MAYOR'S PROPOSED BUDGET

Non-Departmental, Debt Service, and Legacy Pensions

March 24, 2023

CITY OF DETROIT

TAKE PART

Opportunity Rising

Proposed FY24 Budget

Non-Departmental, Debt Service, and Legacy Pensions budgets include funding not tied to a single department.

Debt Service & Legacy Pension (Dept 18): $287.2 million in expenditures

- $148.9 million for annual contributions to the legacy pension plans
  - $18.7 million supported by Grand Bargain contributions from Foundation for Detroit's Future and DIA
  - $57.2 million supported by the Retiree Protection Fund
- $83.3 million for General Fund supported debt service (LTGO Bonds)
  - Includes $10 million for new installment purchase agreement payments to begin financing fleet replacements
- $55 million for Debt Millage supported debt service (UTGO Bonds)

Proposed FY24 Budget

Non-Departmental, Debt Service, and Legacy Pensions budgets include funding not tied to a single department.

Non-Departmental (Dept 35): $166.4 million in expenditures

- $102.1 million for contributions to transportation agencies, cultural institutions, and external agencies
- $52.7 million for citywide centralized payments and risk management
  - Includes $7 million for Workforce Investments reserve for more competitive wage rates citywide
- $3.8 million for Board of Police Commissioners
- $3.6 million for Media Services and Communications
- $1.6 million for Project Clean Slate ($0.6 million increase, transferred from Law Department)
- $1.6 million for Elected Officials Compensation
- $0.5 million for Board of Ethics
- $0.3 million for GOAL Line support
- $0.2 million for EITC Outreach

Proposed FY24 Budget

Non-Departmental, Debt Service, and Legacy Pensions budgets include funding not tied to a single department.

Non-Departmental (Dept 35): $166.4 million in expenditures

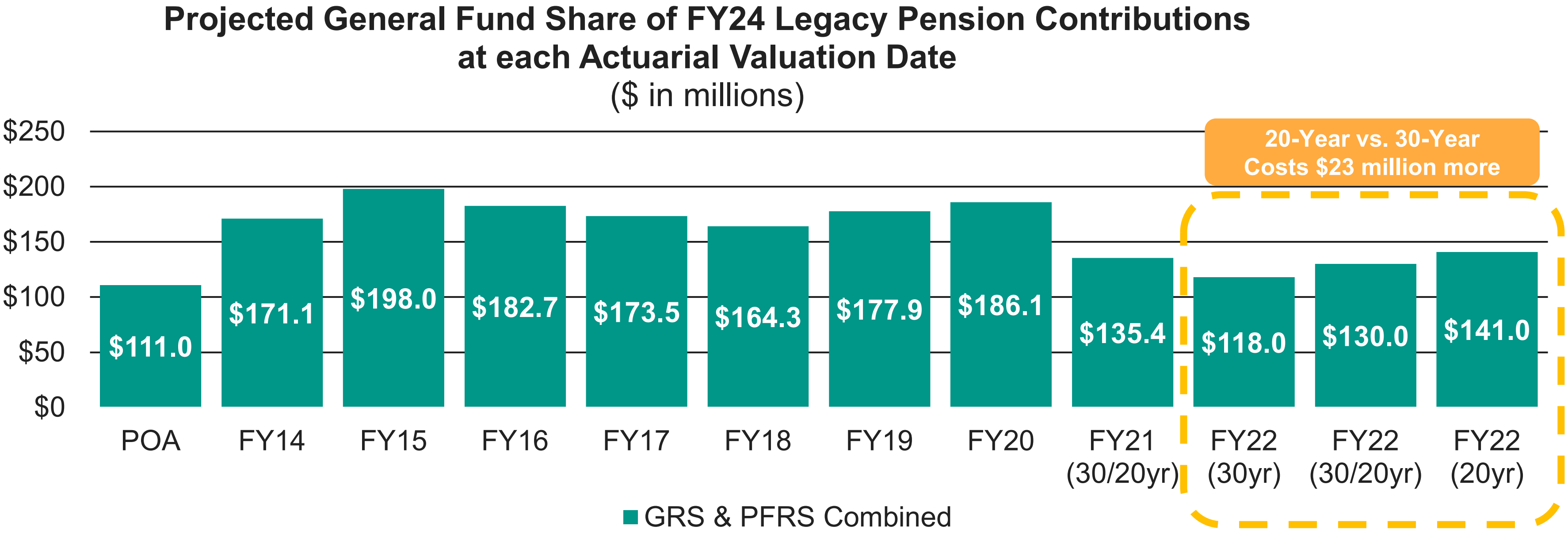
- Certain General Fund departmental expenses were consolidated or transferred in FY 2024 to provide enhanced program management and control, including:
    - $27 million of General Fund rent and utilities transferred from departments to Non-Departmental
    - $22 million in enterprise technology expenses transferred from Non-Departmental to the Department of Innovation and Technology
    - $149 million in Legacy Pension Obligations transferred from Non-Departmental to Debt Service & Legacy Pension Department

