MOODY'S RATINGS

CREDIT OPINION

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City of Detroit, MI

Update to analysis

Summary

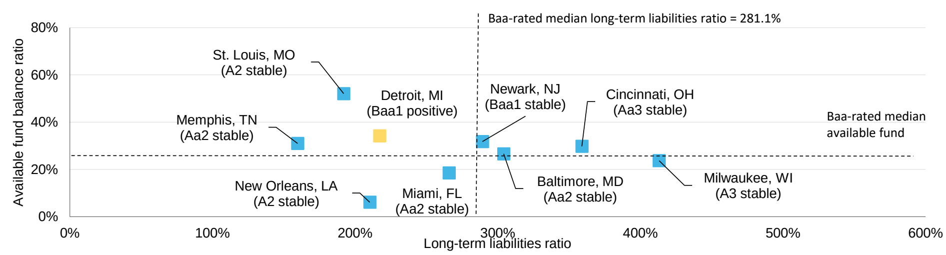
Detroit (Baa1 positive) has bolstered its financial resiliency over the past several years and the city's resurgence will likely continue. The city has a track record of solid operating performance, in large part because of its strong governance practices and it maintains robust reserves and low leverage, all of which will help it to weather the adverse effects of an economic slowdown, should one occur. While recent trade uncertainty is negative for the auto sector, the city's resurgence is unlikely to be materially derailed given the pipeline of major projects that are planned and in construction.

The recent progress is balanced against the city's comparatively high vulnerability to an economic downturn because of its revenue structure, regional concentration in auto manufacturing and outsized social risks, including high unemployment, elevated poverty and still declining population according to the American Community Survey. The resident income ratio remains low at 51%.

Still, the city has consistently maintained strong finance and leverage ratios after emerging from bankruptcy in 2014 and compares well against peers (exhibit 1).

Exhibit 1

Detroit's available fund balance and long-term liabilities ratios compare favorably against other large cities with a low resident income ratios



Source: Moody's Ratings

Credit strengths

- » Ample fund balance and liquidity; robust revenue growth driven by growth in wagering taxes and income taxes despite remote work disruptions
- » Strong budget management practices including semiannual conferences to estimate revenue, long-range financial planning and prudent budget assumptions
- » Low long-term liabilities and fixed costs relative to peers

Credit challenges

- Persistent social challenges; resident income and full value per capita ratios are among the lowest of large US cities, poverty and unemployment are very high
- Regional labor force is concentrated in auto manufacturing
- Limited revenue-raising flexibility

Rating outlook

The outlook is positive because of the growing likelihood that the city will build and maintain its financial resiliency in line with higher rated peers and that its renewed tax base and revenue growth will help absorb any costs pressures. While recent trade uncertainty is negative for the auto sector, the city's resurgence is unlikely to be materially derailed given the pipeline of major projects that are planned and in construction. Also, the city's use of semi-annual revenue estimating conferences, multi-year forecasting and other strong governance practices will enable it to weather economic uncertainty or slowdown, should it occur.

Factors that could lead to an upgrade

- Tax base growth that boosts full value per capita closer to $65,000 or wage and employment growth that increases the adjusted MHI ratio closer to 60%
- Continued maintenance of the available fund balance ratio around 30% and net cash ratio around 40%
- Continued maintenance of the long-term liabilities ratio between 200% and 350% and fixed costs around 15%

Factors that could lead to a downgrade

- Decreased available fund balance and net cash ratios to closer to 25% and 30%, respectively.
- Sustained increase in long-term liabilities ratio over 400%
- Acceleration of depopulation trends compared to prior decade, material tax base declines that reduce the full value per capita below $40,000, or an adjusted MHI ratio well below 50%.
- Reversal of good governance practices, such as semi-annual revenue estimating conferences and multi-year forecasting

