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MEMORANDUM

To: David Whitaker, Director-Legislative Policy Division
From: John Naglick, Jr., Chief Deputy CFO/Finance Director and Steven Watson, Deputy CFO/Budget Director
Date: April 5, 2023
Re: Response to Non-Departmental/Capital Budget/Debt Service FY24 Budget Questions

Please find below responses to your questions sent on March 23, 2023, regarding the proposed Fiscal Year 2024 Proposed Budget for Non-Departmental.

Questions from page B35-4 and 5, FY 2024 Non-Departmental Expenditures:

1. **The Proposed FY 2024 Budget for Non-departmental has 143 total positions, an increase of 14 positions, up from 129 in the FY 2023 Adopted Budget. General Fund positions total 112, up 8 from the FY 2023 Budget. Grant positions total 31, up 6 FTE. Please explain the increase in positions for select cost centers:**

    a. Appropriation 27350-350370-Project Clean Slate Operations, an increase of 8 positions funded in the General Fund; briefly explain the rationale for the transfer from the Law Dept.

    The 8 General Fund FTE and 6 Non-General Fund FTE increase is due to the reallocation of Project Clean Slate personnel from Law Department starting in FY 2024. The Non-General Fund FTEs are funded by prior-year grants.

    Project Clean Slate was transferred to the Non-Departmental budget to more accurately align with the existing program administration structure.

    b. Appropriation 21152-350370- Project Clean Slate Operations, an increase of 6 positions funded in the Mayor's Office Grants Fund 2106; briefly explain how the staff is divided into the two separate appropriations and why the grant staff is included in Non-dept, and the funding is recorded elsewhere?

    The Non-General Fund FTEs are funded by prior-year grants, which have already been appropriated. All staff work directly on Project Clean Slate and are divided into the two appropriations based solely on funding source.

c. Appropriation 20507-350030: what is the disposition of the one TASS- Administrative Special Services Staff I included in Fund 4533 COD Capital Projects -350030- Other Operations Service in FY 2023?

The position included here in FY23 was the result of a data entry error. This was corrected and so does not appear in FY24.

2. **Please explain the reduction in Employee Benefits of $18.5 million; from $20.9M in FY 2023 to $2.4M in FY 2024 and remaining at $2.5M for the forecast period.**

   Employee Benefits are consistent with citywide fringe rates, which account for the latest cost projections across all fringe categories.

3. **Please explain the $1.2M increase in Professional & Contractual Services from $135,679 in FY 2023 to $1.4M in FY 2024.**

   This is due to a data error resulting in an inflated proposed budget for non-personnel expenditures for the Detroit Building Authority.

4. **Please explain the decrease of $14.5 million in Operating Supplies in FY 2024.**

   The majority of the decrease is due to the reallocation of software maintenance costs to DOIT.

5. **Please explain the $21.3 million increase in Operating Services in FY 2024. Please explain is this a transfer into Non-departmental from another agency. If so, please explain the rationale for the transfer.**

   This increase is due to the consolidation of rent and utilities in 29350-Citywide Overhead, Cost Center 350800-Centralized Payments from other City departments to improve financial oversight and tracking.

6. **Please explain the $107.5 million decrease in Other Expenses in FY 2024. In addition, please explain the $5.58 million decrease in Equipment Acquisition for FY 2024. Please list the appropriation and amount transferred from Non-dept and consolidated into a different agency.**

   The reduction in Equipment Acquisition is primarily comprised of the following capital outlays not appearing in the FY 2024 Proposed Budget:

   - Detroit Historical Museum - $1 million
   - Charles H. Wright Museum of African American History - $2 million
   - Airport - $2.25 million

   The $107.5 million decrease in Other Expenses is primarily driven by the absence of what was in FY 2023 a $90 million contribution to the Retiree Protection Fund. Other changes include one-time funding to cultural institutions, the creation of the workforce investment account, and adjusting the mechanism by which the Budget Reserve allocation is made.

Questions from page B35-6, FY 2024 Non-Departmental Revenues:

7. **Grants, Shared Taxes, & Revenues: The Governor's Executive Budget includes an increase in both the Constitutional and Statutory Revenue Sharing for FY 2024; please provide details. What is the potential impact on the FY 2024 Budget and the forecast years.**

   If the proposed increase in statutory revenue sharing in the Executive Budget is approved as-is, we would see an increase of $10.8 million statutory revenue sharing in FY24 onward and a one-time additional $15.5 million in FY24 above February projections.