Non-Departmental (Dept 35): $1.1 billion in revenues

- Primarily represents the major tax revenues, which support citywide General Fund activities
- Also includes use of prior year surplus and various miscellaneous City revenues

Pension Funding Budget Risks

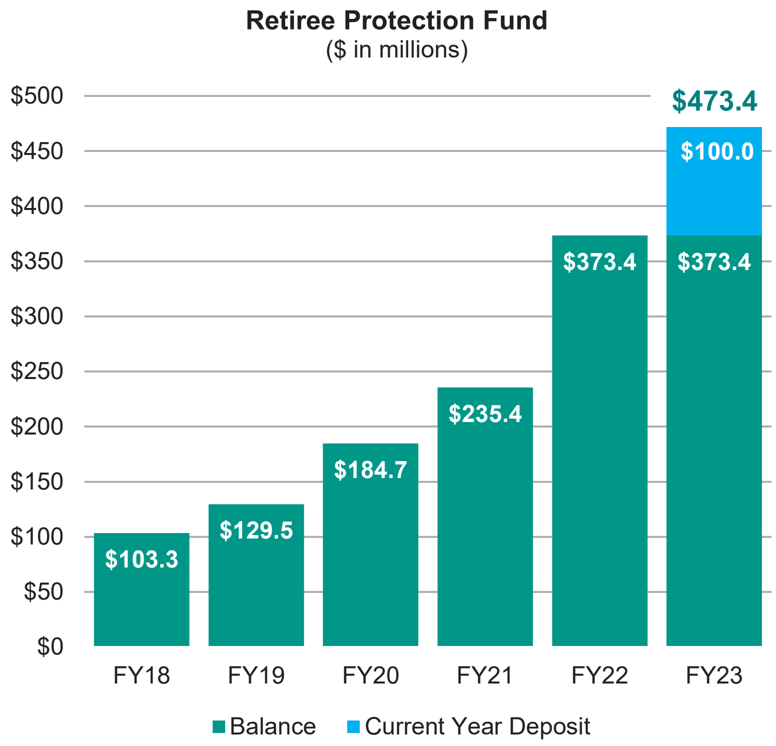
Annual Required Contributions can vary significantly due to investment returns and actuarial assumptions.



- Data from Plan of Adjustment (POA) projections and subsequent annual Actuarial Valuation reports from Retirement Systems. No asset smoothing, except PFRS starting FY21 and GRS starting FY22. The General Fund share is net of $18.7 million in annual Grand Bargain contributions and any ongoing DWSD and Library contributions.
- POA through FY15 used a 30-year level principal amortization. FY16 through FY20 use 30-year level dollar. FY21 was 30-year GRS and 20-year PFRS. FY22 shows both.
- FY14 and FY21 results both followed actuarial assumption changes based on experience studies and funding policy changes for PFRS in FY21.

Retiree Protection Fund (“RPF”)

In 2017, the City created the RPF to prepare for the coming “pension cliff” and provide a smooth budget transition.

