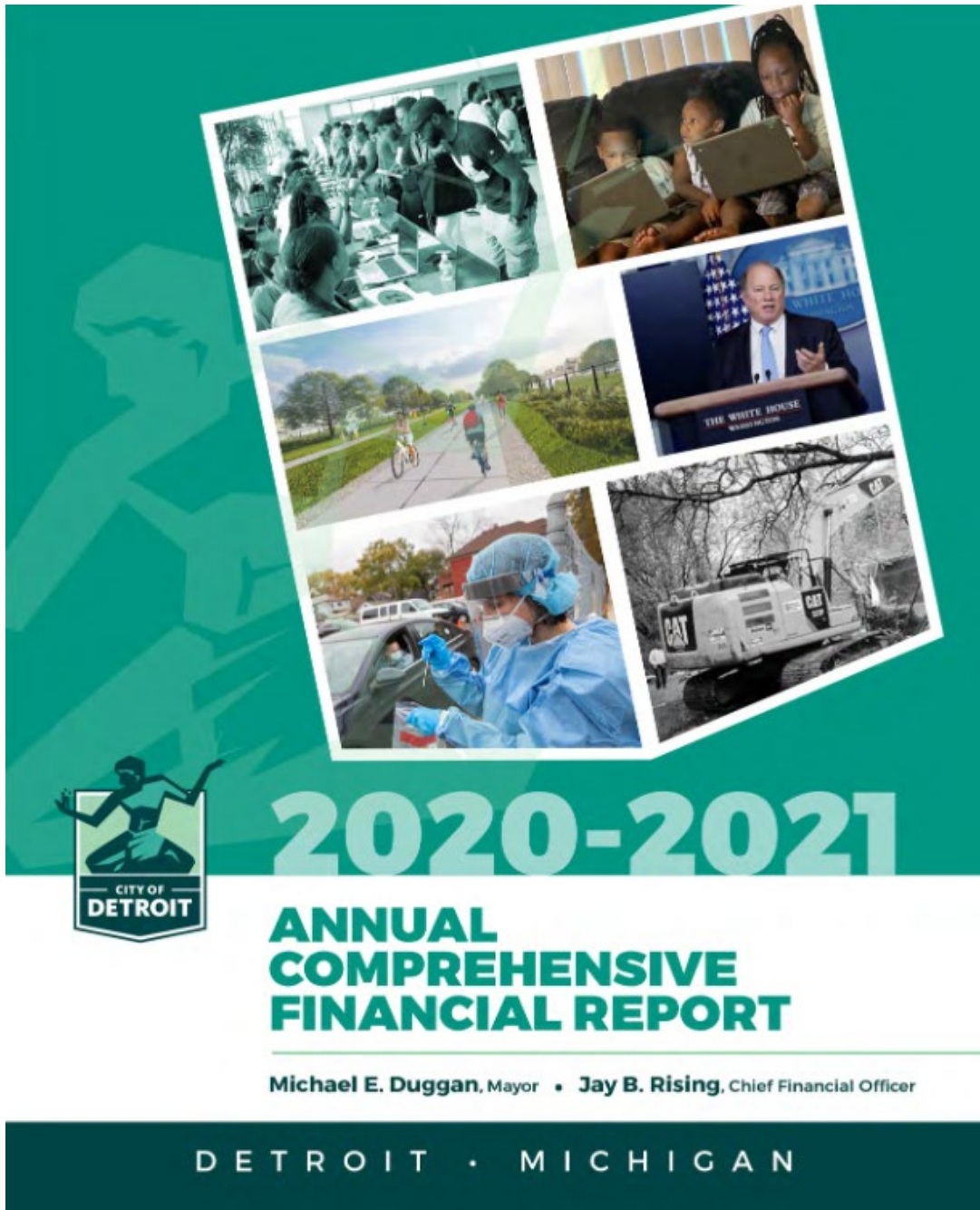
RE: **Power Point Presentation on the 2021 Annual Comprehensive Financial Report (ACFR) prepared by the Legislative Policy Division (LPD) REVISED**

For your information, attached is LPD's **revised** power point on the 2021 Annual Comprehensive Financial Report (ACFR) that will be presented during the Budget, Finance and Audit Committee meeting on Wednesday, July 20, 2022.

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

Attachment

cc: Jay Rising, CFO
John Naglick, Chief Deputy CFO/Finance Director
Tanya Stoudemire, Chief Deputy CFO/Policy & Administration Director
Steven Watson, Deputy CFO/Budget Director
Eric Higgs, Deputy CFO/Chief Accounting Officer
Mark Lockridge, Auditor General
Gail Fulton, Mayor's Office



**LEGISLATIVE POLICY DIVISION (LPD)
ANALYSIS OF THE 2021 CITY OF DETROIT
ANNUAL COMPREHENSIVE FINANCIAL REPORT
(ACFR)
DETROIT CITY COUNCIL
BUDGET FINANCE AND AUDIT COMMITTEE**

COUNCIL MEMBER FRED DURHAL III, CHAIRPERSON

**COUNCIL MEMBER COLEMAN A. YOUNG II, VICE
CHAIRPERSON**

**COUNCIL MEMBER GABRIELA SANTIAGO-ROMERO,
MEMBER**

COUNCIL PRESIDENT MARY SHEFFIELD, (EX-OFFICIO)

July 20, 2022

Introduction

- Purpose of this presentation is to provide the City Council a brief report on the Annual Comprehensive Financial Report for the Fiscal Year Ending June 30, 2021, or the 2021 ACFR.
- A copy of this presentation will be posted on the City of Detroit's website (put 'Legislative Policy Division Reports' in search bar and click on 'Division Reports').
- The 2021 ACFR contains 221 pages that provide a wealth of financial information regarding the financial condition of the City of Detroit.
- Citizens can obtain a copy of the 2021 ACFR on the City of Detroit's website (put in 'City of Detroit financial reports' in search bar and click on 'Financial Reports' and 'ACFR').
- We acknowledge and commend the efforts of the Office of the Chief Financial Officer (OCFO) staff to complete the 2021 ACFR before the State of Michigan's December 31st deadline.
- We also applaud the OCFO for receiving the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the FY 2020 ACFR report, which is a significant accomplishment.
- In a report entitled "Review of the 2021 Annual Comprehensive Financial Report (ACFR) for the City of Detroit" dated March 2, 2022, we raise a host of financial issues based on our review of the 2021 ACFR. But in the interest of time, this presentation will focus on the following major issues: short-term perspective-surplus, fund balance, and liquidity; long-term perspective-pension liability, debt, and water and sewer financial issues; and major benchmarking issues.

