



### Fiscal Position Stabilized and Strengthened

- Three consecutive years of balanced budgets and operating surpluses (FY 2015, FY 2016, FY 2017). FY 2018 expected to end with an operating surplus of approximately \$36 million
- Total General Fund balance of \$592.8 million at the end of FY 2017 vs. \$73 million total fund deficit at the end of FY 2013 (exhibit A)
- Two credit rating upgrades in less than three years, now exceeds the rating from March 2012 (exhibit B)
- Income Tax revenue has increased 15% over 4 years (\$292.1 million projected for FY 2018 vs. \$253.8 million in FY 2014)
- Property Tax collection rate has increased to over 80% in FY2018 (vs. 69% in FY 2014)
- FY 2017 Comprehensive Annual Financial Report (CAFR) finished four months earlier than the prior two years. Financial statement audit findings down 40% (6 in FY 2017 vs. 10 in FY 2014)
- FY 2017 Single Audit of federal grant awards completed at the same time as CAFR vs. 5 months after CAFR for FY 2014 (exhibit C)
  - Second consecutive year of zero questioned costs of federal grant awards vs. \$7.3 million in FY 2012 and \$18.5 million in FY 2013
  - 88% reduction in audit findings (12 in FY 2017 vs. 98 in FY 2012)
  - City has secured over \$202 million in grants and donations in 2017 to support neighborhood revitalization and service improvements
- Created a budget reserve fund, which the City must maintain with a minimum balance equal to 5% of annual expenditures. City has set aside \$8.7 million in excess of the minimum requirement for FY 2019

### Working Ahead on Long-Term Challenges

- Executing a strategy to address legacy pension contributions that resume in FY 2024 (exhibit D)
  - Mayor and City Council passed new legislation to create the Retiree Protection Fund (RPF), an irrevocable IRC Section 115 trust, to gradually build up assets and budget capacity
  - RPF contributions total \$335 million (plus interest) through FY 2023 with \$105 million provided to date
  - \$170 million is included in the approved FY 2019-2022 Four-Year Financial Plan
- Began taking actions to reduce recurring debt service expenses (exhibit D)
  - Used \$30 million from surplus to pay down a portion of Exit Financing debt
  - Achieved \$60 million in net present value savings by refinancing Distributable State Aid bonds
  - Used \$15 million from the sale of the Premier Parking Garage to redeem C-Notes
  - Used \$52 million from surplus to redeem all outstanding C-Notes
- Focusing on Financial Sustainability
  - Created a new forecasting and economic analysis unit that will focus on long-term financial sustainability, revenue estimation, and economic forecasting
  - Developed a long-term financial projection and rolling model to examine the City's long-term financial position under various scenarios and to plan strategies to ensure fiscal sustainability
  - Developed a financial model to estimate revenue gains from economic development projects



### Created a New Financial Management Infrastructure

- State law established a Chief Financial Officer (CFO) position vested with authority over all financial and budget activities
- Restructured all finance, budget, procurement, property assessment, and grants management functions and created a new centralized financial management organization called the Office of the Chief Financial Officer (OCFO) based on leading government practices and industry standards
  - All new positions (over 470 FTEs), new job requirements, new competitive salary schedules, new career paths, and a new performance evaluation system
  - Consolidated all departmental financial functions under the authority of the OCFO
  - Increased control over all City financial activities
- State law established an independent, permanent Revenue Estimating Conference to review and certify City revenues. Conference participants include:
  - The City's CFO, the State Treasurer or designee, and a person affiliated with another public entity, including a state institution of higher education, with experience in economic forecasting and revenue projection selected by the CFO and State Treasurer
- Replaced the annual budget with a four-year financial plan, which ensures the City will annually balance its budget for the upcoming fiscal year plus the three following fiscal years
- Established key budget principals to ensure long-term budget balance
  - Very conservative expenditure and revenue estimates. Budget cannot exceed conservative revenues certified by an independent, permanent Revenue Estimating Conference
  - Fiscal impact analysis completed for potential policy or budgetary changes and reviewed over a four-year period
  - Recurring expenditures must be supported by recurring revenues; City cannot make commitments that cannot be sustained
  - Surpluses and one-time revenues used for one-time spending that enhances City's long-term position
- Created a system for documenting, issuing and implementing key process flows, policies, standard operating procedures, and detailed work instructions for all operations within the OCFO
- Implemented a new grants management system, new e-Procurement system, and new cloud-based financial management system. Currently implementing a new human resources and payroll system