8. **Please explain the decrease in Sales & Charges for Services; decreased by $2.9M, -4.2% for FY 2024.**

   The decrease is based on revised Central Staff Service reimbursement cost allocations.

9. **Contributions & Transfers decreased by $85.6M in FY 2024, please explain why?**

   The change is due to reductions in prior-year surplus.

Questions from page B35-9-11, FY 2024 Non-Departmental Expenditures:

10. **Apprn 14001- 352101- Budget Reserve- please explain why there is no appropriation for FY 2024, when the Cash Flow Forecast for FY 2023 – FY 2027 (page A 41 of the four-year plan) indicates $12 million of the FY 2022 General Fund Surplus will be allocated to the "Rainy Day" fund. It was not included in the FY 2023 Budget Amendment approved by City Council on February 21, 2023. Why the change in policy to not amend the current year's budget or appropriate in the proposed budget, the use of surplus funds for the Budget Reserve? This action lacks transparency into the use of the General Fund Surplus for FY 2022; please explain the rationale since it does not align with Detroit residents expressed desire for more transparency in the budget process.**

    a. Please provide an update on the balance in the city's "Rainy Day Fund"; how was the FY 2024 amount determine? What is the city's obligation to contribute to this fund?

    The Rainy-Day Fund is currently $138 million. The FY24 Proposed Budget recommends an increase of $12 million, to a new total of $150 million for FY23 year-end. This would be accomplished through authorizing language in the Administration Closing Resolution, rather than a FY24 appropriation. In the past, we have included deposits as an appropriation, but then reserved it in the prior year-end, creating a situation where an erroneous appropriation sits unspent in the subsequent year because these funds are reserved not expended. This new approach remains transparent because it is included in all our schedules and will be reflected in the FY23 ACFR balance sheet if approved.

    A full breakdown of all allocations to the Rainy-Day Fund is available on page A39 in the Overview of the Mayor's proposed budget.

b. The Budget Reserve is shown as Assigned in the Annual Comprehensive Financial Report (ACFR), why is this reserve not considered Restricted or Committed, as the city is required to maintain an amount "equal to not less than 5% of the projected expenditures" per Public Act 182 of 2014? Why does it not have the same designation as the Risk Management fund with the required minimum shown as Committed and the overage shown as Assigned?

Our auditors reviewed this matter in the fiscal years following the establishment of the budget reserve under PA 182 of 2014. The entire budget reserve is categorized as "assigned" on the balance sheet per their determination of the accounting treatment.

11. **Apprn 26351 - Blight Remediation Projects – 350014 - Land Bank Operations- please explain the $480,000 year-over-year increase. Why does this appropriation remain constant for FY 2024 and the forecast years, with DLBA inventory reductions and the phaseout of Hardest Hit Fund demolition?**

    As a matter of historical background, the primary source of DLBA revenue has been generated through structure sales. However, structure sales have continuously declined as the inventory of structures is diminishing. While vacant land sales are increasing, these lot sales do not generate the same revenue to offset the decline in structure sales. Based on prior year trends, maintenance costs will continue to increase. In reference to FY24, the DLBA will address abandonment with a major focus on Nuisance Abatement lawsuits and the DLBA NAP program, which includes additional staffing and a significant increase in title service costs with the ramp up in NAP filings.

12. **Apprn 27350 - Project Clean Slate – 350370 - Project Clean Slate Operations- please provide the details for the $1.55M appropriation proposed for FY 2024. On page B35-14 and 15, this appropriation has 8 FTE proposed for FY 2024 and another 6 FTE in the Mayor's Grant Fund (page B35-17); is this the same number of FTEs included in the current fiscal year budget or has the program expanded with the transfer to Non-Departmental?**

    The FY24 $1.55 million General Fund appropriation includes a $600k increase to increase expungements from 2,000 to 3,000 annually.

13. **Apprn 27350 - Project Clean Slate – 350370 - Project Clean Slate Operations- please explain why the use of General Funds is permitted for this program under the "Lending of Credit" rules, whereas the Right to Counsel program is not, since both programs provide direct legal assistance to Detroit residents?**

    We defer to the Law Department on the "lending of credit" question.