Key indicators

Exhibit 2
Detroit (City of) MI

	2021	2022	2023	2024	Baa Medians
Economy					
Resident income ratio (%)	52.3%	52.2%	51.4%	N/A	76.1%
Full Value ($000)	$21,269,506	$21,889,025	$26,391,738	$29,477,735	$755,957
Population	645,658	636,787	636,644	N/A	14,678
Full value per capita ($)	$32,942	$34,374	$41,454	N/A	$52,913
Annual Growth in Real GDP	5.6%	3.0%	1.8%	N/A	1.3%
Financial Performance					
Revenue ($000)	$2,071,828	$2,321,082	$2,495,164	$2,740,674	$30,863
Available fund balance ($000)	$706,773	$819,293	$911,248	$936,202	$6,158
Net unrestricted cash ($000)	$1,370,767	$1,779,685	$1,812,100	$1,592,108	$12,240
Available fund balance ratio (%)	34.1%	35.3%	36.5%	34.2%	26.7%
Liquidity ratio (%)	66.2%	76.7%	72.6%	58.1%	45.6%
Leverage					
Debt ($000)	$3,001,737	$2,885,848	$2,777,794	$2,738,131	$24,050
Adjusted net pension liabilities ($000)	$5,388,012	$4,552,296	$2,987,144	$2,763,047	$48,097
Adjusted net OPEB liabilities ($000)	$4,498	$2,765	$2,082	$793	$6,084
Other long-term liabilities ($000)	$345,667	$384,855	$470,010	$453,345	$1,652
Long-term liabilities ratio (%)	421.8%	337.2%	250.0%	217.3%	281.1%
Fixed costs					
Implied debt service ($000)	$204,012	$210,541	$201,547	$192,961	$1,633
Pension tread water contribution ($000)	$182,828	$143,079	$135,773	N/A	$1,632
OPEB contributions ($000)	$115	$107	$127	$141	$235
Implied cost of other long-term liabilities ($000)	$19,166	$24,245	$26,878	$32,650	$91
Fixed-costs ratio (%)	19.6%	16.3%	14.6%	13.2%	15.5%

For definitions of the metrics in the table above please refer to the US Cities and Counties Methodology or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published US Cities and Counties Median Report.
The real GDP annual growth metric cited above is for the Detroit-Warren-Dearborn, MI Metropolitan Statistical Area.
Sources: US Census Bureau, Detroit (City of) MI's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

The City of Detroit is the county seat of Wayne County (A1 stable), located in the southeastern region of Michigan's Lower Peninsula. The city is situated on the Detroit River, directly across from the city of Windsor, Ontario, Canada. According to the 2020 census, the city has a population of just under 640,000, making it one of the 30 largest cities in the US and the largest city in Michigan (Aa1 stable). About three-quarters of the city's revenue is for governmental activities and the remaining quarter is business-type activities, primarily water and sewer. The city emerged from bankruptcy in 2014.

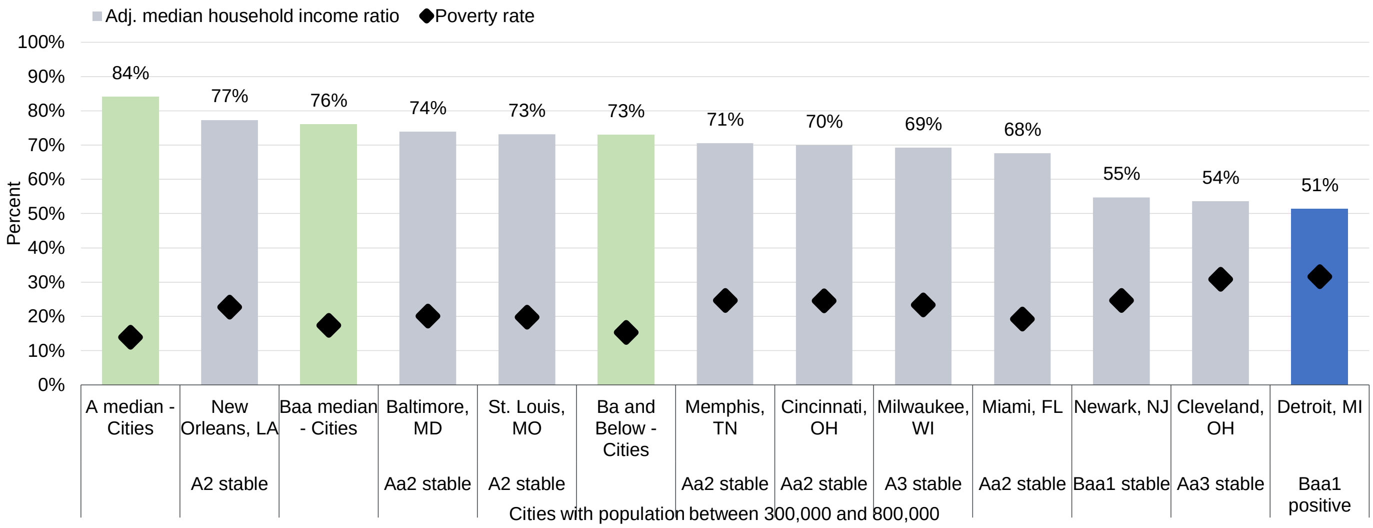
Detailed credit considerations

Economy: high poverty, long-term population decline and economic concentration remain challenges; recent tax base growth and ongoing development are bright spots

Detroit's economy will remain a comparative weakness because of its high poverty rate and very low full value per capita and adjusted MHI ratios (exhibit 3). Population decline and an elevated unemployment rate will also likely be long-term challenges.