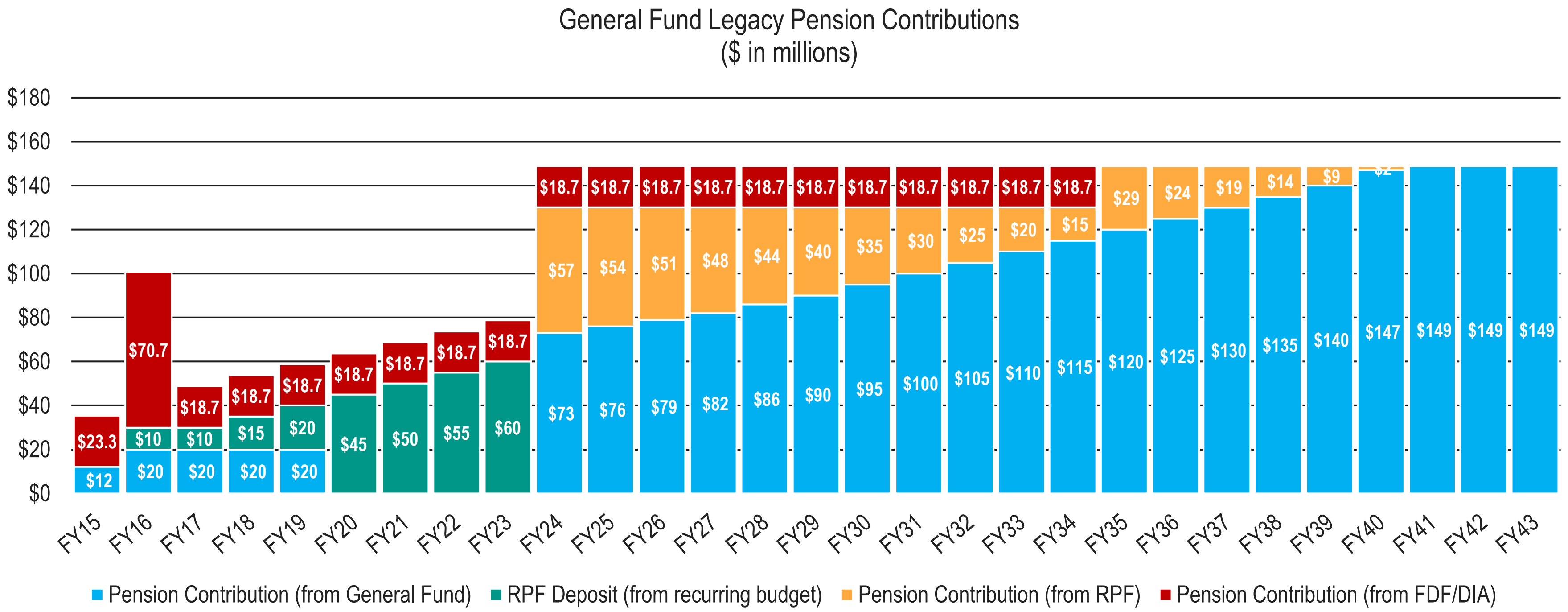


- The City has been setting aside surplus funds for 8 years to prepare for our legacy pension payments resuming in FY24
- Going beyond the POA requirements, the City has amassed over $463 million in the RPF, an irrevocable trust fund exclusively for future pension payments
- City Council approved another $10 million deposit in FY23 to bring the total to over $473 million before FY24
- The RPF strategy has always been two-fold:
  1. Build a pension funding resource to gradually draw down every year beginning in FY24
  2. Gradually build room in the recurring City budget for annual pension contributions before FY24 begins

* RPF total excludes unrealized loss reflected in FY22 audit that will be restored when investments held to maturity.

RPF Plan – Mayor's Proposed FY24 Budget

Without the RPF, the "pension cliff" would be $130 million. Instead, only $73 million will come from the budget.