Introduction, cont'd

- The ACFR provides a comprehensive picture of the government's financial condition over the course of a year.
- The ACFR reflects what the government has received in revenue, what it has spent, and what its status of assets and liabilities is at the end of a fiscal year.
- The ACFR's government-wide financial statements combines the governmental and business type activities and are similar in style to those used in the private sector to provide readers with a broad long-term overview of the City's finances.
- In all, the 2021 ACFR contains financial information for 45 entities, including governmental funds (e.g. general fund), enterprise or business type funds (e.g. water and sewage disposal), internal service funds (e.g. employee benefits), component units (e.g. Downtown Development Authority) and blended component units (e.g. Public Lighting Department).
- Again, our focus today will be on a few key short-term issues as they relate to the general fund, and a few long-term issues as they relate to the governmental wide and water and sewage disposal financial statements.
- Before moving forward, it is important to note that the FY 2021 ACFR received an unqualified ("clean") opinion from Plante & Moran, the City's independent auditor. Essentially a "clean" opinion means that the City's ACFR is fairly presented in all material respects. As a result, investors, creditors, rating agencies and other interested parties reading the ACFR can rely on the audited financial statements and the information contained therein. A clean opinion, however, does not mean that the City's financial condition is satisfactory.

Brief Description of the ACFR

Major Components of Annual Comprehensive Financial Report (ACFR)

Component

Introductory
section

+

Financial
section

+

Statistical
section

Contents of Component

General information on the government structure, services, financial condition, and environment

- *Managements' Discussion and Analysis
- *Financial Statements: Government-wide, Governmental Fund, Proprietary Fund, Fiduciary Fund
- *Notes to the Financial Statements
- *Additional Required Supplementary Information
- *Information on individual funds, discretely presented component units and other supplementary information not required by GAAP

Trend data and nonfinancial data

The LPD highly recommends that a non-financial person read the introductory and the Management's Discussion and Analysis sections of the ACFR to gain a good understanding of the City's financial condition as of June 30, 2021.

City of Detroit's Government-wide Summary Statement of Net Position June 30, 2021 and 2020 (In Thousands)

	Governmental Activities		Business Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Assets						
Current and other non-current assets	\$ 2,569,087	\$ 1,655,142	\$ 1,413,661	\$ 1,516,330	\$ 3,982,748	\$ 3,171,472
Capital assets	1,419,326	1,415,652	1,514,274	1,481,982	2,933,600	2,897,634
Total assets	3,988,413	3,070,794	2,927,935	2,998,312	6,916,348	6,069,106
Deferred Outflows of Resources	316,322	170,202	47,209	29,511	363,531	199,713
Liabilities						
Current and other liabilities	807,071	324,610	103,847	141,429	910,918	466,039
Long-term obligations	3,902,630	3,311,898	1,604,727	1,599,111	5,507,357	4,911,009
Total liabilities	4,709,701	3,636,508	1,708,574	1,740,540	6,418,275	5,377,048
Deferred Inflows of Resources	42,658	43,658	4,488	4,176	47,146	47,834
Net position:						
Net investment in capital assets	1,087,592	1,102,806	522,984	514,427	1,610,576	1,617,233
Restricted	274,101	243,879	33,223	8,963	307,324	252,842
Unrestricted (deficit)	(1,809,317)	(1,785,855)	705,875	759,717	(1,103,442)	(1,026,138)
Total net position (deficit)	\$ (447,624)	\$ (439,170)	\$ 1,262,082	\$ 1,283,107	\$ 814,458	\$ 843,937
Source: Office of the Chief Financial Office						

City of Detroit's Government-wide Summary Statement of Net Position June 30, 2021 and 2020 (In Thousands), cont'd

The previous Summary Statement of Net Position as of June 30, 2021 reflects the following:

- The 2021 ACFR's Statement of Net Position (or "balance sheet") contains information about what the City owns ("assets"), what the City owes ("liabilities"), and what is remaining for the City ("net position" or "equity") on the last day of the fiscal year (June 30, 2021).
- The City had \$6.9 billion in total assets at June 30, 2021 (first green box on previous chart on slide 5).
- Total assets grew by \$847 million as of June 30, 2021 primarily because of the receipt of the following dollars in FY 2021, ending June 30, 2021: \$413 million American Rescue Plan Act (ARPA) dollars, \$202 million net Proposal N Neighborhood Improvement Plan bond proceeds, \$80 million in Capital Improvement bond proceeds, and \$11 million in ARPA Emergency Rental Assistance dollars.
- The City had \$6.4 billion in total liabilities at June 30, 2021 (second green box on previous chart on slide 5).
- Total liabilities grew by \$1 billion as of June 30, 2021 primarily due to \$428 million in Unearned Revenue per receipt of the ARPA dollars that will be used in future fiscal periods, \$337 million increase in Net Pension Liability, and \$225 million increase Long-Term Obligations due to the Prop N and Capital Improvement bond sales mentioned previously.
- The City had a (\$1.1 billion) total Unrestricted (deficit) at June 30, 2021 (third green box on previous chart on slide 5). This deficit will be discussed further in this presentation.
- The City had a Total Net Position of \$814 million at June 30, 2021 (fourth green box on previous chart on slide 5). How this net position was derived will be discussed in the next two slides.