14. **Apprn 27351 - Transportation Services Support- please explain the year over year changes to the following:**

    a. 350080 DDOT Operation Subsidy and 350081- DDOT Contribution for Legacy Debt total $76.8 million; please explain the separation of the DDOT General Fund

contribution from the DDOT Legacy Debt. Please provide the details of the DDOT debt service share included in the 4-year plan.

The General Fund contribution to DDOT was separated in order to differentiate between the General Fund Contribution for DDOT's operations and the General Fund contribution for DDOT's non-discretionary, non-operational expenses.

The General Fund contribution for DDOT's Legacy Debt is for the following:

- Bonded Debt $1,197,341
- Interest on Other Indebtedness $655,056
- Retirement of Debt Principal $603,951

b. Why the increase of $11.0 million for DDOT Operations? Please explain if there are other sources of revenues or other actions that the city can take to reduce DDOT's reliance on the General Fund, which is near historic highs with the FY 2024 proposed budget.

The DDOT Contribution for Operations increased by $8.6 million, not $11 million.

The $8.6 million increase in the DDOT Contribution for Operations is due to the following:

i. ARPA fare replacement (i.e., DDOT is no longer receiving ARPA support for its operations in the FY 24 Proposed Budget, so the General Fund had to fill the loss of ARPA support.)
ii. Fare Loss
iii. New additions for automotive supply inflation, insurance increases and safety purchases and training
iv. Balance the overall fund

Turnover savings of $6.3 million were taken to reduce the impact on the General Fund.

c. 350090 - Airport Contribution for Operations- please explain the year-over year increase in the General Fund contribution to Airport of $1.0 million.

The increase covers costs associated with the design of a new taxiway that will increase the chance of federal funding. The Airport has also added a Community Relations Manager position. Without additional revenues, these increases are subsidized by the General Fund contribution for operations.

15. Apprn 27352 - 350230 CEC Goal Line program proposed budget is the same, $250,000; why is the amount the same for FY 2024, is there no annual escalator included in the funding request for FY 2024?

Currently, there is no annual increase in the City's contribution for the CEC Goal Line program given the City's existing contract with CEC. Any changes to the program will be considered when the contract is renewed this year.

a. Is there an outside agency that receives these funds or do these funds go towards a City agency that is administering this program? If it goes to an outside agency, does the Mayor and Council appoint board members to the board of this outside agency?

The GOAL Line is operated by the Community Education Commission (CEC), a 501(c)(3) non-profit organization whose core mission is to break down barriers that prevent families and children from accessing quality schools in Detroit. The CEC has a contract with the City of Detroit to receive an annual grant contribution. The CEC's Board of Directors consists of nine members appointed by the Mayor of Detroit.

16. **Apprn 27352 – 350240 EITC Support (Earned Income Tax Credit), proposed budget is the same as FY 2023, $213,716; why is there no annual escalator included in the funding request for FY 2024? Why is this activity a permitted use of General Funds under the terms of the "Lending of Credit" rule, when it provides direct assistance to Detroit residents?**

The EITC program budget is sufficient to continue with no impact on service levels.

We defer to the Law Department on the "lending of credit" question.

a. How many contractual staff will be funded and for what time period in the proposed FY 2024 budget?

The City provides funding to the Accounting Aid Society (AAS), who conducts this effort. AAS hires contractual staff directly in line with available funding during tax season.

17. **Apprn 28354 – 350007- the Elected Officials Compensation Board approved pay increases for Elected Officials on February 15, 2023; please provide the resolution adopted by the Board. Does the proposed budget and the 4- year plan include the approved pay increases?**

Yes, the Proposed Budget and 4-Year Plan includes the approved pay increase. Please see the Elected Officials Compensation attachment.

18. **Apprn 29350 – Citywide Overhead, please explain the year- over year changes for the following:**

a. 350020-Dues & Memberships: Please provide a list and amount of memberships budgeted for FY 2024. Why are expenditures here and not in a specific department?