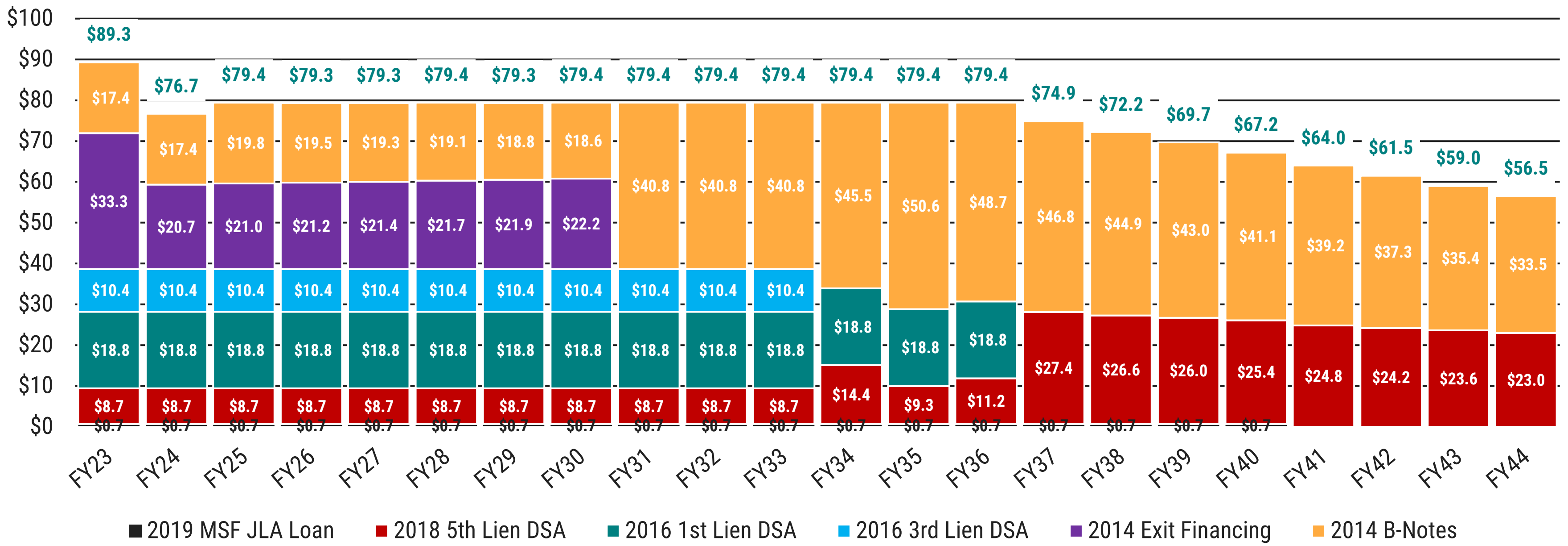


- Projections of annual legacy pension contributions based on FY22 Actuarial Valuations. "Grand Bargain" contributions from the Foundation for Detroit's Future and the Detroit Institute of Arts (FDF/DIA) continue through FY34.
- Excludes $190 million of RPF deposits from one-time funds. Excludes $194.8 million "Grand Bargain" contribution from State of Michigan in FY15. DWSD and Library liabilities and contributions are separate.

Limited Tax General Obligation Debt Service

LTGO bonds are primarily repaid from the City's General Fund revenues. They supported settlements with creditors and reinvestment projects after the City's bankruptcy.

General Fund and Enterprise Funds*
($ in millions)

