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TO: Honorable City Council

FROM: David Whitaker, Director 
Legislative Policy Division Staff

DATE: November 8, 2023

RE: **Power Point Presentation on the 2022 Annual Comprehensive Financial Report (ACFR) prepared by the Legislative Policy Division (LPD)**

For your information, attached is LPD's power point on the 2022 Annual Comprehensive Financial Report (ACFR) that will be presented during the Budget, Finance and Audit Committee meeting on Wednesday, November 8, 2023.

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
Anita Davis, OCFR Controller's Office
Laura Goodspeed, Auditor General
Malik Washington, Mayor's Office

ANNUAL COMPREHENSIVE FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Michael E. Duggan, Mayor • Jay B. Rising, Chief Financial Officer



DETROIT • MICHIGAN

LEGISLATIVE POLICY DIVISION ANALYSIS OF THE 2022 CITY OF DETROIT ACFR (ANNUAL COMPREHENSIVE FINANCIAL REPORT)

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)

November 2023

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, 2022, or the 2022 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 2022 ACFR contains 219 pages that provide a wealth of financial information regarding the financial condition of the City of Detroit.
- Citizens can obtain a copy of the 2022 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 2022 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 2022 ACFR report, which is a significant accomplishment. This is the fifth year in a row the OCFO has received this prestigious award!
- In a report entitled "Review of the 2022 Annual Comprehensive Financial Report (ACFR) for the City of Detroit" dated October 24, 2023, we raise some of major financial issues based on our review of the 2022 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 statements combines the governmental and business type activities and are similar in style to those used in the private sector.
- In all, the 2022 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).
- Before moving forward, it is important to note that the FY 2022 ACFR received an unqualified ("clean") opinion from Plante & Moran, the City's independent auditor. Essentially a "clean" opinion means that the City's ACFR 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.

General Fund (short-term perspective)

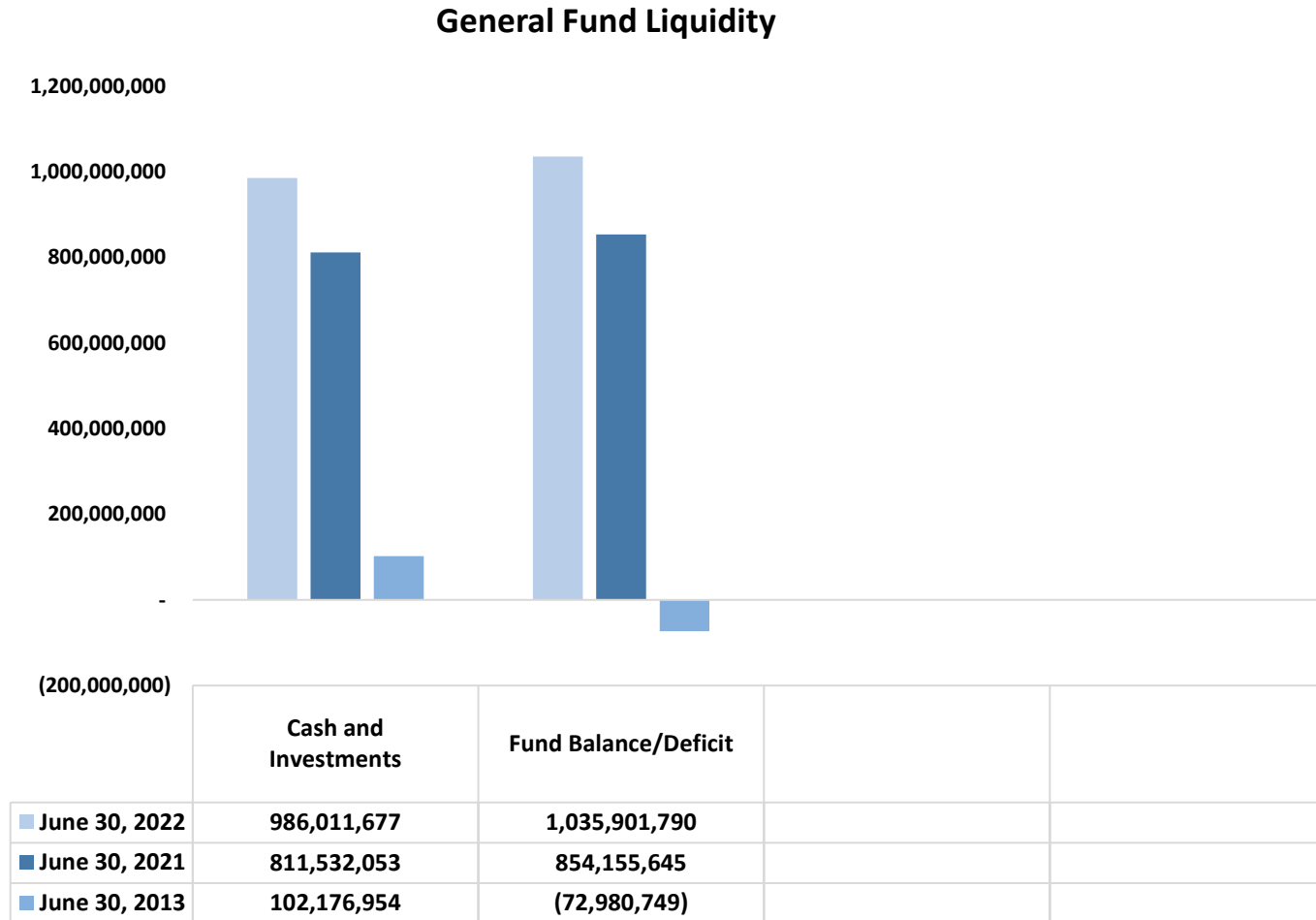
- The City of Detroit's general fund is the chief operating fund for the City that receives the City's major revenues such as income taxes, property taxes, casino (wagering) taxes, and utility users' taxes, and state revenue sharing (a portion of State's sales taxes). These major revenues comprise of about 88% of the general fund's total FY 2022 revenue of \$1.2 billion.
- 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 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. And the short-term view for the City's financial as of June 30, 2022 is very good!
- Council adopted a general fund budget totaling \$1.14 billion for FY 2022. Of course, this budget was passed with general fund budgeted revenues equaling budgeted expenditures. But the 2022 ACFR shows how we ended up. The 2022 ACFR shows the general fund ended up with a \$181.7 million operating surplus for FY 2022. This means that actual revenues for the general fund exceeded actual expenditures for FY 2022.
- In addition, the general fund had an accumulated unassigned fund balance (surplus) of \$230 million at June 30, 2022. This surplus was due primarily to increases in municipal income tax revenue and casino wagering tax revenue (due to new internet gaming and sports betting). Overall, in FY 2022, general fund revenues exceeded expectations and have recovered above pre-pandemic levels.
- It is important to remind the Council that of the \$230 million accumulated surplus, \$173 million was appropriated with Council's approval for various needs, including risk management fund, sidewalk replacement program, public transit, parks and recreation, emergency demolitions, emergency tree trimming and removal, subsidy increases to the Charles Wright of African American History and Historical museums, and early learning initiatives.

