

City of Detroit

CITY COUNCIL

LEGISLATIVE POLICY DIVISION

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TO: Detroit City Council

FROM: David Whitaker, Director 
Legislative Policy Division Staff

DATE: October 24, 2023

RE: Review of the 2022 Annual Comprehensive Financial Report (ACFR) for the City of Detroit

The Legislative Policy Division (LPD) in this memorandum provides the City Council a report on the Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2022 (2022 ACFR).¹

We acknowledge and commend the efforts of the Office of the Chief Financial Officer (OCFO) staff for completing the 2022 ACFR on December 17, 2022, ahead of the deadline of December 31, 2022.

Plante & Moran, PLLC, the City's independent auditor, issued an unqualified ("clean") opinion for the 2022 ACFR, 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 2022 ACFR is fairly presented in all material aspects. As a result, investors, creditors, rating agencies and other interested parties reading the City's 2022 ACFR can rely on the audited financial statements and the information contained therein.

LPD's review of the 2022 ACFR 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)?

¹A copy of the 2022 ACFR can be found on the Office of the Chief Financial Officer (OCFO)'s website at <https://detroitmi.gov/departments/office-chief-financial-officer/financial-reports/annualcomprehensivefinancialreports>.

- 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 2022 ACFR focuses on the City’s financial position as of June 30, 2022, and how it addresses preceding questions. However, to gain a broader “high level” understanding of the 2022 ACFR from a financial perspective, LPD encourages the reader of this report to also read the “Introductory Section & Transmittal Letter” (pages i-ix of the 2022 ACFR) and the “Management Discussion and Analysis” section (pages 4-18) in the 2022 ACFR.

Highlights from the City’s General Fund Financial Statements in the 2022 ACFR (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 2022 ACFR 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 resources² less liabilities and deferred inflows of resources³) 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 assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$1.036 billion. As a result, the General Fund had a total fund balance on June 30, 2022 of \$1.036 billion⁴, an increase of \$181.7 million from the \$854.1 million total fund balance on June 30, 2021.
- Consequently, the City’s General Fund ended up with an operating surplus of \$181.7 million for FY 2022. In addition, the General Fund had an accumulated unassigned fund balance (surplus) of \$230 million⁵ on June 30, 2022, an increase of \$50.9 million from the \$179.1 million accumulated unassigned surplus on June 30, 2021.
- The General Fund operating surplus of \$181.7 million and accumulated unassigned fund balance surplus of \$230 million for FY 2022 were primarily due to increases in Municipal Income Tax revenue and Casino Wagering Tax revenue (due to new internet gaming and sports betting). Overall, General Fund revenues exceeded expectations and have recovered above pre-pandemic levels.⁶
- Based on the information above, the City of Detroit’s financial health as of June 30, 2022 from a near-term perspective is very good.

² 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.

³ 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.

⁴ Page 24 of the 2022 ACFR.