**City of Detroit's
Government-wide
Summary Statement of
Changes in Net Position
June 30, 2021 and 2020
(In Thousands)**

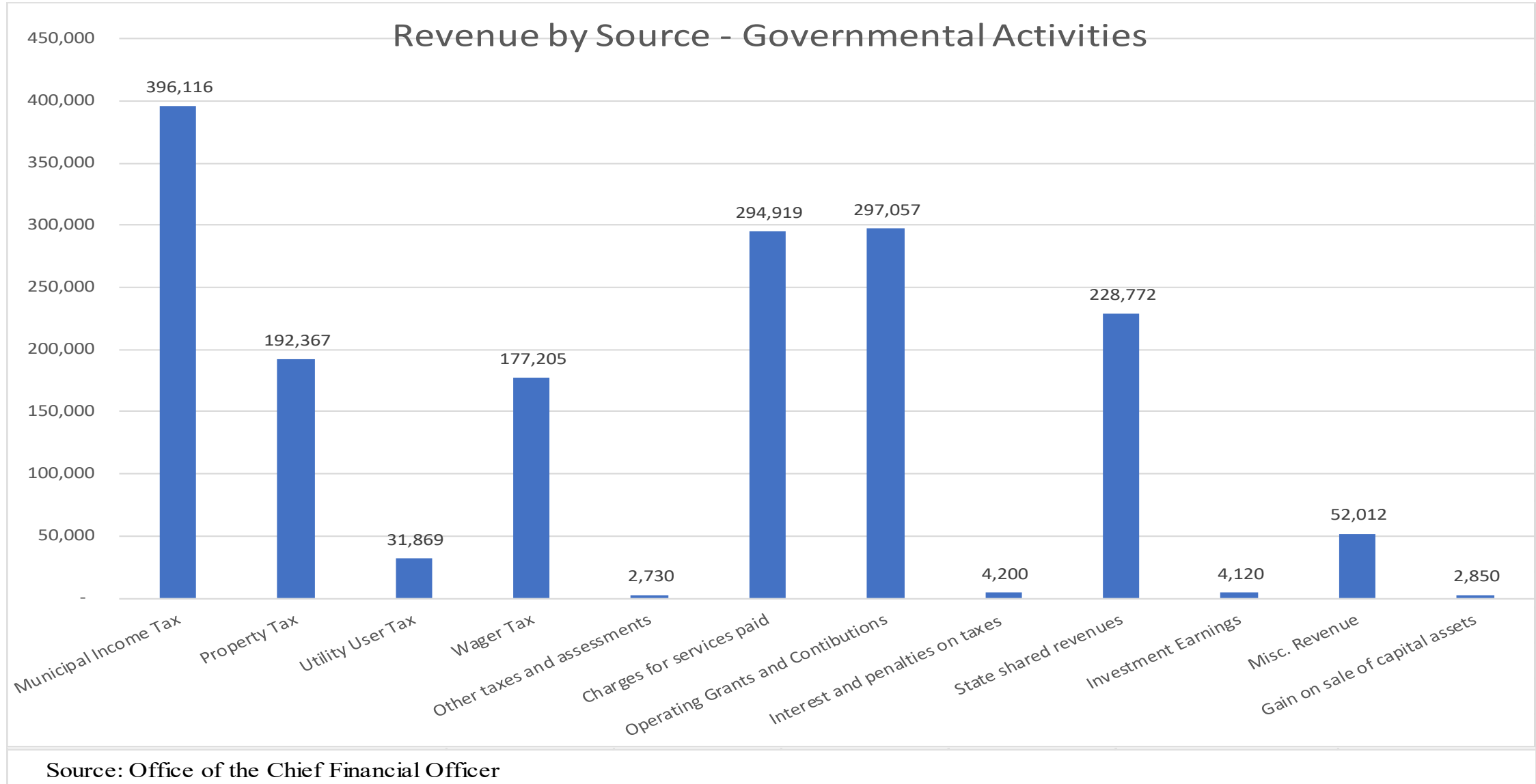
Summary of Changes in Net Position						
June 30, 2021 and 2020 (In Thousands)						
	Governmental Activities		Business Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program Revenues:						
Charges for Services	\$ 294,919	\$ 306,128	\$ 464,624	\$ 477,103	\$ 759,543	\$ 783,231
Operating Grants and Contributions	297,057	288,342	88,824	57,375	385,881	345,717
Capital Grants and Contributions	-	-	4,688	34,526	4,688	34,526
General Revenues:						
Property Taxes	192,367	189,639	-	-	192,367	189,639
Municipal Income Tax	396,116	304,292	-	-	396,116	304,292
Utility Users Tax	31,869	26,866	-	-	31,869	26,866
Wagering Tax	177,205	132,404	-	-	177,205	132,404
Other taxes and assessments	2,730	2,535	-	-	2,730	2,535
Other Local Taxes	-	-	-	-	-	-
Interest and Penalties on Taxes	4,200	3,153	-	-	4,200	3,153
State Shared Taxes	228,772	194,143	-	-	228,772	194,143
State Returnable Liquor License Fees	-	-	-	-	-	-
Investment Earnings	4,120	25,920	288	3,197	4,408	29,117
Bond Issuance Costs	-	-	-	-	-	-
Principal forgiveness on state revolving fund loans	-	-	2,031	-	2,031	-
Miscellaneous	52,012	48,656	38,308	43,556	90,320	92,212
Total Revenues	1,681,367	1,522,078	598,763	615,757	2,280,130	2,137,835
Expenses:						
Public Protection	619,099	618,928	-	-	619,099	618,928
Health	125,485	63,926	-	-	125,485	63,926
Recreation and Culture	39,569	37,826	-	-	39,569	37,826
Economic Development	71,984	78,756	-	-	71,984	78,756
Educational Development	-	-	-	-	-	-
Housing Supply and Conditions	20,630	41,892	-	-	20,630	41,892
Physical Environment	83,939	83,210	-	-	83,939	83,210
Transportation Facilitation	131,452	96,824	-	-	131,452	96,824
Development and Management	481,194	472,186	-	-	481,194	472,186
Interest on Long-term Debt	73,957	63,639	-	-	73,957	63,639
Capital Outlay	-	-	-	-	-	-
Sewage Disposal	-	-	345,510	323,539	345,510	323,539
Transportation	-	-	157,397	162,061	157,397	162,061
Water	-	-	134,115	115,817	134,115	115,817
Automobile Parking	-	-	-	-	-	-
Airport	-	-	4,109	1,025	4,109	1,025
Public Lighting Authority	-	-	23,960	22,917	23,960	22,917
Total Expenses	1,647,309	1,557,187	665,091	625,359	2,312,400	2,182,546
Excess (Deficiency) Before Asset Impairment	34,058	(35,109)	(66,328)	(9,602)	(32,270)	(44,711)
Gain on Sale of Capital Assets	2,850	16,892	(59)	413	2,790	17,305
Transfers - Net	(45,362)	(33,553)	45,362	33,553	-	-
Capital assets transfer	-	-	-	-	-	-
Increase (Decrease) in Net Position	(8,455)	(51,770)	(21,025)	24,364	(29,479)	(27,406)
Net Position, July 1	(439,169)	(387,399)	1,283,107	1,258,743	843,938	871,344
Net Position, June 30	\$ (447,624)	\$ (439,169)	\$ 1,262,082	\$ 1,283,107	\$ 814,459	\$ 843,938