Exhibit 3

Detroit's resident income ratio is the lowest compared to peer cities and poverty is high

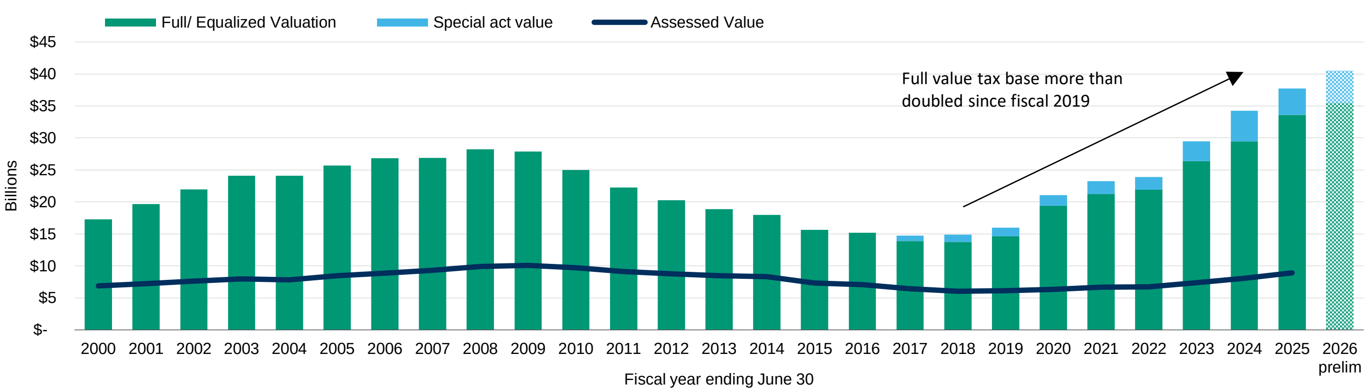


Source: Moody's Ratings

Overall, Detroit's economy has improved in recent years and will continue to recover given preliminary tax base growth (exhibit 4), improved services, reduced blight and ongoing development. The city reports a 15% increase in residential property values in 2024, which will boost full value per capita and support fiscal 2026 property tax revenue. Current development projects include a $2 billion expansion of Henry Ford Health, MI (A2 stable) and a Michigan State University health sciences research center, the University of Michigan Center for Innovation, which is a graduate school for engineering and robotics, a Major League Soccer stadium and major investments in new downtown hotels, retail, condos and apartments.

Exhibit 4

Detroit's tax base has grown significantly, bolstering full value per capita



Source: Moody's Rating, City of Detroit

The city is a regional employment center, which extends the reach of its income tax into its wealthier surrounding suburbs. Suburban commuters are a significant contributor of income tax revenue. The average wage rate of a job located in the city is roughly double the average wage rate for a resident, according to the University of Michigan Research Seminar in Quantitative Economics (RSQE).

While financial technology, particularly Rocket Mortgage, LLC. (Ba1 stable), and healthcare are increasingly important industries for the city, the regional economy is still heavily reliant on the domestic auto sector. The "Big Three" automakers, Ford Motor Company (Ba1 stable), General Motors Company (Baa2 stable), Stellantis N.V. (Baa2 stable) are the three largest employers in the MSA, directly accounting for roughly 6% of the Detroit metropolitan statistical area (MSA) employment. They also support a wider ecosystem of indirect jobs, such as small parts manufacturers. Stellantis is the only automaker in the city's top 10 employers, accounting for almost 5% of total city employment.

While tariffs and recent trade uncertainty are credit negative for the auto sector, it is too soon to know the impact on regional employment. The RSQE estimated a loss of roughly 13,000 direct and indirect job statewide over the next several years as a result of the tariffs in its May forecast for the state. But the region could also benefit over the longer-term if manufacturing were reshored. In June, GM announced it would invest about $4 billion over the next two years in US manufacturing, including at an assembly plant in nearby Orion Township, which could bolster area employment.