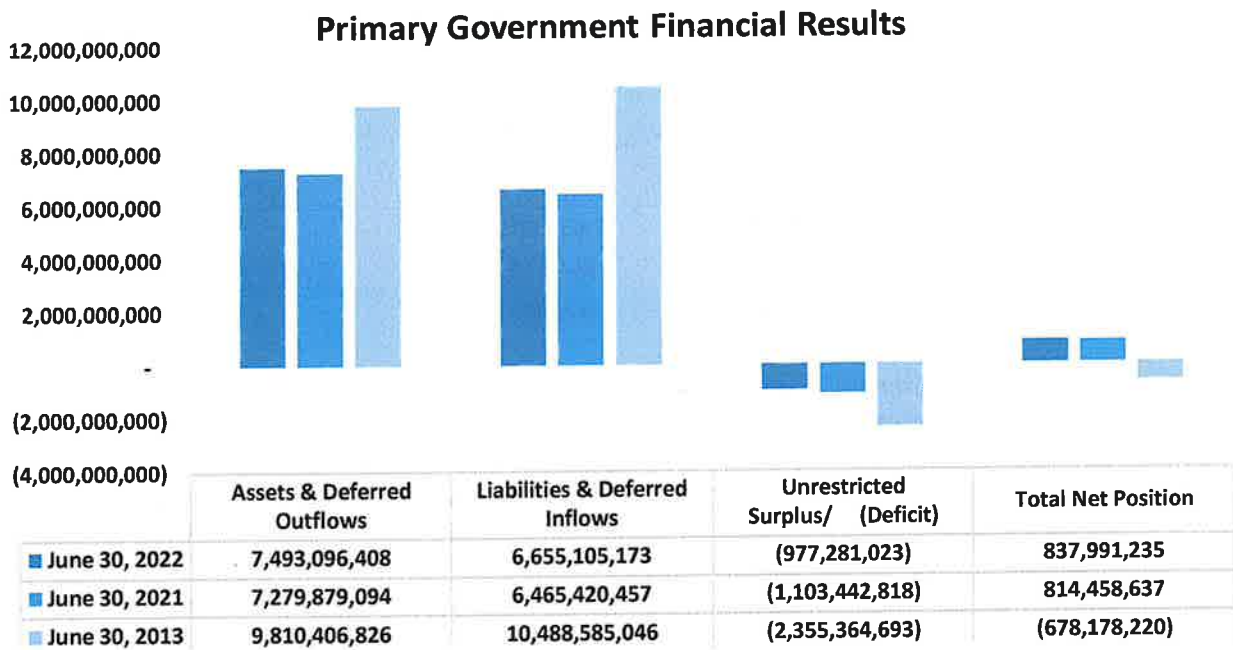
⁵ Page 24 of the 2022 ACFR.

⁶ Page 15 of the 2022 ACFR.

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 \$837 million⁹, meaning total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$837 million on June 30, 2022, an increase of \$23.5 million from the \$814.5 million net position on June 30, 2021. This represents a slight improvement in the City's citywide financial condition as of June 30, 2022, mainly due to the City's citywide lower unrestricted deficit, as depicted in the graph below.
- The graph below shows the primary government's financial results for fiscal years 2022, 2021 and 2013.

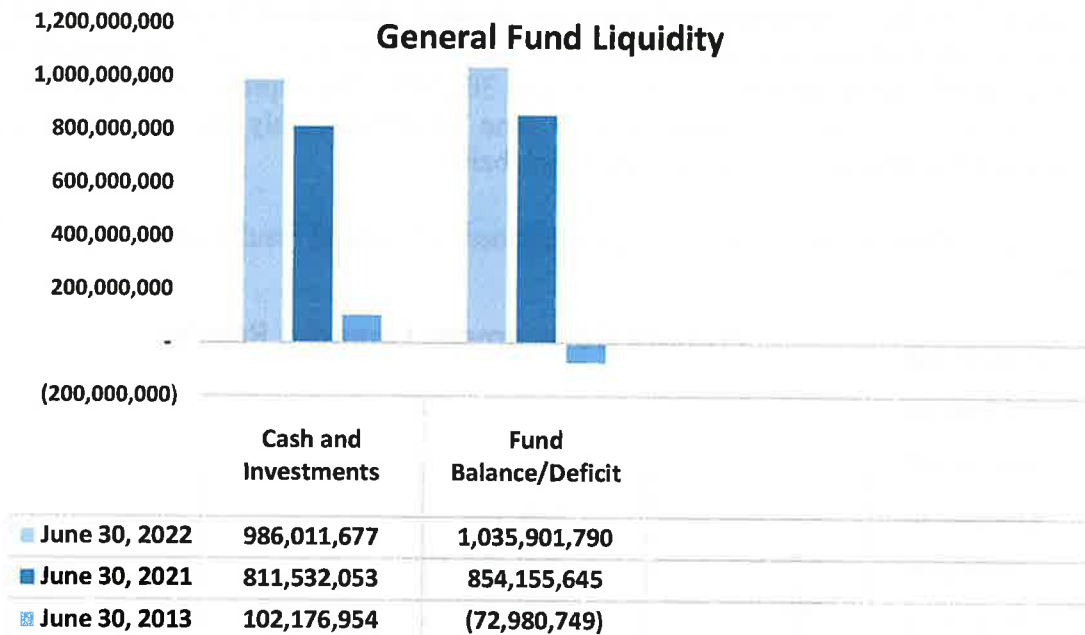


- The decreases in assets and liabilities from June 30, 2013 are mainly due to the bifurcation and transfer of the regional water and sewer systems' assets and liabilities to the Great Lakes Water Authority (GLWA), which included \$5.1 billion of revenue bonds.¹⁰
- As the above graph shows, the primary government's unrestricted net position deficit was \$977.3 million, 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, 2022. This was mainly due to the City's large legacy pension and debt obligations which are detailed below for fiscal years 2021, 2020, and 2013.