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

- It's worthy to note that the City has now achieved a balanced budget for the eighth consecutive year coming out of bankruptcy.
- Another healthy sign on a short-term basis is that the City's total general fund balance was \$1.036 billion as of June 30, 2022, a \$182 million increase from FY 2021. However, most of the total general fund balance at June 30, 2022 is allocated for specific purposes: a) \$138 million for Budget Reserve; b) \$41.1 million for Risk Management Fund; c) \$356.8 million for contribution to the Retiree Protection Trust Fund; and d) \$183.6 million for continuing and subsequent appropriations.
- The general fund's cash and investments and restricted cash at June 30, 2022 totaled \$986 million, an increase of \$175 million from the prior year. The main reason for the general fund's improved liquidity was the significant reduction of certain obligations (especially pension and retiree health care costs) from the bankruptcy and the continuing surpluses generated annually since the bankruptcy.
- Although the general fund can pay its bills on time, and its financial health has significantly improved, cautionary notes are warranted. First, the City still has looming payments in pension and debt obligations. Secondly, although \$986 million in general fund cash and investments as of June 30, 2022 is sizable, only \$544 million of this amount represents dollars available for discretionary spending. The remaining \$442 million of this amount, or 45%, is either obligated, restricted or assigned to a specific purpose. For example, \$356.7 million is restricted for the Retiree Protection Trust Fund.