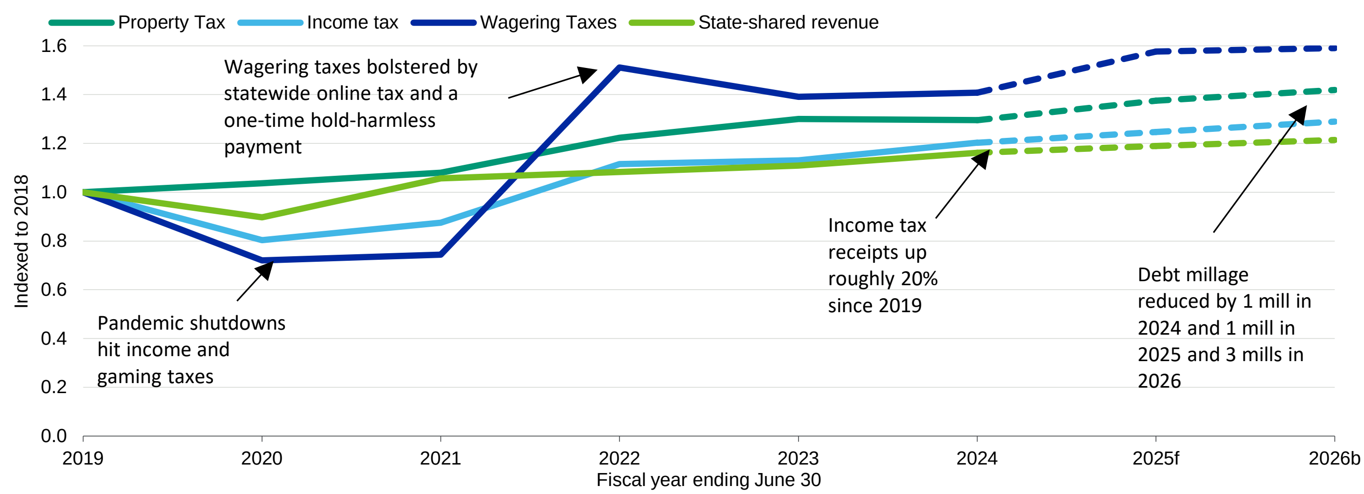
Financial operations: solid operating track record resulting in strong reserves compared to peers; growing revenue will help absorb spending demands

Detroit's available fund balance ratio will likely remain around 30%, because moderate revenue growth will offset expenditure pressures. Also, the city's budget management practices — including a multiyear forecasting and a sophisticated revenue-setting process — will provide it with tools to respond to possible adverse developments, such as an economic downturn.

Each of the city's key revenues – income, wagering and property taxes and state-shared revenue – have recovered above pre-pandemic levels and will likely continue to grow in fiscal 2025 and into fiscal 2026 assuming no major disruptions to area employment.

Exhibit 5

Each of the city's key revenues have recovered above pre-pandemic levels and will likely continue to grow in fiscal 2026



Source: Moody's Ratings, City of Detroit

Recent revenue growth has provided space in the city's budget to accommodate rising costs, such as its actuarially determined pension contributions (ADC). Between 2018 and 2024, total city revenue grew by roughly $562 million, net of $272 million one-time federal aid in fiscal 2024, or enough to cover the entire fiscal 2026 contribution by over three times.

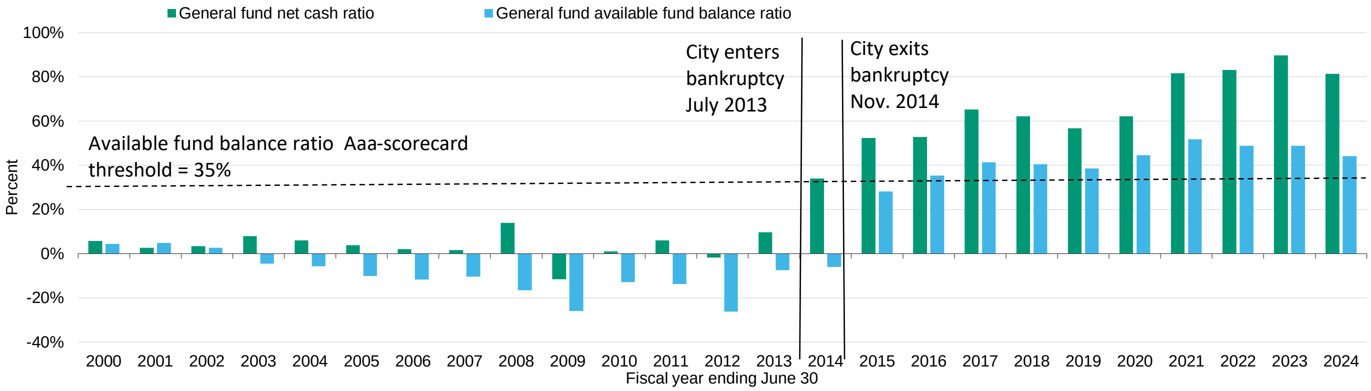
The city projects revenue growth of about $102 million in fiscal 2026, or about 7% over the adopted fiscal 2025 general fund budget, enabling the city to meet ongoing spending demands and continued investment in city services, such as expanded bus service, homeless services, alley clean up and blight mitigation. The budget also includes $30 million increase to the city's risk management fund and $10 million for a discretionary, one-time “13th check” for retirees.