⁹ Page 20 of the 2022 ACFR.

¹⁰ Page 122 of the 2016 CAFR.

- Most of the General Fund total fund balance of \$1.036 billion on June 30, 2022, is assigned for reinvestment, future liabilities, and potential risks: a) \$138 million for Budget Reserve; b) \$41.1 million for Risk Management Fund; and c) \$183.6 million for continuing and subsequent appropriations. In addition, a total of \$356.8 million of the fund balance is set-aside and restricted for future pension contributions (Retiree Protection Fund).
- The General Fund’s cash, investments and restricted cash and investments on June 30, 2022, totaled \$986.0 million⁷. This is an increase of \$174.5 million from the \$811.5 million cash and investments balance on June 30, 2021. The graph below shows the General Fund’s liquidity per cash and investments and total fund balance for fiscal years 2022, 2021, and 2013.



- 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 \$986.0 million in General Fund cash and investments as of June 30, 2022 is sizable, only \$544.3 million of this amount represents General Fund dollars available for discretionary spending.⁸ The remaining \$441.7 million of this amount, or about 45%, is either obligated, restricted, or assigned to a specific purpose. For example, \$356.8 million of the restricted cash as of June 30, 2022 is restricted for the Retiree Protection Trust Fund.

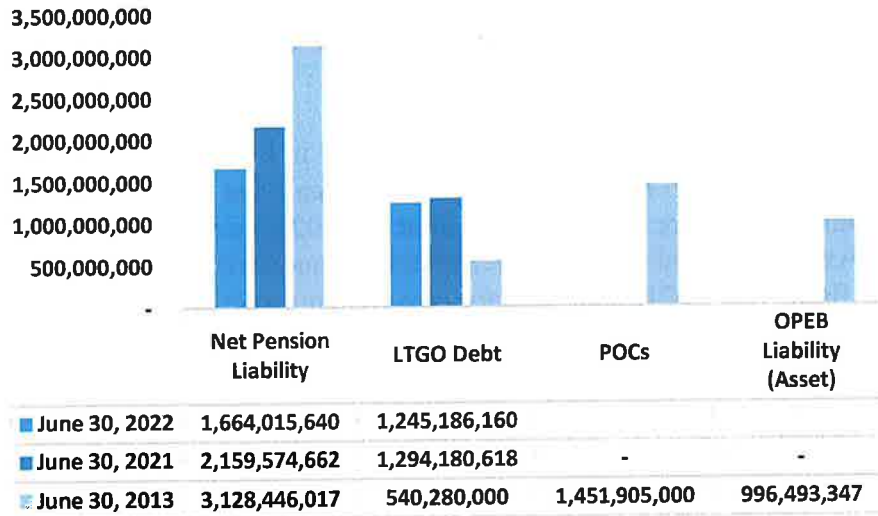
Highlights from the City’s Governmental-Wide Financial Statements in the 2022 ACFR (Long-term perspective):

- Note: the government-wide financial statements are designed to provide readers with a broad overview of the City’s finances, in a manner like 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 minus total liabilities and

⁷ Page 23 of the 2022 ACFR.

⁸ For the most part, this amount available for discretionary spending is the consequence of annual budget surpluses carried forward. Source: “Cash on Hand Will Help Detroit Through the Next Several Years”, Citizens Research Council of Michigan, dated April 13, 2023, page 3.