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

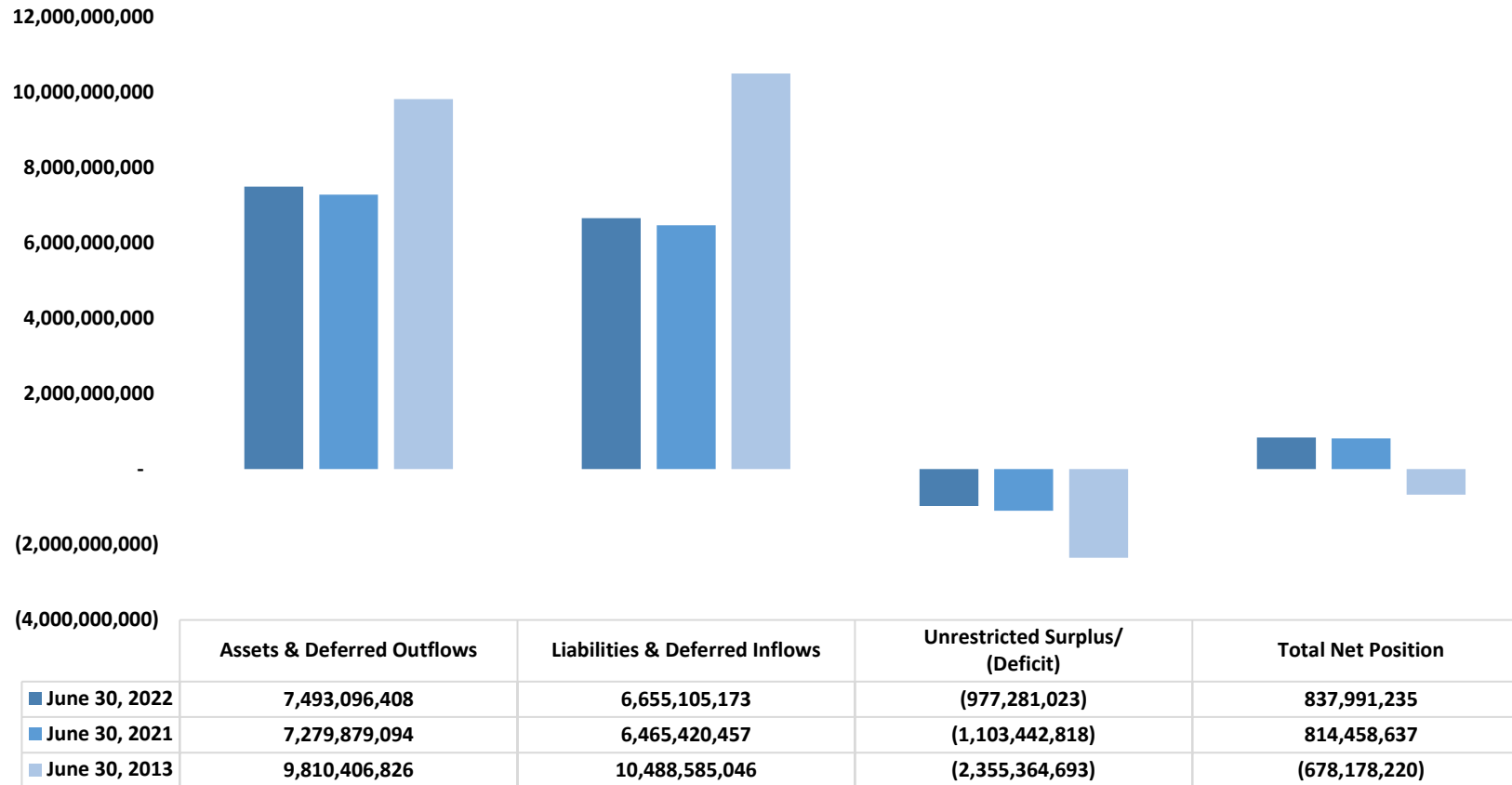
- The graph below shows the General Fund's improved liquidity per cash and investments and total fund balance for fiscal years 2022, 2021, and 2013:



Primary Government (long-term perspective)

- Although the City's financial condition from a short-term perspective is very healthy, the City's long-term financial picture as of June 30, 2022 had some slight improvements, but there are still some challenges, as depicted in the graph below:

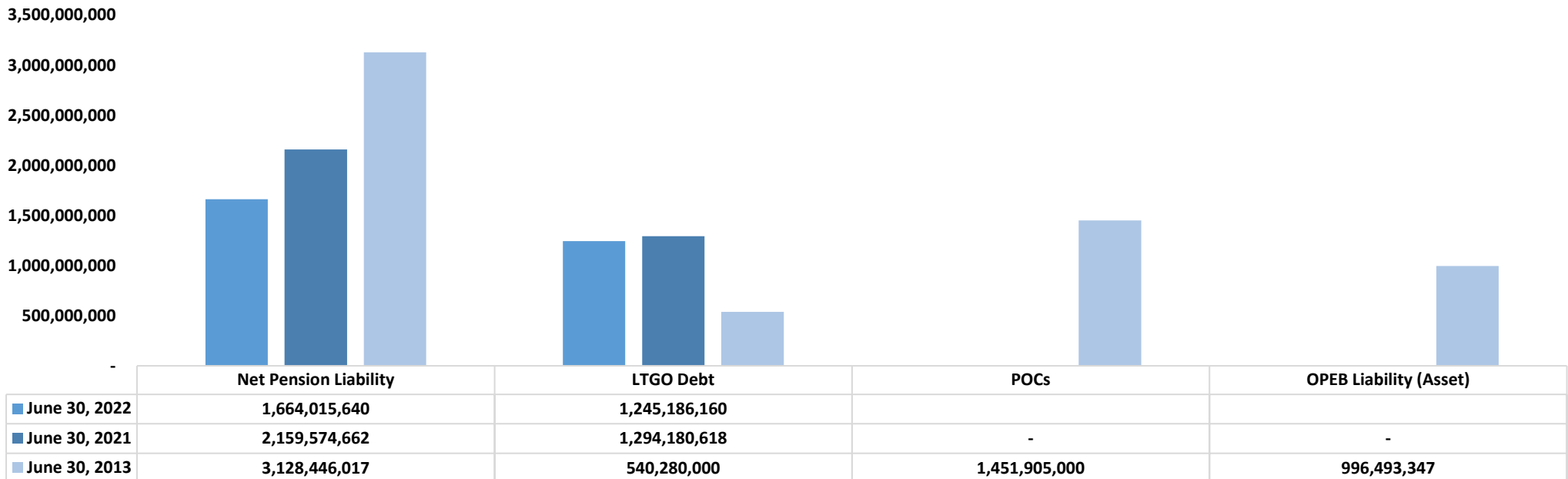
Primary Government Financial Results



Primary Government (long-term perspective), continued

- 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 million as of June 30, 2022, an increase of \$23.5 million from the prior fiscal year. 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 of \$977.3 million, as depicted in the previous graph.
- The primary government's unrestricted net position deficit of \$977.3 million 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 2022, 2021, and 2013.

Primary Government Legacy Debt Burden



Primary Government (long-term perspective), continued

- Fortunately, however, the City's net pension liability of \$1.7 billion as of June 30, 2022 was \$500 million lower than the net pension liability of \$2.2 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.
- 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.
- 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.

Enterprise Fund (long-term perspective)

Water and Sewage Disposal Funds and Transportation Fund

- 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. 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. 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.
- Meanwhile, the Transportation Fund (i.e., DDOT) continues to struggle financially as farebox revenue and federal and state grants are insufficient to cover expenditures. 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 2022, which is \$9.9 million more than the General Fund contribution of \$31.7 million made in FY 2021.

Benchmark Comparison of the City of Detroit's 2022 ACFR with Other Comparable Cities

City	Liquidity	Solvency	Asset Maint.	Pension Burden	Debt Burden	Tax Burden	Taxable Value	Pension Turnover	Taxes Abated
Detroit	199.5%	96.0%	68.1%	2,134.7	3,222.1	1,434.6	10,644.7	15.6%	15.9%
Flint	166.3%	52.1%	84.9%	4,075.9	330.1	470.7	9,974.8	N/A	1.1%
Lansing	156.9%	53.0%	65.4%	3,059.2	607.1	751.9	28,623.8	15.9%	7.8%
Memphis	271.4%	142.3%	42.9%	884.3	2,946.0	1,355.1	24,647.7	8.6%	5.1%
Louisville	467.6%	130.3%	73.5%	1,555.5	1,016.5	921.4	108,796.2	N/A	3.6%
Grand Rapids	297.9%	196.1%	73.1%	690.7	454.1	864.5	29,084.0	9.2%	7.5%
Baltimore	145.5%	106.6%	58.4%	3,503.8	3,418.9	3,187.9	68,263.4	8.7%	2.8%
Boston	206.0%	87.2%	53.6%	1,649.8	2,966.4	4,756.3	302,129.1	7.5%	0.7%
Portland	293.1%	76.6%	76.5%	6,456.8	1,629.3	1,499.5	108,780.9	N/A	1.8%
Oklahoma City	515.7%	230.3%	41.8%	246.9	1614.1	1,205.8	9,960.0	5.6%	4.4%
Kansas City	278.6%	167.8%	47.9%	1,181.4	3,563.2	1,756.8	20,023.1	8.2%	5.2%

- Detroit's liquidity is very good but almost half of its cash at June 30, 2022 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 due to large pension and debt burdens and a net position deficit.
- Detroit's asset maintenance ratio is relatively high due to its large amount of older capital 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, primarily due to Detroit's high property taxes.
- 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, particularly as compared to peer cities with population increases (Louisville, Grand Rapids, Boston, Portland, Oklahoma City, and Kansas City).