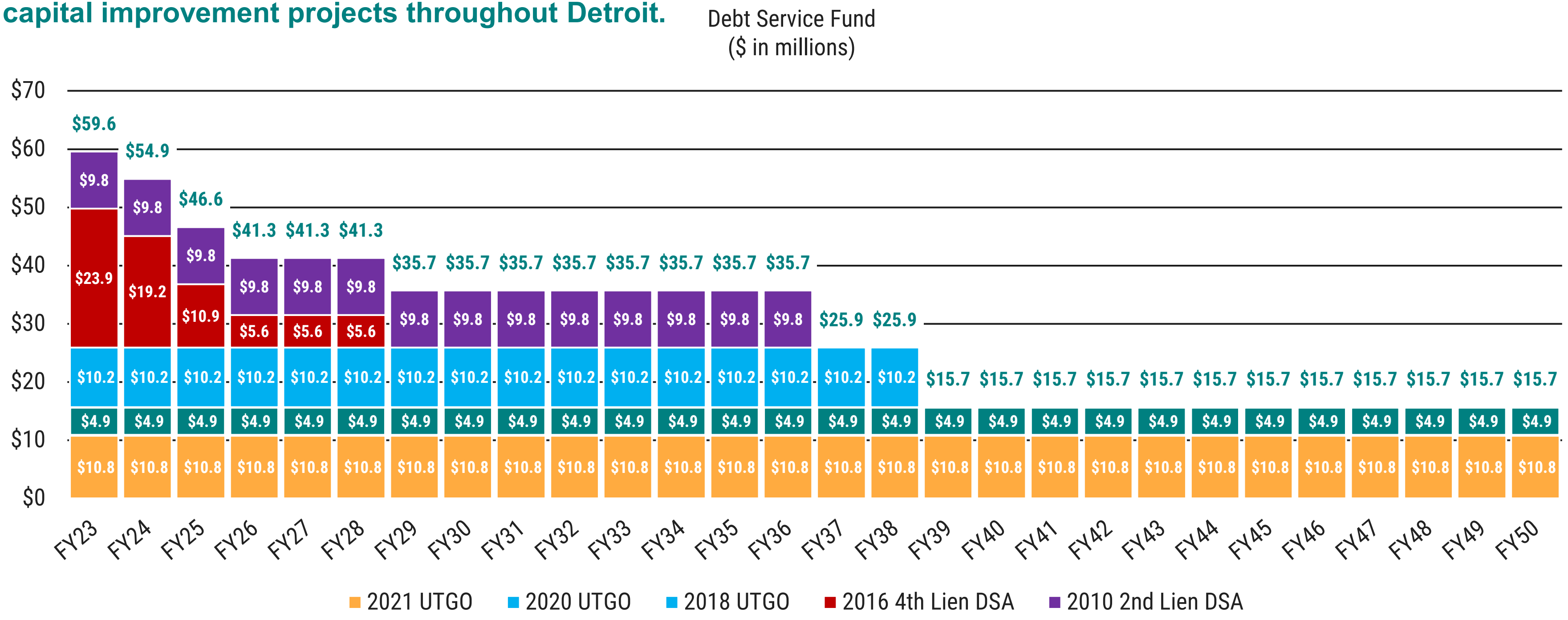


* 2014 B-Notes are split approximately 80% General Fund and 20% Enterprise Funds.

Source: OCFO – Office of the Treasury

Unlimited Tax General Obligation Debt Service

UTGO bonds are authorized by voters and repaid from the City's debt millage, not the General Fund. They support capital improvement projects throughout Detroit.



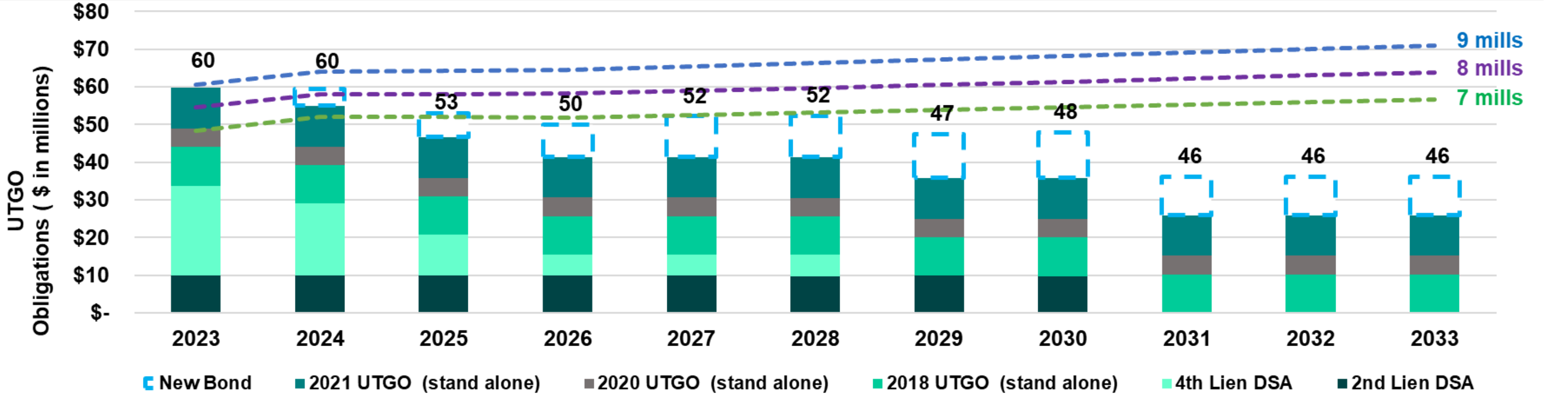
* Does not include projected debt service for remaining authorizations for unissued $40M in Capital Improvement UTGO bonds and $75M in Neighborhood Improvement Plan UTGO bonds.

Source: OCFO – Office of the Treasury

Property Tax Relief

Thanks to our growing tax base and sound financial management, we can reduce taxes by 2 mills over 2 years.

- We levy 9 mills to repay voter-approved debt like our Proposal N Bonds financing neighborhood blight removal
- With our debt service decreasing and our tax base growing, we can provide tax relief by lowering our debt millage:
  - This summer, we can reduce it by 1 mill, down to 8 mills
  - Next summer, we can reduce it by another 1 mill, down to 7 mills
  - Homeowners with $50,000 in taxable value will save $50 this year and $100 next year
  - Expecting to issue second series of NIP Bond in FY24



Questions?