Primary Government Legacy Debt Burden



- The City’s net pension liability of \$1,664 billion and \$1.245 billion of LTGO (Limited Tax General Obligation) debt¹¹ are 27% and 20%, respectively, of the primary government’s total liabilities of \$6,229 billion¹² on June 30, 2022. 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.
- Fortunately, however, the City’s net pension liability of \$1.664 billion as of June 30, 2022 was \$495.5 million lower than the net pension liability of \$2.159 billion as of June 30, 2021. The main reason for the reduction in net pension liability is significant investment returns in FY 2021. It is important to note that the net pension liability is determined using actuarial reports that are a year behind, which is permissible under GASB Statement No. 68.¹³
- Of the primary government’s \$1,664 billion net pension liability on June 30, 2022, \$817.6 million was attributable to the General Retirement System (GRS), and \$846.4 million was attributable to the Police and Fire Retirement System (PFRS)¹⁴.
- In 2017, the Mayor and City Council created the Retiree Protection Fund (RPF) by ordinance as a long-term strategy for the City’s legacy pension funding when annual contributions resume in FY 2024 per the Plan of Adjustment. The RPF is an irrevocable trust for legacy pension obligations. The City will use RPF deposits, plus investment earnings, to partially offset annual pension contributions beginning in FY 2024. This will gradually build up budget capacity for future annual required contributions.¹⁵

¹¹ 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.

¹² Page 20 of the 2022 ACFR.

¹³ Page 94 of the 2022 ACFR. The GASB (Governmental Accounting Standards Board) establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP).

¹⁴ Pages 102-103 of the 2022 ACFR.

¹⁵ FY 2022-2025 Four-Year Financial Plan, page A39.

- As of June 30, 2022, the City had accumulated approximately \$356.8 million in a Retiree Protection Trust Fund to mitigate anticipated large annual pension obligations starting in FY 2024.
- The City's pension obligations are a burden that must be closely monitored by the Administration and the City Council.
- The primary government (citywide) had \$2.4 billion in total revenue for the year ended June 30, 2022, an increase of \$120 million from the prior fiscal year. The primary government had \$2.38 billion in total expenses for the year ended June 30, 2022, an increase of \$66 million from the prior fiscal year. As a result, total primary government revenues exceeded total expenses by \$23.6 million. In the prior fiscal year 2021, total primary government expenses exceeded total revenues by \$29.5 million.¹⁶
- The primary government (citywide) going from net loss of (\$29.5) million as of June 30, 2021 to a net income of \$23.6 million as of June 30, 2022 shows that the financial performance of the primary government is improving.

Highlights from the City's Enterprise Fund Financial Statements in the 2022 ACFR (Long-term perspective):

- The City's enterprise funds¹⁷ had a net position of \$1.322 billion on June 30, 2022, an increase of \$61.0 million from the \$1.262 billion net position on June 30, 2021. The enterprise fund cumulative unrestricted net position totaled \$725.7 million as of June 30, 2022, an increase of \$19.8 million from the \$705.9 million as of June 30, 2021. This shows that the financial condition of the City's enterprise funds is improving from a long-term perspective.
- As of June 30, 2022, Water, and the Sewage Disposal Funds, had a net position of \$577.6 million and \$836.4 million, respectively, mainly due to the bifurcation which exchanged the water and sewer regional systems assets and liabilities including long term debt to the Great Lakes Water Authority (GLWA) for \$50.0 million in annual lease payments over 40 years effective January 1, 2016.
- As of June 30, 2022, Water's net position of \$577.6 million represented an increase of \$16 million over its net position of the prior year. Meanwhile, Water's unrestricted surplus of \$444.8 million on June 30, 2022 was a slight increase of \$285,335 over the unrestricted surplus of the previous year. The principal reason for Water's improved financial performance for FY 2022 is due to its net income of \$15.9 million exceeding the previous year's net loss of (\$3.3 million) by \$19.2 million, primarily due to higher Water sales and charges experienced in FY 2022.
- As of June 30, 2022, Sewer's net position of \$836.4 million represented an increase of \$59.8 million over its net position of the prior year. In addition, Sewer's unrestricted surplus of \$603.2 million on June 30, 2022 represented an increase of \$49.5 million over the unrestricted surplus of the previous year. The main reason for Sewer's improved financial performance for FY 2022 is due to its net income of \$59.7 million exceeding the previous year's net income of \$12.8 million by \$47 million, primarily due to higher Sewer sales and charges experienced in FY 2022.
- **Although the financial condition for Water and Sewer shows improvement as of June 30, 2022, based on the above information, the City needs to continue monitoring the financial performance of the Water and Sewage Disposal Funds after the bifurcation to ensure revenues cover expenses and essential services are provided.**

¹⁶ Page 10 of the 2022 ACFR.