Source: Office of the Chief Financial Officer

City of Detroit's Government-wide Summary Statement of Activities (Changes in Net Position) June 30, 2021 and 2020 (In Thousands)

- The 2021 ACFR's Statement of Activities (Changes in Net Position) (or "income statement") contains information about what the City earned in total revenues, what the City spent in total expenses, and what is the resulting changes in the City's net position on the last day of the fiscal year (June 30, 2021).
- Put in another way, the Statement of Activities contains information about the resources obtained by the City of Detroit to finance services (revenues) and the costs of providing those services (expenses) during the fiscal year ending June 30, 2021.
- Total revenues for the year ended June 30, 2021 were \$2.280 billion (first green box on previous chart on slide 7), an increase of \$142.3 million from prior year.
- Total expenses for the year ended June 30, 2021 were \$2.312 billion (second green box on previous chart on slide 7), an increase of \$129.9 million from the prior fiscal year.
- So, the question is "Did the City's total financial position from a long-term view improve or deteriorate during fiscal year 2021? The Change in Net Position indicates whether sufficient resources were raised during fiscal year 2021 to cover the costs.
- Unfortunately, for fiscal year ending June 30, 2021, the City ended with a negative Change in Net Position of (\$29.5 million) after taking total revenues plus gain on sale of capital assets (third green box on previous chart on slide 7) minus total expenses.
- In the future, the City must find ways to increase revenue sources and streamline costs to maintain financial sustainability over the long-term.

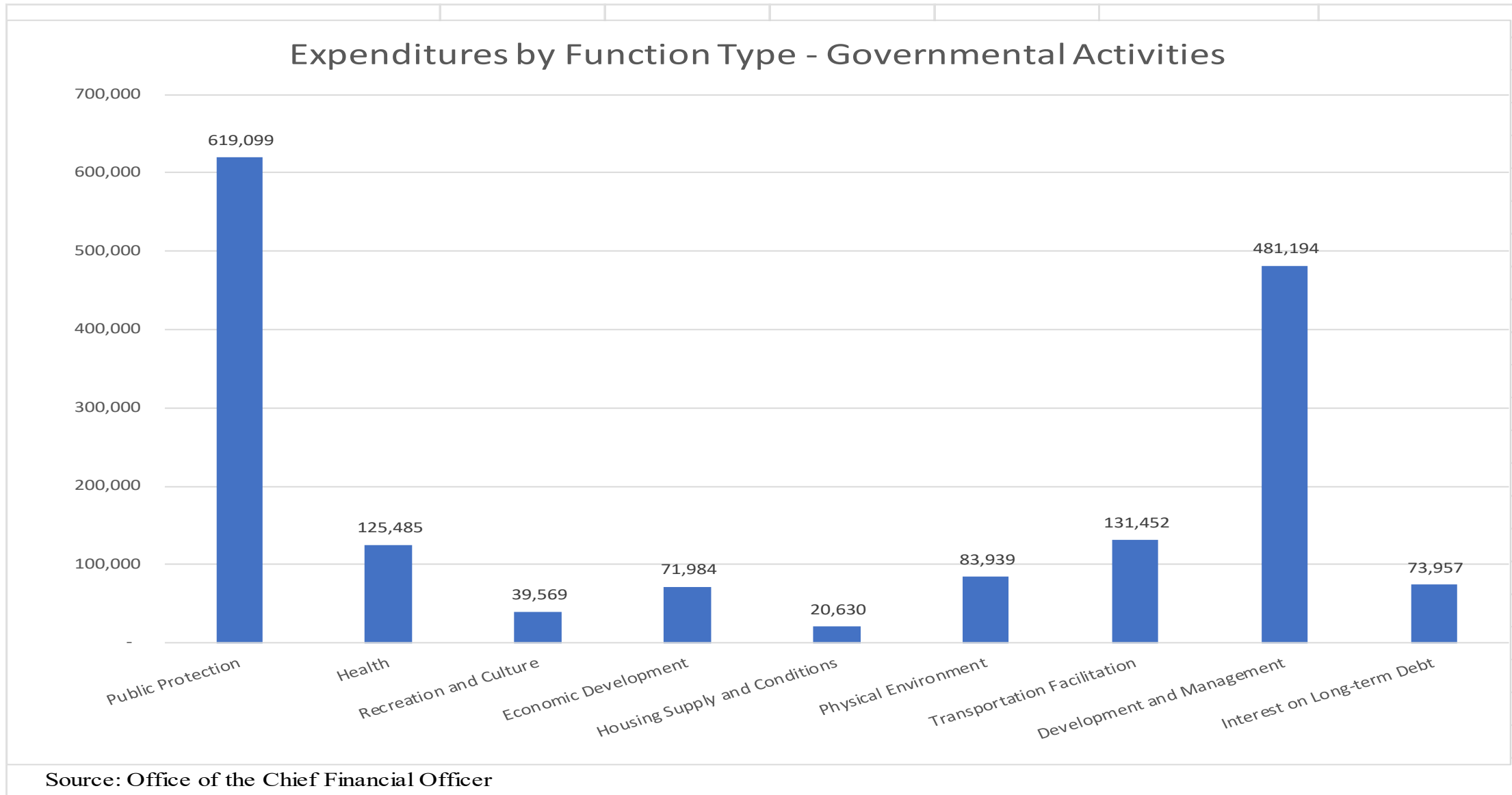
This chart depicts revenues of the governmental activities for the year ended June 30, 2021.



The previous chart on slide 9 depicts revenues of the governmental activities for the year ended June 30, 2021.