These are dues and membership fees on behalf of the City of Detroit that benefit the entire government, including the US Conference of Mayors, National League of Cities, SEMCOG, Michigan Municipal League, etc.

b. CAYMC Building Rent & Rehabilitation- formerly budgeted in 350200, where is this expenditure budgeted for FY 2024? Please explain what costs are included here. Did the Joint Detroit- Wayne County Building Authority request capital funds for FY 2024? Please provide details on any capital projects proposed for FY 2024 and the forecast years.

This rent was consolidated with all other General Fund rents into cost center 350800. This cost is only the rent owed per the lease with the DWJBA. There were no capital funds requested by the DWJBA for FY24.

c. 350310- Detroit Building Authority, the Office of Budget has conveyed the $1M error in this account, the correct total is $1.3M, a change of $100,000, please explain the year-over year change.

The year-over-year change is due to salary/wage inflation.

d. 350800- Centralized Payments; please list (description and amounts) the expenditures included in this cost center. The proposed budget is $30.9M, an increase of $6.1M over the FY 2023 budget, please explain the increase. What technology expenditures were transferred to DOIT budget for FY 2024? Why were the hardware maintenance expenditures not transferred to DOIT?

Expenditures included in 350800-Centralized Payments:

- Non-Dept Hardware Maintenance $406,000
- Non-Dept DHM Liability Insurance $110,075
- General Fund Rent Consolidation $12,102,000
- GF Utilities Consolidation - Water $1,829,000
- GF Utilities Consolidation - Gas $971,000
- GF Utilities Consolidation - Steam $501,000
- GF Utilities Consolidation - Electricity $5,600,000
- GF Utilities Consolidation - Sewage $9,415,000

Increase driven by 350800-Centralized Payments utilized for consolidation of General Fund rent and utilities.

e. 350800-Centralized Payments: Please explain the purpose of the expenditures in objects 626801 to 626805- utilities; why are these costs budgeted in Nondept? The proposed budget includes $18.3M for utilities, an increase of $15.3M from the FY 2023 budget; are these utilities costs consolidated for all General city depts/agencies in Nondept?

Yes, these are the utilities consolidated for all General Fund City departments. Utilities were consolidated to ensure better financial oversight and tracking.

f. Where are the grant matches previously budgeted in Nondept recorded in the proposed budget and the forecast years?

Harvard Business School Leadership Grant match now funded in Mayor’s Office cost center 330010, appropriation 28330.

g. 350980- Workforce Investments- please briefly describe the activity budgeted in this cost center for FY 2024. Please explain the year-over year increase of $6 million in this account for FY 2024 and the $1.5 million increase starting in FY 2026.

This account serves as a recurring budget reserve to support workforce investments across all City departments, specifically it will support more competitive pay, subject to labor negotiations and other personnel actions. Any ongoing pay increases later approved for a department will be transferred from this reserve to the department's budget, to the extent needed.

19. **Apprn 29350 – Citywide Overhead 350220- Claims Fund (Insurance Premiums) records the General Fund premium for the Risk Management Fund. This account has been running deficits for the past several years and General Fund balance was utilized to cover these chronic account deficits. On February 21, 2023, City Council approved $60 million in FY 2022 General Fund surplus funds for the Risk Management Fund. Please explain how the FY 2024 budget and the budgets for the forecast years were determined.**

a. Why does this expenditure of $12.1 million remain the same for FY 2024 and has minimum increase in the forecast years when the trend in the number and cost of damages/lawsuits against the city are increasing and annual costs are currently over $40 million?

We are continuing recurring funding at historical levels, pending further review of the future run rate. Much of elevated claims expense in recent years has been due to extraordinary legal activity, much of which is non-recurring, and is supported by the fund balance reserve.

b. Is it OCFO policy to fund Risk Management recurring expenditures utilizing fund balance as has been the practice for the last several years and what is estimated for the 4-year plan?

Recurring expenditures are supported by the $12 million budgeted in non-departmental and the $12 million contribution budgeted in DDOT. We are continuing recurring funding at historical levels, pending further review of the future run rate. Much of elevated claims expense in recent years has been due to extraordinary legal activity, much of which is non-recurring, and is supported by the fund balance reserve.

c. Where in Nondept is recorded the General Fund share of Workers' Compensation claims? Please explain the $1.7 million budget of Workers' Compensation claims revenues in 29202- 200160; why is there not a similar item budgeted for the General Fund in Non-dept?