¹⁷ The 2022 ACFR classifies "enterprise funds" as "business-type activities" in the City's government-wide financial statements.

- The Transportation Fund had an unrestricted net position deficit on June 30, 2022¹⁸ of (\$328.4) million, a \$20.6 million increase from the (\$307.8) million deficit on June 30, 2021. Similarly, the Transportation Fund’s accumulated net position deficit on June 30, 2022 of (\$149.5) million was \$12.8 million higher than its accumulated net position deficit of the prior year. The General Fund contributed \$41.6 million in subsidies to the Transportation Fund in FY 2022¹⁹, which is \$9.9 million more than the General Fund contribution of \$31.7 million made in FY 2021.
- The Public Lighting Authority of Detroit (the “PLA”) had a \$36.8 million an accumulated net position on June 30, 2022²⁰, a decrease of \$2.1 million from the \$38.9 million on June 30, 2021. In addition, the City provided a subsidy of \$10.4 million to the PLA²¹. The PLA had an unrestricted net position of \$9.7 million in the FY 2022 ACFR. The PLA also receives \$12.5 million annually in utility users’ tax transfers from the City to pay future debt obligations. The PLA has \$24.9 million²² set aside for future debt obligations and this amount is shown as restricted for debt service.
- Nonmajor Enterprise Funds represent the Airport Fund. The Airport Fund had a \$3.6 million unrestricted deficit net position on June 30, 2022²³, a decrease deficit of \$742,113 from the \$4.3 million unrestricted deficit net position on June 30, 2021. The General Fund subsidy to the Airport increased \$400,000 from \$1.8 million for FY 2021 to \$2.2 million in FY 2022.

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 strengthened²⁴. However, the COVID-19 pandemic has brought serious challenges that the Administration and City Council have diligently worked together to address; and will have to keep monitoring and react to quickly if necessary:

- *The City now has achieved a balanced budget for the eight consecutive year.* Fortunately, after the City achieved its third consecutive balance budget, the Financial Review Commission (FRC) in April of 2018 granted the City a waiver and ended direct oversight of the City’s finances. However, the City is still under FRC oversight on a limited basis and must regularly report financial information to the FRC, such as monthly financial reports, ACFR, adopted budget and four-year financial plan. If the City continues to achieve balanced budgets, it could be released from FRC’s limited oversight by the end of June 2028.
- It is also important to note that the City has achieved General Fund operating surpluses in every fiscal year since FY 2015. As can be seen below, the level of the General Fund’s operating surplus has grown substantially in general since FY 2019:

○ General Fund surplus for FY 2015	\$384.3 million ²⁵
○ 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

¹⁸ Page 29 of the 2022 ACFR.

¹⁹ Page 64 of the 2022 ACFR, Note 5, Interfund Receivables, Payables and Transfers.

²⁰ Page 31 of the 2022 ACFR.

²¹ Page 64 of the 2022 ACFR, Note 5, Interfund Receivables, Payables and Transfers.

²² Page 29 of the 2022 ACFR.

²³ Page 29 of the 2022 ACFR.

²⁴ Some of the information in this section is from pages iv and viii of the 2022 ACFR.

²⁵ 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.

- General Fund surplus for FY 2019 \$ 80.9 million
- General Fund surplus for FY 2020 \$ 54.2 million
- General Fund surplus for FY 2021 \$107.9 million
- General Fund surplus for FY 2022 \$181.7 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 59% over eight years (\$402.4 million in FY 2022 compared to \$253.8 million in FY 2014).²⁶ This 59% increase was due to recoveries beyond pre-pandemic levels and increases in collection.
- The Property tax collection rate has increased to 85% in FY 2022 compared to 69% in FY 2014.²⁷
- In February 2018²⁸, the Office of the Chief Financial Officer (OCFO) established an Administrative Issuance System, which includes key policies, process flows, standard operating procedures, and detailed work instructions for all operations within OCFO.