- Governmental Activities category reflects most of the City's basic services such as public protection (police and fire) and public works.
- The governmental activities revenues totaled \$1.68 billion for the year ended June 30, 2021, an increase of \$159.3 million from FY 2020.
- Municipal income tax, the governmental activities main revenue source, was \$396.1 million for FY 2021, \$91.8 million more than FY 2020, primarily due to ongoing compliance efforts.
- Property tax was \$192.4 million for FY 2021, \$2.7 million more than FY 2020.
- Wagering tax was \$177.2 million for FY 2021, \$44.8 million more than FY 2020, primarily due to a \$40.5 million hold harmless payment from the State in accordance with Lawful Internet Gaming Act (PA 152 of 2019) since wagering tax revenue, with certain adjustments, fell below \$183 million in FY 2021.
- State shared tax (state revenue sharing) was \$228.8 million for FY 2021, \$34.6 million more than FY 2020, primarily due to increase in state sales tax revenue, and no cuts in state shared tax revenue in FY 2021 as there were cuts in FY 2020 state shared taxes due to the COVID-19 pandemic.
- Charges for services include permits, parking fines, licenses, and solid waste fees. Charges for services was \$294.9 million for FY 2021, \$11.2 million less than FY 2020, primarily due to decrease in Detroit Building Authority capital projects revenue and decrease in parking revenues offset by an increase in municipal casino fee revenue and Department of Public Works reimbursement revenue.
- Operating grants and contributions include grants for health-related activities, community development projects, and transportation facilitation. Operating grants and contributions was \$297.1 million for FY 2021, \$8.8 million more than FY 2020, primarily due to additional Covid-19 related grants awarded for testing and vaccine administration.

This chart depicts expenses of the governmental activities for the year ended June 30, 2021.



The previous chart on slide 11 depicts expenses of the governmental activities for the year ended June 30, 2021.

- Governmental Activities category reflects most of the City's basic services such as public protection (police and fire) and public works.
- The governmental activities expenses totaled \$1.65 billion for the year ended June 30, 2021, an increase of \$90.1 million from FY 2020.
- Public protection expenses include police, fire, 36th District Court, and BSEED (Buildings and Safety Engineering and Environmental Department) expenses. Public protection expenses were \$619.1 million for FY 2021, about \$1 million more than FY 2020. Public protection expenses represent about 37.6% of total governmental activities expenses for FY 2021.
- Development and management expenses include non-departmental, general services, office of the chief financial officer (OCFO), department of innovation and technology (DoIT), law department, Mayor's Office, and City Council expenses. Development and management expenses were \$481.2 million for FY 2021, \$9 million more than FY 2020, primarily due to emergency demolition in the Demolition agency #16. Development and management expenses represent about 29.2% of total governmental activities expenses for FY 2021.
- Transportation facilitation expenses include DPW (Department of Public Works), MPD (Municipal Parking Department), and General Services expenses. Transportation facilitation expenses were \$131.5 million for FY 2021, a \$34.6 million increase over FY 2020, primarily due to a reclassification of \$40 million in capital outlay expenses from development and management category to transportation facilitation category in FY 2021.
- Health expenses were \$125.5 million for FY 2021, a \$61.6 million increase over FY 2020, primarily due to COVID-19 public health emergency response activity costs in FY 2021, and operating savings in Health Department as regular operations and client service levels were reduced to the pandemic in FY 2020.

General Fund (short-term perspective)

General Fund Balance Sheet							
June 30, 2021 and 2020							
(In Millions)							
				2021	2020		
Assets and Deferred Outflows of Resources				\$ 1,408	\$ 1,124		
Liabilities and Deferred Inflows of Resources				554	378		
Nonspendable				62	78		
Restricted				263	215		
Committed				20	20		
Assigned				330	324		
Unassigned for:							
Unassigned for General Fund				179	109		
Total Fund Balance				854	746		
Total Liabilities and Fund Balance				\$ 1,408	\$ 1,124		
Source: Office of the Chief Financial Officer							

General Fund (short-term perspective), cont'd

- The City of Detroit's general fund is the chief operating fund for the City that receives the City's major revenues such as income, property, casino (wagering), and utility user's taxes, and state revenue sharing (a portion of State's sales taxes). These major revenues comprise of about 82% of the general fund's total FY 2021 revenue.
- The general fund's revenue sources are used to provide essential City services for the citizens, such as police and fire protection, recreation, general services (such as grass and tree cutting, fleet and facilities maintenance), administrative services (such as OCFO, human resources, information technology, law, and Mayor's Office) and legislative services (such as City Council, Auditor General and City Clerk).
- **So, the general fund provides the most important short-term view of the City's financial health.**
- Council adopted a general fund budget totaling \$1.02 billion for FY 2021. Of course, this budget was passed with general fund budgeted revenues equaling budgeted expenditures. But the ACFR shows how we ended up (the City's "report card" so to speak). The 2021 ACFR shows the general fund ended up with a \$107.9 million operating surplus for FY 2021. This means that actual revenues for the general fund exceeded actual expenditures for FY 2021.
- In addition, the General Fund had an accumulated unassigned fund balance (surplus) of \$179.1 million at June 30, 2021 (first green box on previous chart on slide 13). However, Council has approved appropriating \$118 million of this surplus in FY 2022 as follows: \$80 million for a supplemental deposit into the Retiree Protection Fund; \$20 million for Blight and Capital; \$5 million for flood response; \$3.3 million for Affordable Housing; \$2 million in facilities capital for Detroit Public Library HVAC; \$0.5 million for Historical Museum supplement; and \$7.2 million to cover budget deficits in Elections (\$2 million), Fire (\$2 million), Law (\$2.5 million), and Housing and Revitalization Department (\$0.7 million).