Projected fiscal 2025 general fund revenue is up roughly $70 million compared to the adopted budget, based on year-to-date performance. The city plans to redirect a portion of that back into services and will end with a surplus of about $19.6 million.

The city has a track record of solid general fund operations since it exited bankruptcy in November 2014 (see exhibit 5). The general fund is the city's main operating fund, accounting for half of total revenue and the bulk of the city's fund balance.

Exhibit 6

General fund balance has been consistently strong since the city exited bankruptcy in 2014



Source: Moody's Rating, City of Detroit

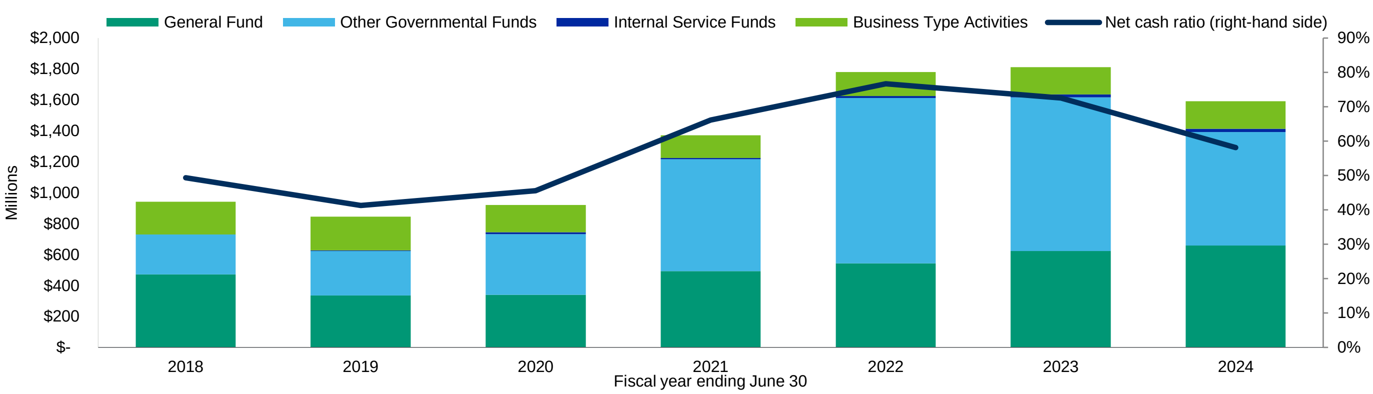
The city's available fund balance ratio is strong compared to peers. Also, the city received over $800 million in federal pandemic aid, enabling one-time programmatic and capital investments. The city did not use any of the federal funds for revenue replacement and those funds are not included in the available fund balance ratio.

Liquidity

The city's fiscal 2024 net cash ratio was strong compared to medians and solidly in line with peers. Cash was bolstered by roughly $510 million of one-time federal aid held in other governmental funds that will be spent down over the next several years (exhibit 6). Without those funds, net cash would be about $1.1 billion and the net cash ratio would be 39%.