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 2022 ACFR:

Inevitably, a government’s financial position will be affected 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 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 ACFR²⁹ and the statistical section³⁰ of the ACFR. LPD highly recommends readers of this report review both of above-mentioned sections of the fiscal year 2022 Annual Comprehensive Financial Report (ACFR).

- History of total primary government net position:³¹
 - FY 2022 \$ 837.9 million
 - FY 2021 \$ 814.5 million
 - 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

²⁶ Pages 196 and 197 of the 2022 ACFR.

²⁷ Page 203 of the FY 2022 ACFR, Schedule 8 Revenue Capacity – Property tax Levies and Collections.

²⁸ Current listing of all policies is available at: <https://detroitmi.gov/departments/office-chief-financial-officer/administrative-issuance-system>

²⁹ Pages i to ix of the 2022 ACFR.

³⁰ Pages 186 to 217 of the FY2022 ACFR (Statistical section).

³¹ Pages 188 to 189 of the 2022 ACFR.

- 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 from FY 2016 through FY 2022.

- History of general fund unassigned surplus (deficit) and total general fund balance:³²
 - FY 2022 \$230 million unassigned surplus; \$1.036 billion total general fund balance
 - FY 2021 \$179 million unassigned surplus; \$854 million total general fund balance
 - 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-19.³³

The following represent economic and fiscal risks that should be considered:

- Slower casino recovery than expected and potential substitution effects
- Slower than anticipated recovery from recession
- Larger than anticipated nonresident remote work impact.
- Longer lasting changes in economic activity due to workplace and firm/consumer behavior changes
- Additional COVID-19 variants extending pandemic impacts longer than expected.
- Supply chain issues persist and particularly impact the manufacturing sector.

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

- Residential, commercial, and industrial development activity throughout the City
- Workforce development and labor force participation gains
- Ongoing improvements in income tax audit and enforcement
- State-shared excise tax from adult-use marijuana (implementation pending)
- Additional state and federal funding, economic stimulus, and infrastructure investment

Other highlights/observations from the Review of the 2022 ACFR:

Below are additional observations from LPD’s review of the 2022 ACFR:

³² Pages 194 to 195 of the 2022 ACFR.

³³ Fiscal risks and potential opportunities are from the February 2022 Detroit Revenue Estimating Conference Report, which can be accessed at: <https://detroitmi.gov/sites/detroitmi.localhost/files/2022-03/feb%202022%20Revenue%20Estimating%20Conference%20Report.pdf>

- In Note 14 of the 2022 ACFR, the City disclosed the programs and the estimated amount of taxes abated during FY 2022, which was \$41.2 million³⁴, an increase of \$2.44 million from the \$38.8 million on June 30, 2021. Listed below is a comparison of the taxes abated in fiscal years 2022 and 2021.

Program	Legislation	Abatement Amount			Comment
		2022	2021	Difference	
		Total Taxes	Total Taxes	Total Taxes	
Brownfield Redevelopment Act (BRA)	PA 381 1996	\$ 1,758,237	\$ 1,766,515	\$ 8,278	Cleanup of Environmental Issues
Industrial Facilities Act (IFT)	PA 198 1974	605,114	495,522	(109,592.00)	Redevelopment of Facility
Commercial Rehabilitation Act (CRA)	PA 210 2005	3,502,906	3,088,124	(414,782.00)	Rehabilitation of Qualified Facility
Commercial Redevelopment Act (CFT)	PA 255 1978	262,830	272,794	9,964.00	Redevelopment of Commercial Property
Renaissance Zone Act (RZ)	PA 376 1996	5,893,123	5,503,761	(389,362.00)	Economic Development in Designated Area
Obsolete Property Rehab Act (OPRA)	PA 146 2000	2,375,307	2,174,442	(200,865.00)	Redevelopment of Obsolete and Blighted Buildings
Neighborhood Enterprise Zone (NEZ)	PA 147 1992	7,705,901	8,026,299	320,398.00	Financial Investment in Property
Land Bank Fast Track Act (LB)	PA 258-263 2003	1,183,165	1,100,819	(82,346.00)	Improvement of Property
Eligible Manf. Personal Property (EMPP)	PA 328 1998	9,591,955	8,975,210	(616,745.00)	Exempts Personal Property from Tax
Sr. Citizen/Disabled Fam. Hous. Exempt.	PA 78 2016	180,890	160,674	(20,216.00)	Manage Sr. Citizen & Disabled Family Housing
MSHDA	PA 346 1966	8,178,818	7,230,649	(948,169.00)	Provide 7 Manage Low-Income Housing
Totals		\$ 41,238,246	\$ 38,794,809	\$ (2,443,437)	