General Fund (short-term perspective), cont'd

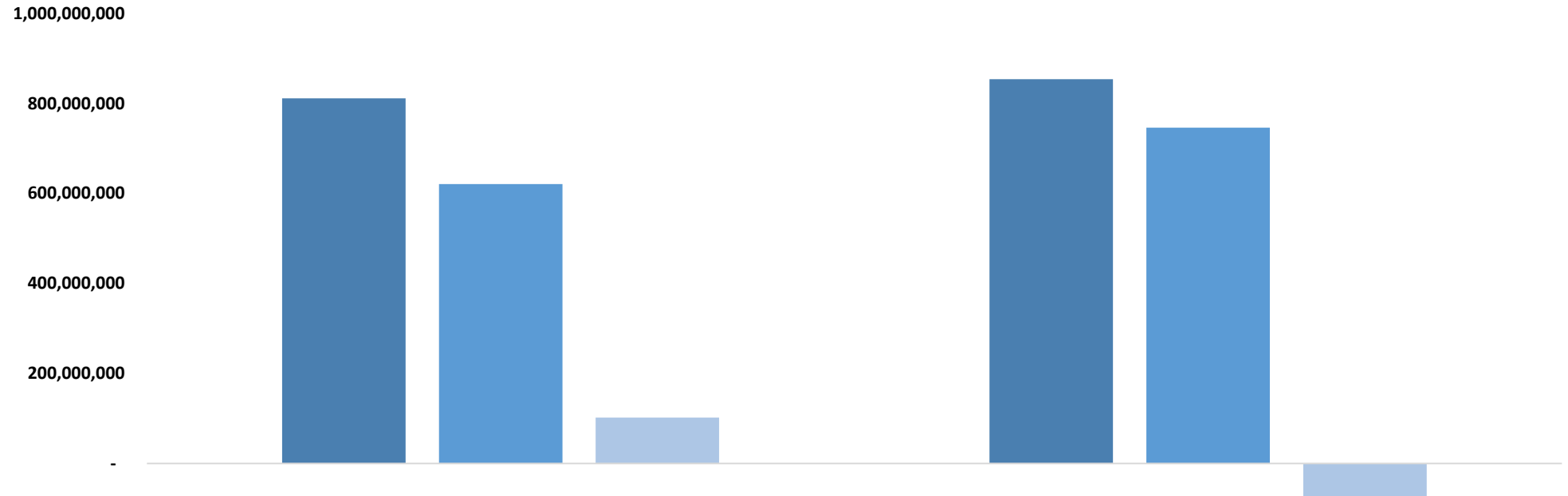
- What helped the City's General Fund finances in FY 2021 was savings of \$37.9 million in pandemic related workforce actions that continued from FY 2020 and the City also documented \$34 million expenses that were charged to the federal CARES Act grant to cover payroll expenses for public safety, public health, health care, human services, and similar employee costs whose services were substantially dedicated to mitigating or responding to the COVID-19 pandemic.
- **It's worthy to note that the City has now achieved a balanced budget for the seventh consecutive year coming out of bankruptcy. If the City is able to achieve balanced budgets consecutively for the next six fiscal years, the City will completely come up from under the State's Financial Review Commission (FRC) financial oversight!**
- Another healthy sign on a short-term basis is the City's general fund assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$854.2 million, meaning the general fund had a total fund balance of \$854.2 million at June 30, 2021 (second green box from the previous chart on slide 13), a \$107.9 million increase from FY 2020.
- However, most of the General Fund total fund balance of \$854.2 million at June 30, 2021 is allocated for specific purposes: a) \$107.3 million for Budget Reserve; b) \$57.6 million for Risk Management Fund; c) \$235.4 million for contribution to the Retiree Protection Fund; and d) \$185.2 million for continuing and subsequent appropriations.

General Fund (short-term perspective), cont'd

- Another good sign from a short-term perspective is that the General Fund's cash and investments and restricted cash at June 30, 2021 totaled \$811.5 million, an increase of \$190.3 million from the prior year. The main reason for the General Fund's improved liquidity since bankruptcy (FY 2013) was the significant reduction of certain obligations (especially pension and retiree health care costs) from the bankruptcy, and as a result of running budget surpluses over eight years since bankruptcy exit.
- 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 \$811.5 million in General Fund cash and investments is sizable, the lion share of it is either obligated, restricted or assigned to a specific purpose.
- The graph on next slide (slide 17) details the General Fund's improved liquidity per cash and investments and total fund balance for fiscal years 2021, 2020, and 2013.

General Fund (short-term perspective), cont'd

General Fund Liquidity



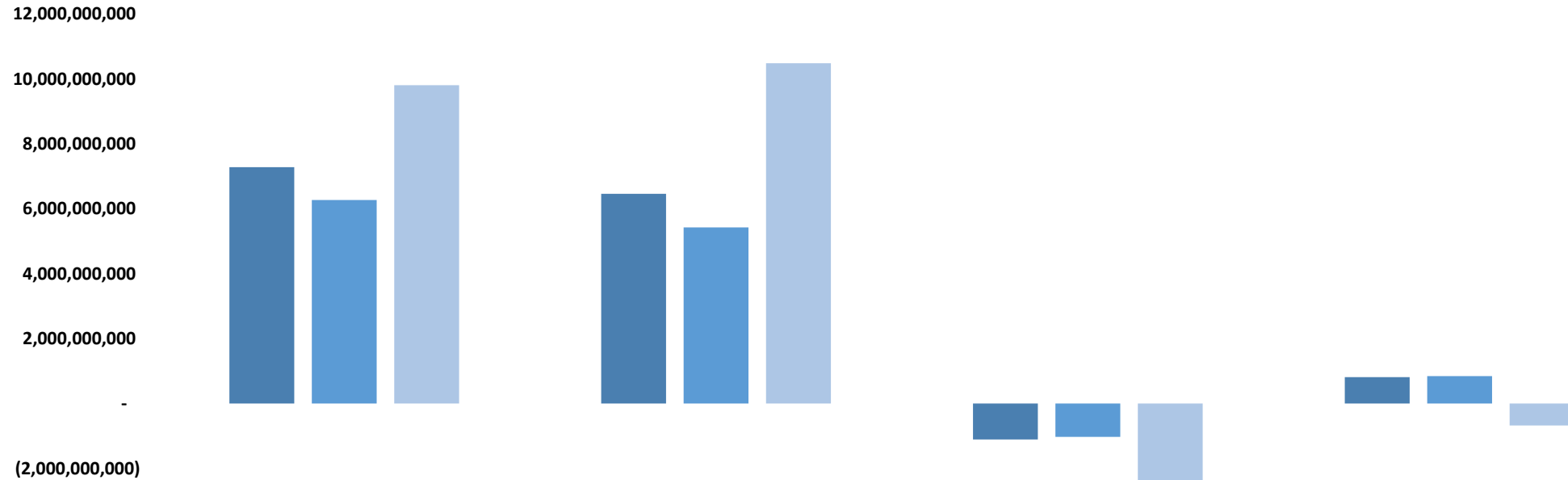
	Cash and Investments	Fund Balance/Deficit
■ June 30, 2021	811,532,053	854,155,645
■ June 30, 2020	621,276,689	746,253,860
■ June 30, 2013	102,176,954	(72,980,749)

Primary Government (long-term perspective)

- Although the City's financial condition from a short-term perspective is healthy, the City's long-term financial picture is much more challenging.
- As the graph on next slide (slide 19) shows, the primary government's (citywide) net position (net worth) was \$814.5 million at June 30, 2021, a decrease of \$29.5 million from FY 2020. A continual decline here would show on a long-term basis an unhealthy financial condition for the primary government (citywide).
- The graph on slide 19 also shows the primary government's unrestricted net position deficit was \$1.1 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, 2021, rendering the total government insolvent over the long-term. This was mainly due to the City's huge legacy pension and debt obligations which are detailed in the graph on page 19 for fiscal years 2021, 2020, and 2013.