Exhibit 7

Cash was bolstered by federal aid held in other governmental funds that will be spent down

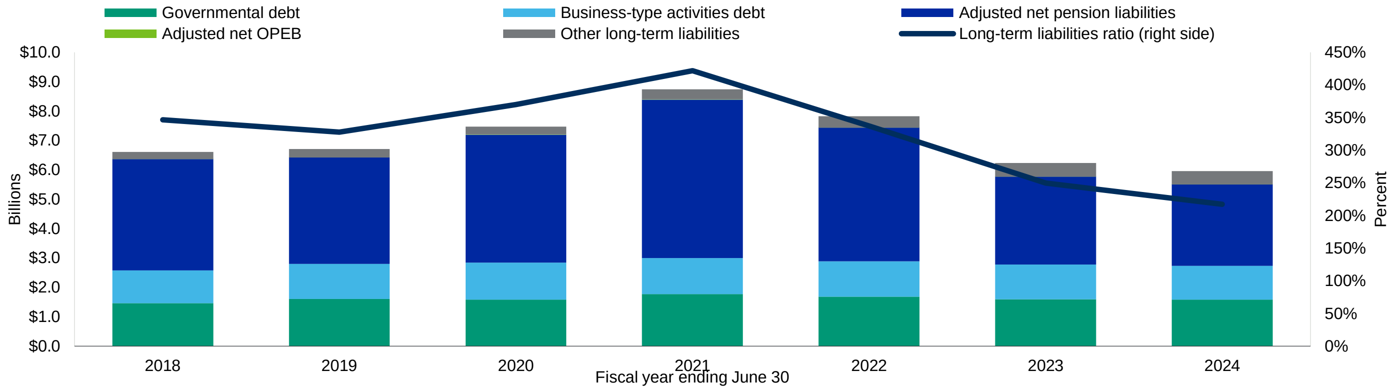


Source: Moody's Ratings, City of Detroit

Leverage: long-term liabilities ratio likely to remain lower than many peer cities

The city's total leverage ratio will remain between 200% and 350% and low compared to peers.

Exhibit 8
The city's long-term liabilities ratio is driven mainly by pensions and will likely remain below 350%



Source: Moody's Ratings, City of Detroit

The city's total leverage is roughly split between governmental and business-type activities. The bulk of the business-type activity debt is related to water and sewer contractual obligations to the Great Lakes Water Authority, MI (senior lien Aa3 stable). Detroit's water and sewer retail operations pay debt service on the city's allocated share of GLWA's debt and the payable revenue are pledged to GLWA's bonds.

Legal security
The city's rated GOULT bonds are full faith and credit general obligations backed by the city's pledge to levy property taxes without limitation as to rate or amount as authorized by voters.

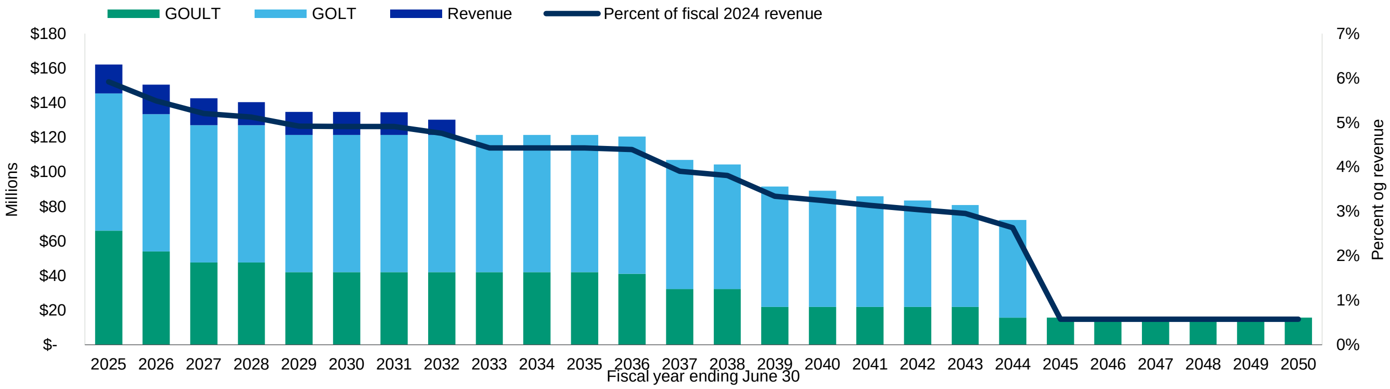
A portion of Detroit's outstanding GO debt is additionally backed by distributable state aid (DSA, Aa2 enhanced ratings). The outstanding enhanced bonds benefit from a strong legal framework that allows the city to issue debt through the Michigan Finance Authority (MFA). Detroit has entered into an intercept agreement that obligates the state treasurer to directly deposit all authorized DSA payments to a third-party trustee to satisfy debt service requirements.

The city's $87 million Michigan Transportation Fund Bonds, Series 2017 are backed by the city's Michigan Transportation Fund distributions. The bonds are structured to be drawn on predetermined dates. The bonds were issued by the MFA and sold as a private placement to JPMorgan Chase Bank, N.A. (long-term issuer rating Aa2 stable). Following an event of default the city would have to pay interest at a stepped up interest rate. Events of default are limited to nonpayment.