The \$41.2 million in abated taxes for FY 2022 represents about 3.4% of total General Fund revenue of \$1.211 billion generated in FY 2022.³⁵ Not included in the list above is the amount of property taxes captured by the City of Detroit Downtown Development Authority (DDA). In FY 2022, the DDA captured \$18.2 million in property taxes³⁶ from the City of Detroit in the form of tax increment financing for economic development purposes.³⁷

When the \$18.2 million in property taxes captured by the DDA from the City of Detroit in FY 2022 is added to the \$41.2 million in taxes abated in FY 2022 from the list above, the result is that \$59.4 million in property taxes were either abated or captured from the City of Detroit in FY 2022, or about 5% of the total General Fund revenue of \$1.211 billion generated in FY 2022.

- The Solid Waste Fund had a \$23.5 million Fund Balance on June 30, 2022 compared to a \$35.1 million fund balance on June 30, 2021.³⁸ The reason for the decrease in fund balance is due to the fact that expenses exceeded revenues (that are generated primarily by the Solid Waste Fee³⁹) by \$11.5 million in FY 2022. In addition, the Major Street Fund had a \$88 million fund balance on June 30, 2022, a \$6.8 million decrease from the previous year's fund balance.
- As of June 30, 2022, the City lacked proper controls to ensure compliance with laws and regulations⁴⁰. The City was not in compliance with the State of Michigan Public Act 2 of 1968, Uniform Budgeting and Accounting Act, Section 141.438(3), which requires the City not to incur expenditures against an appropriation account in excess of the amount appropriated by the City Council. In addition, the City was not in compliance with the distribution of taxes, as stated in MCL 211.43 (Section 43(3) of the General Property Tax Act, 1893 PA 206, as amended). Section 211.43

³⁴ Page 119 of the 2022 ACFR.

³⁵ Page 26 of the 2022 ACFR.

³⁶ Source: 2022 Annual Report on status of Tax Increment Financing Plan: [taxing jurisdictions re FYE 22 annual reports.pdf](#)

³⁷ DDA tax increment financing mechanism allows for the capture of the incremental growth of local property taxes over a period of time to fund downtown development activities. By borrowing against the future tax increments, the DDA can fund large-scale projects, which can lead to new development opportunities within the downtown. Source: Michigan Economic Development Corporation: Downtown Development Authority (DDA):

<https://www.michiganbusiness.org/49478e/globalassets/documents/reports/fact-sheets/downtowndevelopmentauthority.pdf>

³⁸ Page 172 of the 2022 ACFR.

³⁹ According to the City of Detroit's website, the Solid Waste Fee is \$240 for residents and \$120 for qualifying seniors at least 65 years of age and have a household income of below \$40,000. Seniors must apply for the discounted fee.

⁴⁰ Page 57 of the 2022 ACFR, note 2.

(3)(a) of the tax act states that property taxes must be remitted within 10 business days after the 1st and 15th day of each month.

- It is important to note that the OCFO received the GFOA⁴¹ Certificate of Achievement for Excellence in Financial Reporting for the FY22 ACFR. This is the fifth year in a row that the City of Detroit's OCFO has received this prestigious award.

Conclusion

LPD commends the Administration for issuing the FY 2022 ACFR before the December 31, 2022 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 2022 ACFR, and future ACFRs to come.

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

Attachments

cc: Auditor General's Office
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/Controller
Malik Washington, Mayor's Office

⁴¹ The Government Finance Officers Association (GFOA) is the premier association for public sector finance professionals in the United States and Canada. Founded in 1906, GFOA has more than 23,000 members at all levels of government. As a non-profit organization, the mission of GFOA is to advance excellence in government finance to build thriving communities.