Primary Government (long-term perspective), cont'd

Primary Government Financial Results

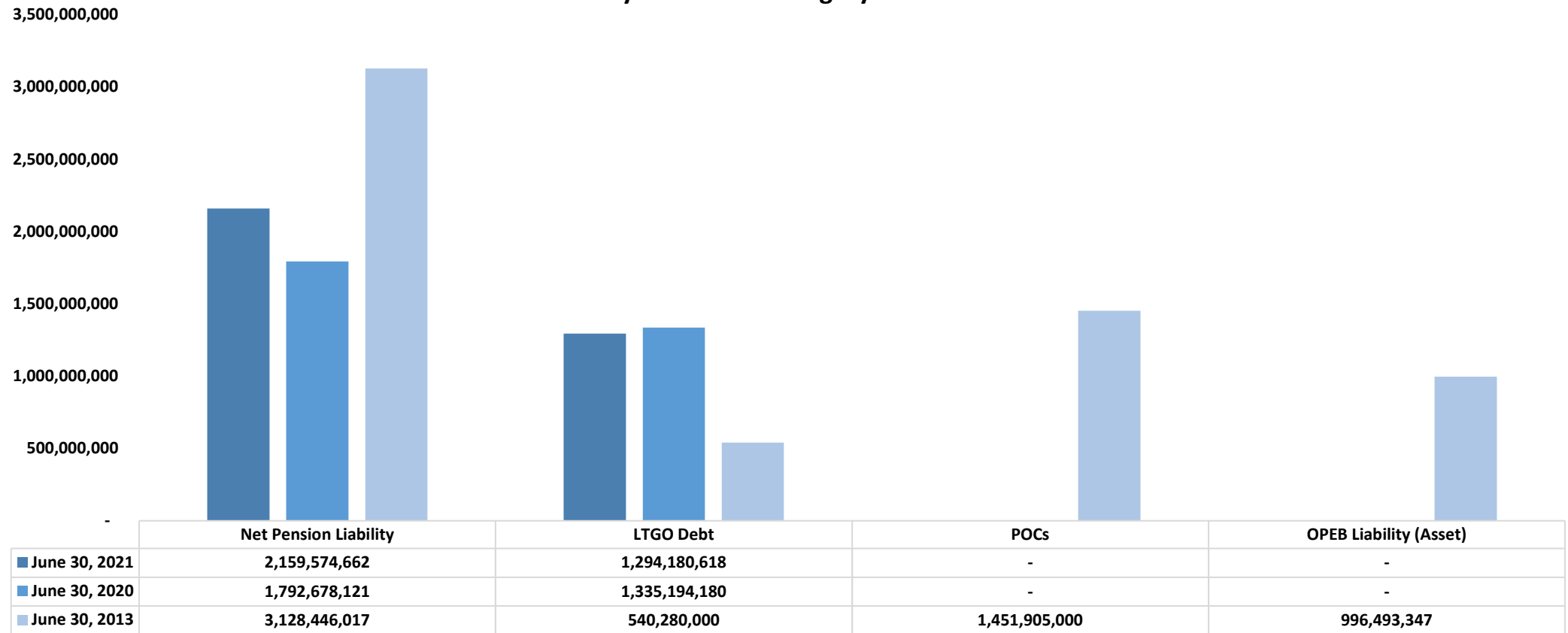


	Assets & Deferred Outflows	Liabilities & Deferred Inflows	Unrestricted Surplus/ (Deficit)	Total Net Position
■ June 30, 2021	7,279,879,094	6,465,420,457	(1,103,442,818)	814,458,637
■ June 30, 2020	6,268,821,183	5,424,883,564	(1,026,137,782)	843,937,619
■ June 30, 2013	9,810,406,826	10,488,585,046	(2,355,364,693)	(678,178,220)

Primary Government (long-term perspective), cont'd

- The City's net pension liability of \$2.2 billion and \$1.3 billion of Limited Tax General Obligation (LTGO) debt are 34% and 20%, respectively, of the primary government's total liabilities of \$6.4 billion on June 30, 2021. 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 increased due to the exit financing and other debt issued per the City's Plan of Adjustment. **LTGO debt will mostly be paid from the revenues of the General Fund which will leave less funding available for City services.**
- On a positive note, the Administration looks to not issue any more LTGO debt. And over the next 20 years, LTGO debt service (principal and interest payments) decline in FY 2024, remain constant in FY 2025 through FY 2036, then reduce significantly from FY 2037 through FY 2044.
- Of the primary government's \$2.2 billion net pension liability at June 30, 2021, \$959 million was attributable to the General Retirement System (GRS), and \$1.2 billion was attributable to the Police and Fire Retirement System (PFRS). The primary government's net pension liability increased \$366.9 million from the June 30, 2020 of \$1.8 billion. This increase is mainly due to low returns on pension asset investments. We should note that the Pension Systems returns on asset investments improved in FY 2021, however, these improvements will not be reflected in the actuary reports until FY 2022.

Primary Government Legacy Debt Burden



Primary Government (long-term perspective), cont'd

- Beginning in 2024, the pension obligation “cliff” issue looms. The Plan of Adjustment assumed that the pension Unfunded Actuarial Accrued Liabilities (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 projections, the anticipated General Fund pension contributions starting in FY 2024 are projected to be between \$135.4 million (based on a 30-year amortization for GRS and 20-year amortization for PFRS) and \$146.1 million (based on a 20-year amortization for both GRS/PFRS). Fortunately, the OCFO, with Council’s approval, established the Retiree Protection Fund to mitigate this pension spike. There’s a balance of \$235.4 million in this fund as of June 30, 2021, and it’s expected balance is \$460.4 million plus by FY 2024.
- The upcoming budget process for FY 2024 will be critical to ensure the City is ready to accommodate this pension “cliff” starting in FY 2024.