Currently, workers' compensation recoveries are returned to the General Fund as part of a year-end benefits true-up on the expenditure side only; thus, serving effectively as an offset to the General Fund risk management contribution. We will work with the Controller's Office and ODFS on how best to integrate this with the finances of the Risk Management Fund.

20. **Apprn 29351 – Pension- Related Payments:**

    a. 350015- Pension Benefits Administration- please explain the elimination of costs and offsetting revenues for the FY 2023, FY 2024, and the forecast years. Why does the department show 30 FTE (see page B35- 16); however, through the use of the salary (601995) and fringe clearing accounts (603995) have no salary and employee benefits for FY 2024? Why the change in policy in budgeting this expenditure?

    The change in policy is to be consistent with proper accounting treatment.

    b. 351051- Retiree Protection Fund- please provide an update on this fund. Will there be any additional contributions to the fund after FY 2023?

    There is no RPF contribution assumed in FY24.

    c. 351052- Foundations- DIA Pension Contributions- No funding budgeted for FY 2024. Have these groups fulfilled their obligation to pay into the retirement system? If not, where are these funds budgeted for FY 2024 and the forecast period?

    The DIA contribution is now budgeted in Department 18, which has been renamed Debt Service & Legacy Pension.

21. **Apprn 28353 – Cable TV- Fund 3921 Other Special Revenue Fund: the proposed budget increased by $50,383 from FY 2023, please explain why.**

    This is the Office of Budget's forecast for the revenue that will be collected through P.E.G. fees in FY24; this revenue projection was approved by the February 2023 Revenue Estimating Conference.

22. **Fund 4533 City of Detroit Capital Projects and appropriation 20507 CoD Capital Projects (page B35-11): please describe the capital project for the Eastern Market funded with $350,000 in FY 2024.**

    Eastern Market will use the funds for improvements to historic sheds and parking lots.

Questions from page B18-1-9, for FY 2024 on Debt Service Expenditures and Revenues:

1. **The Debt Service agency was formed to record the principal and interest payments for the General City outstanding debt issues, primarily Unlimited Tax General Obligation Bonds (UTGO) and the revenues from a dedicated property millage. In FY 2023, the purpose for the agency was expanded to include the Limited Tax General Obligation Bonds that are repaid with General Fund revenues. For the Proposed FY 2024, the purpose has again been expanded to include legacy pension obligations and installment purchase agreements for vehicles. Will there be an Executive Reorganization Plan filed for this agency?**

   Yes, an Executive Organization Plan amendment resolution will be included with the other budget resolutions and items to be approved by the City Council on April 10.

a. What type of installment purchase agreement was utilized for the vehicle purchases? Please provide a copy of the financing contract. The installment purchase contract requires City Council approval, correct? Does the installment purchase contract require public notice?

No Installment Purchase Agreement (IPA) has yet been executed, but it is part of our vehicle financing plan. If we do pursue the IPA, then it will be brought before City Council for approval. At that time, Bond Counsel will provide guidance regarding public notice requirements.

b. Please explain the rationale of moving the legacy pension payment to Department 18 in FY 2024.

The rationale is to isolate debt service and legacy pension costs into a standalone department.

c. LPD understands that the legacy pension obligation of $130.2 M starting in FY 2024 is based on a 30- year amortization period for the General Retirement System and a 20-year amortization period for the Police & Fire Retirement System. What is the status of the legal proceedings filed to allow the City of Detroit to use a 30-year amortization period for both pension systems?

Legal proceedings are still ongoing.

2. **Please provide a copy of the Gabriel, Roeder, Smith, and Company Annual Actuarial Valuation report for the General Retirement System (GRS) and the Police and Fire Retirement System (PFRS) as of June 30, 2022.**

   Please see attached slides from their presentations to the Boards. The final PFRS valuations are also attached. I do not believe the final GRS valuations have been approved by the board yet.

3. **Please explain the reorganization of the General Fund debt repayment of Limited Tax General Obligation Bonds (LTGO) from Non-departmental to the Debt Service Agency 18 (pages B18-1 through B18-9).**

   The reorganization of the LTGO debt repayment accounts to consolidate them into Department 18 – Debt Service was implemented to increase transparency and ensure that both internal and external viewers of the City's budget can quickly and easily understand the City's debt service with one quick examination.