Debt structure
All of the city's debt is fixed rate. Amortization is somewhat slow, under half the city's general obligation debt retired in 10 years. The debt service schedule on the GO debt is declining, which will likely be at least partially filled in with additional debt in the future.

Exhibit 9

Total debt service is low and declining over the next few years



Source: Moody's Ratings, City of Detroit

The city's growing tax base and declining debt service allowed the city to reduce its debt millage by three mills, from seven mills to four mills, in fiscal 2026.

State aid provides ample coverage of debt service across all five liens of DSA bonds (exhibit 15). Distributions are comprised of a mix of constitutional and statutory payments. Constitutional payments are more reliable because they cannot be reduced by legislative action alone, though are subject to changes in state tax collections and the city's population. Constitutional payments will likely start to provide sum-sufficient coverage for the fifth lien bonds starting in fiscal 2024 because of declining debt service requirements. While statutory payments can and have been reduced, there is ample coverage to absorb moderate cuts and state payments are unlikely to be completely eliminated.

Debt-related derivatives

The city is not currently a party to any debt-related derivative agreements.

Pensions and OPEB

Adjusted net pension liabilities (ANPL) make up the bulk of the city's overall leverage. Detroit has two legacy pension plans: the General Retirement System (GRS) and the Police and Fire Retirement System (PFRS). Benefit accruals to the plans were halted in 2014 and all eligible employees were moved to hybrid pension plans. Detroit's other post-employment benefit (OPEB) healthcare obligations were largely eliminated in bankruptcy.

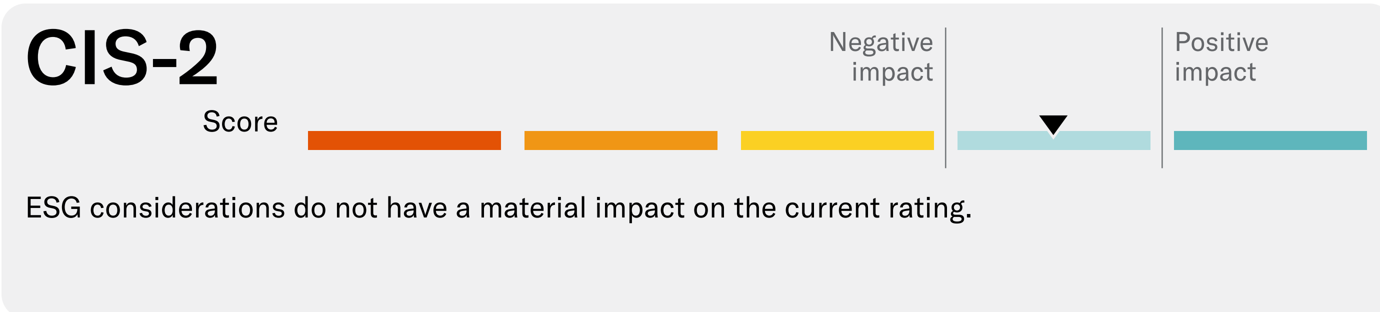
The city began making its ADC in fiscal 2024 after its pension contribution holiday ended. The city will gradually fit pension costs into its budget over several years using withdrawals from its Retiree Protection Fund (RPF). If pension investments underperform plan assumptions, the city would have to dedicate more of its budget to pension contributions and would likely deplete the RPF more rapidly. The fund held about $465 million at the end of fiscal 2023. This reserve is restricted and not included in our available fund balance or net cash ratios.

The city recently settled a dispute with PRFS regarding the length of the plan's amortization. Both of the city's plans will now use a 30-year amortization, instead of the 20 years proposed by PFRS, and the city will accelerate contributions into the funds using a level-principal funding method. The city will also make quarterly contributions into the fund.