### Select Financial Highlights

- Transitioned the processing of City income tax returns and withholding to the State of Michigan
  - Taxpayers can now e-file and pay taxes electronically
  - Increased the number of new filers substantially
  - City's local operations now focused on compliance and audit
- Taxpayers can now pay their current and delinquent property taxes, water and sewer bills, and DTE Energy bills at kiosk locations throughout the City and by using the DivDat mobile payment app
- The City has accomplished a substantial turnaround on paying City suppliers more timely
  - Compared to August 2016, there has been a 85% reduction in backlogged invoices on hold waiting to be processed
  - Over 90% of suppliers are now paid via ACH instead of checks (vs. 30% in January 2017) (exhibit E)



## City of Detroit

### Financial Highlights

- Over 700 suppliers are now using the City's new online portal to submit invoices (vs. 5 in August 2016)
- Eliminated hundreds of unnecessary bank accounts and evaluating proposals to a RFP for citywide banking services
- Conducting the first citywide property reappraisal in over 60 years, making assessed values more fair and equitable. Residential and industrial reappraisal is complete and commercial reappraisal is on schedule to be completed before the end of calendar year 2018
  - State Tax Commission relinquished its control over the reappraisal
  - The OCFO- Office of the Assessor restructured its operations and implemented a technology-driven approach to assessments
- Improved regular reporting of financial information
  - Monthly budget vs. actual meetings held with departments
  - Monthly financial reports are provided to City Council and posted on the City's public website
- Implemented a program to post all contracts online within 30 days of award

## City of Detroit General Fund Balances

	<u>June 30, 2013</u>	<u>June 30, 2014</u>	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>
<b>General Fund Balances</b>					
Nonspendable					
Prepaid expenditures and advances	\$4,050,006	\$0	\$0	\$5,151,103	\$11,072,987
Restricted for:					
QOL program		77,067,071	124,981,648	52,052,301	54,675,178
Debt service				37,256,731	27,500,000
Unspent bond proceeds		979,826	979,826		
Committed for risk management operations	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Assigned for:					
Budget reserve			111,264,397 *	62,280,192 *	62,280,192
Subsequent appropriations (carryforward)			70,750,455	48,223,069	60,253,830
Blight and capital	979,826	42,000,000		67,851,503	50,000,000
Pension (for Retiree Protection Fund)				30,000,000	90,148,163
Risk management operations	34,550,314	59,267,054	38,788,660	34,718,181	47,895,504
Unassigned (deficit)	<u>(132,560,895)</u>	<u>(145,907,582)</u>	<u>70,922,574</u>	<u>143,047,758</u>	<u>168,966,674</u>
Total fund balances (deficit)	<u><u>(\$72,980,749)</u></u>	<u><u>\$53,406,369</u></u>	<u><u>\$437,687,560</u></u>	<u><u>\$500,580,838</u></u>	<u><u>\$592,792,528</u></u>