4. **Please provide a current debt service schedule for the city's debt payments in the Debt Service Agency 18, both UTGO, LTGO and other debt.**

   Full debt service schedules are published in the quarterly OCFO reports. The most recent is December 2022 with the debt summary beginning on page 15. The appendix contains detailed debt service by debt issue and consolidated information by UTGO and LTGO debt.

5. **On page B18-4, please explain the Employee Benefits budget of $125.5 million starting in FY 2025 when the pension payment is $130.2 million starting in FY 2024.**

   The total pension payment is $148.9 million, when you include the $18.7 million supported by FDF/DIA contributions. The $125.5 million represents the GRS-General City and PFRS components. The remaining $23.4 million shows in "other expenses" because it is a transfer to the DDOT fund where the pension contribution for the GRS-DDOT component will be expensed. The DDOT fund pass-through is necessary because that is where that share of the pension liability resides.

6. **On page B18-4, please explain the Other Expenses budget of $23.4 million starting in FY 2024.**

   See above. The $23.4 million shows in "other expenses" because it is a transfer to the DDOT fund where the pension contribution for the GRS-DDOT component will be expensed. The DDOT fund pass-through is necessary because that is where that share of the pension liability resides.

7. **On page B18-5, please explain the Contributions & Transfers of $57.2 million starting in FY 2024. Please explain why the amounts decline in the forecast years.**

   This represents the drawdowns from the Retiree Protection Fund to support legacy pension contributions. It declines every year as the City's budget takes on a greater share of the cost per our RPF funding plan.

8. **On page B18-5, is the reduction in the debt millage from 9 to eventually 7 the reason for the decline in Taxes, Assessments, & Interest revenue starting in FY 2024?**

   The revenues for the debt service fund are equal to scheduled debt service. As debt service decreases, the resources needed to fund it also decrease. See question 11 for a more detailed explanation.

9. **Please explain and list (description and amount) the revenue reimbursements for LTGO and the Unlimited Tax General Obligation Bonds shown in Agency 18.**

   Revenues used to pay UTGO debt service primarily include the debt service millage revenue, but also include Federal Tax rebates on the 2010 Build America Bonds (~2.5 million), Personal Property Tax reimbursements from the State of Michigan ($5 million) and interest earnings in the escrow accounts ($2 million).

   There are no LTGO revenues in Dept 18. Other than the $57.2 million RPF offset, the only other Fund 1000 revenues are the $18.7 million pension contributions from the Foundation for Detroit's Future (FDF) and the DIA. It is split between revenues from use of assets and miscellaneous to reflect the accounting treatment of FDF/DIA receivable. Separately, in Non-Departmental, there is $1.5 million in interest revenue from B-Note redemption reimbursements from enterprise funds.

10. **Are there any plans to sell additional LTGO or UTGO bonds in FY 2024 or the forecast years? The remaining balance of Neighborhood Improvement Bonds to be sold is $75M, why the need to utilize General Fund surplus to fund demolition projects in FY 2024?**

    Currently, the timeline of when the City would sell the remaining $75M bond authorized is being determined. The General Fund surplus is being spent on emergency demolition for privately owned structures.

11. **The Mayor announced a decrease in the Debt Service millage from 9 mills to 8 mills in FY 2024 and another 1 mill decrease in FY 2025.**

    a. Please provide the calculation used to set the debt service millage for FY 2024 (elements included/excluded in the calculation of the millage). Please list all of the revenue sources included in the millage calculation.

Fiscal Year		FY2023	FY2024	FY2025
Projected Debt Service		$ 59,749,317	$ 59,471,100	$ 51,149,042
Other Revenues		$ (9,308,754)	$ (10,198,910)	$ (9,360,727)
Tax-Levy Requirement		$ 50,440,563	$ 49,272,190	$ 41,788,315
Denominator				
Total Tax Base		$ 6,628,762,575	$ 7,219,411,069	$ 7,334,015,712
Collection Rate	*85%*			
Total Net Tax Base		$ 5,634,448,189	$ 6,136,499,409	$ 6,233,913,356
Millage				
Tax Rate		$ 0.00895217	$ 0.00802936	$ 0.00670338
Debt Millage (per $1000 valuation)		9.000	8.000	7.000

    The calculation divides the Tax-Levy Requirement by the Total Net Tax Base to determine the exact amount that needs to be levied in order to meet the City's UTGO debt service on an annual basis. Other revenues include federal tax rebates, state PPT reimbursement, and earnings in debt escrows.

    b. What is the current fund balance for the Debt Service Fund, and can it be used to lower the millage?