Enterprise Fund (long-term perspective)

Water and Sewage Disposal Funds

- In FY 2021 Water and the Sewage Disposal Funds had unrestricted net positions of \$444.5 million and \$553.7 million, respectively, mainly due to the split from the Detroit Water and Sewerage Department (DWSD) its water and sewer regional systems' assets and liabilities including long term debt to the Great Lakes Water Authority (GLWA) in exchange for \$50.0 million in annual lease payments over 40 years effective January 1, 2016. This split is also called the “bifurcation”. The unrestricted net positions decreased \$12.7 million (\$12.5 million Water and \$167,900 Sewage) in FY 2021 from FY 2020.
- While the Water and Sewage Disposal Funds have large unrestricted net positions at June 30, 2021, both funds have large capital and infrastructure repair and replacement needs and debt obligations 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 2021, the Water had net loss of \$3.3 million (meaning expenses exceeded revenues); and the Sewage Disposal Funds had positive net income of \$12.8 million.

Enterprise Fund (long-term perspective), cont'd

Water and Sewage Disposal Funds, cont'd

- It is important to note that as of June 30, 2021, the Sewage Disposal Fund shows a balance of \$8.3 million in a liability account entitled “shortfall loan payable to Great Lakes Water Authority”. Fortunately, this liability account decreased by \$18.2 million from FY 2020.
- This liability account is caused by a budget shortfall (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 between DWSD and GLWA.
- 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.
- Of concern is the GLWA \$210.3 million net position deficit on June 30, 2021 and the potential impact it will have on rates to DWSD’s customers. GLWA is technically insolvent as its liabilities and deferred inflows exceed its assets and deferred outflows. GLWA could see the need to increase its rates to its wholesale customers including DWSD to meet its obligations.

Elimination of Pension and Other Postemployment Benefit Plan Statement Presentations starting in 2021 ACFR

- According to page 56 of the 2021 ACFR, the GRS/PFRS pension funds and Employee Death Benefits OPEB (Other Postemployment Benefit Plan) fund are no longer a part of the Fiduciary statements on pages 35 and 36 of the 2021 ACFR, per implementation of the new accounting pronouncement GASB Statement No. 84, Fiduciary Activities.
- “GASB” stands for the Governmental Accounting Standards Board. The GASB is a private non-governmental organization that creates accounting reporting standards, or general accepted accounting principles (GAAP), for state and local governments in the United States.
- According to the OCFO, the elimination of the pension system and employee death benefit fund financial statements starting from the 2021 ACFR is due to the City not having majority control of the Board of the pension funds and OPEB funds, and therefore, can no longer be shown as the City’s assets in the ACFR, per GASB 84. The OCFO also indicates that in the government-wide financial statements, the net pension liability is reflected recognizing that the City is responsible for funding these benefits as the plan sponsor.
- Although the OCFO’s latter statement is true, LPD feels the elimination of these statements from the ACFR is unfortunate for the average ACFR reader. It appears that now a reader cannot see the balance sheet (Statement of Fiduciary Net Position) and income statement (Statement of Changes in Fiduciary Net Position) for the pension and OPEB funds in the ACFR, neither in the footnotes and supplemental schedules of the ACFR. A reader now must know to find the balance sheet and income statements for the pension and OPEB funds in the respective GRS and PFRS annual financial audit reports on the retirement system website.
- Depending on feedback from the readers of the ACFR, perhaps the OCFO will consider including supplemental pension and OPEB statements in future ACFRs.

Benchmark Comparison of the City of Detroit's 2021 ACFR with Other Comparable Cities

City	Liquidity	Solvency	Asset Maint.	Pension Burden	Debt Burden	Tax Burden	Taxable Value	Pension Turnover	Taxes Abated
Detroit	237.6%	84.7%	66.3%	2,834.8	3,271.6	1,258.8	10,438.7	13.1%	16.8%
Flint	208.5%	47.4%	84.5%	3,387.7	309.6	397.8	7,920.6	NA	1.1%
Lansing	123.7%	57.6%	69.8%	2,366.2	475.3	734.0	27,141.0	13.6%	8.6%
Memphis	176.0%	127.5%	51.2%	712.5	2,582.6	1,286.0	19,923.6	7.0%	4.1%
Louisville	326.9%	112.2%	73.9%	1,545.4	1,009.9	841.6	101,530.5	N/A	4.9%
Grand Rapids	344.6%	151.9%	73.1%	1,089.5	413.2	741.6	27,724.8	7.2%	7.5%
Baltimore	166.0%	85.7%	57.4%	3,448.7	4,614.1	2,728.2	65,174.1	8.0%	3.0%
Boston	215.0%	80.5%	54.6%	2,033.8	2,430.4	4,082.4	N/A	8.2%	0.7%
Portland	284.9%	59.0%	78.7%	8,008.9	1,600.7	1,304.4	101,325.6	N/A	2.0%
Oklahoma City	460.8%	191.2%	40.7%	561.8	1590.3	1,092.3	9,866.8	4.5%	4.9%
Kansas City	191.7%	151.2%	42.7%	1,941.8	3,321.3	1,535.3	18,427.1	6.3%	4.4%

- Detroit's liquidity is good but most of its cash at June 30, 2021 is obligated, restricted or assigned to a specific purpose.
- Detroit's solvency ranked low since it does not have sufficient assets to meet obligations on a long-term basis.
- Detroit's asset maintenance ratio is relatively high due to its large amount of infrastructure and older assets.
- Even after bankruptcy, which reduced some of the City's pension and debt obligations, Detroit still maintains large amounts of pension and debt liability that is a challenge to fund with its limited tax and other revenue sources. Detroit's general retirement system assets are depleting at a faster rate than other cities.
- Detroit's taxable property tax values are extremely low as compared to other cities. Meanwhile, the City had the largest amount of property taxes abated as compared to the other cities.
- Although the City of Detroit's financial condition has improved coming out of bankruptcy, the comparative analysis reveals the City still has a long way to go in matching the fiscal health of other comparable cities.