ESG considerations

Detroit (City of) MI's ESG credit impact score is CIS-2

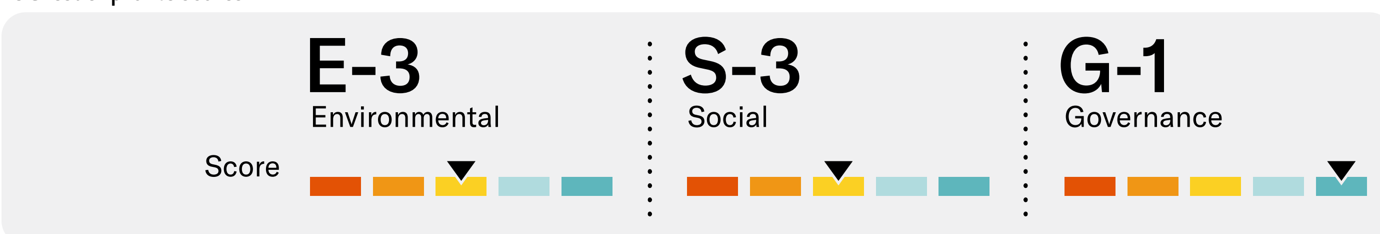
Exhibit 10
ESG credit impact score



Source: Moody's Ratings

Detroit's ESG Credit Impact Score is **CIS-2**, reflecting moderately negative exposure to environmental risks stemming from carbon transition, moderately negative exposure to social risks and positive governance profile.

Exhibit 11
ESG issuer profile scores



Source: Moody's Ratings

Environmental

The city's E issuer profile score is **E-3**. Detroit has exposure to the carbon transition risks faced by the auto manufacturers and related industrial companies that remain vital components of the local economy. The transition to electric vehicles (EVs) will likely result in substantially fewer workers over the longer term because EVs rely on fewer moving parts than their gasoline-powered counterparts, which significantly reduces the amount of labor required to manufacture them. The transition will likely take several decades to fully play out, in part because EV charging infrastructure is not yet built out. The city has neutral-to-low exposure to other environmental risks, including physical climate risk, natural resources management, and waste and pollution. Waste and pollution were historically more of a challenge for Detroit. But the city has undertaken major blight remediation efforts in recent years, demolishing thousands of vacant homes and dozens of large commercial structures, and it has moved to create cycling paths and other infrastructure, like the Joe Louis Greenway, to clean up illegal dumping grounds.

Social

The S issuer profile score is **S-3**, reflecting moderately negative considerations related to education, demographics, labor and income, and health and safety. Although somewhat improved, the city's median household income ratio is lower than the majority of its peers, poverty is high and the unemployment rate is elevated. While homicides have fallen recently, the city's violent crime rate overall is still high compared to peers. Housing considerations pose relatively low risks, the median rent in the city is lower than the metro area. Access to basic services risks have lessened in recent years and the city's emergency medical service (EMS) response time is reportedly in line with the national average.

Governance

Detroit's G issuer profile score is **G-1**, reflecting exceptional management practices compared to peers such as regular, semi-annual revenue-estimating conferences at which city and external officials agree on the resources available to appropriate. The city annually adopts a detailed four-year budget forecast, which it regularly meets or exceeds. Strong transparency and disclosure practices include regular reporting on year-to-date budget-to-actuals, long-range forecasts, and monthly cash flows. These practices help mitigate institutional constraints on revenue-raising ability and will help the city weather the adverse impacts of an economic downturn.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

The assigned rating is different from the scorecard-indicated rating because of forward-looking information and other considerations that are not in the scorecard. Other considerations include weaknesses related to regional concentration in auto manufacturing sector, a local economy and tax base that has proved to be less resilient during major economic downturns; and revenue structure that limits revenue-raising flexibility and heightens the city's vulnerability to economic downturns. Also considered is high overlapping debt burden stemming primarily from the school system. Forward-looking considerations include the likelihood that liquidity will decline from its current peak as federal aid is spent down, and that fund balance could erode over time given rising expenditure pressures and city's significant outstanding capital needs. Lastly, other considerations including the city's history of default stemming from its bankruptcy a decade ago.

Exhibit 12

Detroit (City of) MI

	Measure	Weight	Score
Economy			
Resident income ratio	51.4%	10.0%	Ba
Full value per capita	52,801	10.0%	Baa
Economic growth metric	-1.2%	10.0%	A
Financial Performance			
Available fund balance ratio	34.2%	20.0%	Aa
Liquidity ratio	58.1%	10.0%	Aaa
Institutional Framework			
Institutional Framework	A	10.0%	A
Leverage			
Long-term liabilities ratio	217.3%	20.0%	A
Fixed-costs ratio	13.2%	10.0%	Aa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			A1
Assigned Rating			**Baa1**

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Detroit-Warren-Dearborn, MI Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Detroit (City of) MI's financial statements and Moody's Ratings

Appendix

Exhibit 13
Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Ratings
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Ratings
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Ratings
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the US Cities and Counties Methodology .
Source: Moody's Ratings

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