    As of March 1, 2023, the total balance in the Debt Service Escrows is approximately $77 million, which will be used for April Debt Service of $40 million and May Debt Service of $3 million. Additionally, the City has minimum set-aside requirements relating to the 2016 Bonds of $23 million. The remaining escrow amounts to under $11 million, which is used for both cash flow purposes and to smooth the debt millage. We anticipate using $1.7 million to reduce the debt millage to 8.000 in FY2024 since the calculated required millage is slightly higher (8.029).

c. **Is there a reason why the 2 mills decrease can not occur in FY 2024?**

At $59 million, the FY24 debt service is too high to reduce by 2 mills. The FY25 debt service decreases by $8 million, which will make it possible to reduce the millage down to 7.

d. **Please explain how the declining scheduled principal and interest payments and along with rising property tax revenues determines the annual debt service millage rate and why it is feasible to now reduce the current debt service millage.**

e.

See calculation above. As principal and interest declines, less revenue needs to be generated by the debt millage in order to meet the City's UTGO debt service requirements. As taxable values increase, greater revenue can be collected with a lower millage.

f. **Does the City have room to sell future bonds even with the debt millage going from 9 mills to 7 mills starting in FY 2025 and without the need to increase the debt millage above 7 mills?**

The ability to sell future bonds without increasing the debt millage above 7 mills will depend on many factors, including growth in property values, market interest rates, and how much debt the City wishes to issue.

12. **On page B18-8, 1000- 29181- 180130: Legacy Pension- please explain how the annual legacy pension amount is determined. Did the city receive a state supplementary appropriation in FY 2023 for pension systems funded below a certain threshold? If so, was this applied to the Legacy Pensions and how did it impact the FY 2024 pension expenditure request?**

The amounts are based on the FY22 actuarial valuations from the Retirement System. Similar to last year, it assumes a 20-year amortization for PFRS and 30-year for GRS, pending resolution of the bankruptcy court motion.

The FY23 State Budget included a pension grant program. The State is still implementing it and will issue application guidance for local units later this month. Thus, it is not factored into the current actuarial calculations.

13. **On page B18-8, 1000- 29353- Debt Repayment: Please explain the year-over year changes for the following LTGO debt issues:**

a. **180060- Exit Financing decrease from $33M to $20.7M in FY 2024.**

The Exit Financing Debt was issued as two series. The first series was fully paid off in FY23, with the final $25 million principal payment in October 2022. With only one series remaining, the annual debt service is lower and will be around $21 million until its last principal payment in FY30.

b. 180110- IPA Debt Service increase from $0 to $10M in FY 2024, new debt- has it been finalized? Does it appear that the interest rates on IPA debt is close to the interest rates being charged on more traditional Unlimited Tax General Obligation (UTGO) bond debt service? Why isn't UTGO bonds being considered to purchase new fleet for FY 2024 and through the forecast years? How does this IPA match the fleet replacement schedule, including anyone that is identified in the latest Capital Agenda?

See answer to question 1.a.

Attachments:

1. GC Comp I Presentation - Response to LPD Att1
2. GC Comp II Presentation - Response to LPD Att2
3. PF Comp I Presentation - Response to LPD Att3
4. PF Comp II Presentation - Response to LPD Att4
5. Cover letter to Clerk re EOCC determination - Response to LPD Att5
6. Resolution setting salaries 2-16-22 Final - Response to LPD Att6
7. val_0002_CompII Report Revised - Response to LPD Att7
8. val_0002_CompI Report Revised - Response to LPD Att8

cc: Honorable Detroit City Council
City Clerk
Jay B. Rising, Chief Financial Officer
Tanya Stoudemire, Chief Deputy CFO/Policy & Administration Director
Malik Washington, City Council Liaison