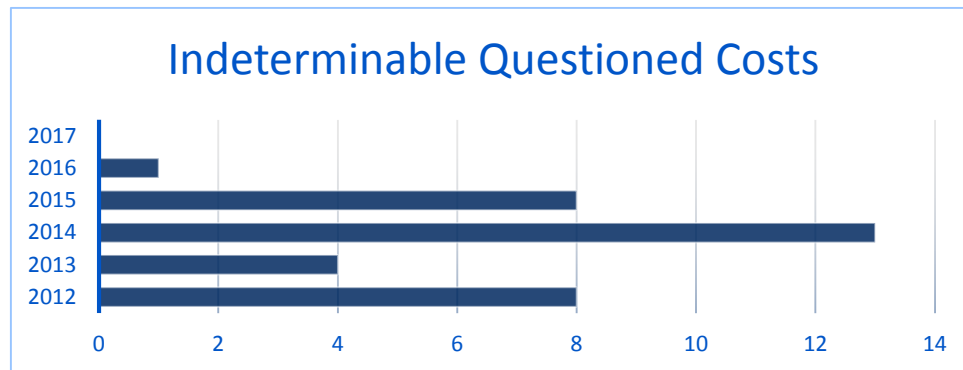
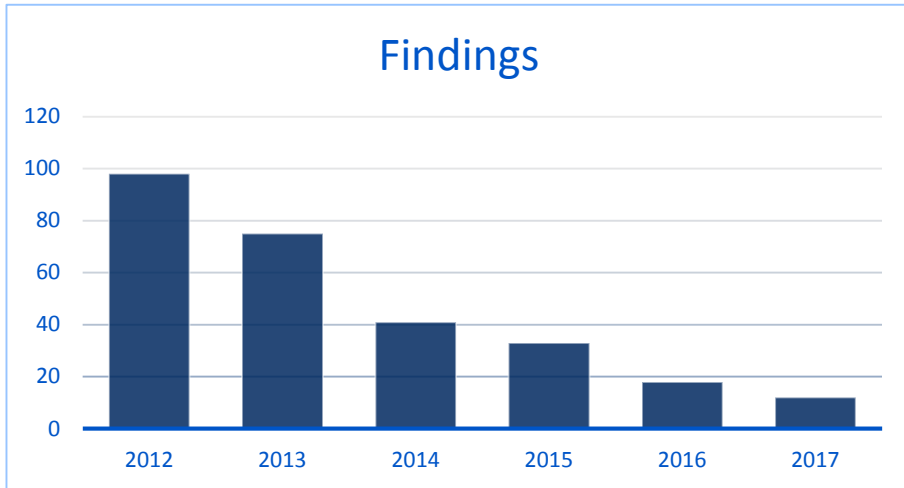
\* Budget Reserve minimum requirement is 5% of appropriations in adopted budget each year. FY15 budget included various one-time expenditures related to bankruptcy exit. FY16 budget reduced reserve in line with normal expenditure levels, plus an additional cushion of about \$8 million.

## City of Detroit General Obligation Ratings History

Significant Rating Actions – 2012 - Present		
Date	Rating	Action
<b>Moody's Investors Service</b>		
Oct. 13, 2017	B1	Rating upgraded
Jul. 14, 2016	B2	Rating affirmed
Jul. 30, 2015	B2	Rating upgraded
Dec. 18, 2014	B3	B3 Issuer Rating assigned; previous Caa3 rating withdrawn
Jun. 17, 2013	Caa3	
Jun. 13, 2013	Caa2	Downgraded
Nov. 28, 2012	Caa1	Downgraded
Jun. 14, 2012	B3	Downgraded
Mar. 20, 2012	B2	Rating downgraded from Ba3
<b>Standard &amp; Poor's Ratings Services</b>		
Dec. 19, 2017	B+	Rating upgraded
Jul. 21, 2016	B	Rating affirmed
Jul. 29, 2015	B	Rating assigned
Dec. 16, 2014	RW	D rating withdrawn
Oct. 02, 2013	D	Downgraded (missed payment)
Jul. 18, 2013	C	Downgraded
Jun. 14, 2013	CC	Downgraded
Jun. 12, 2013	CCC-	Downgraded
Mar. 27, 2012	B	Downgraded from BB

# Single Audit - 6 Year Comparison (2012-2017)

Year	2012	2013	2014	2015	2016	2017
<b>Federal Award Spend</b>	\$ 293,393,583.00	\$ 200,166,706.00	\$ 129,869,289.00	\$ 202,630,590.00	\$ 157,676,621.00	\$ 101,588,163.00
<b>Number of Findings</b>	98	75	41	33	18	12
<b>Amount of Questioned Costs</b>	\$ 7,305,027.00	\$ 18,512,118.00	\$ 11,918.00	\$ 214,100.00	\$ -	\$ -
<b>Number of Indeterminable Questioned Costs</b>	8	4	13	8	1	0



### Summary:

- Reduced the number of audit findings by 33.3% from 2016 to 2017; consistent and continual reduction since 2012
- Second year in a row of zero questioned costs
- The significant decrease in spend reflects the transition of EPA Revolving Loan Funds to GLWA, and the successful completion of pre-bankruptcy grant awards including:
  - HOME 2009-2011
  - EDI 2008
  - ESG 2013-2014
  - CDBG 2013



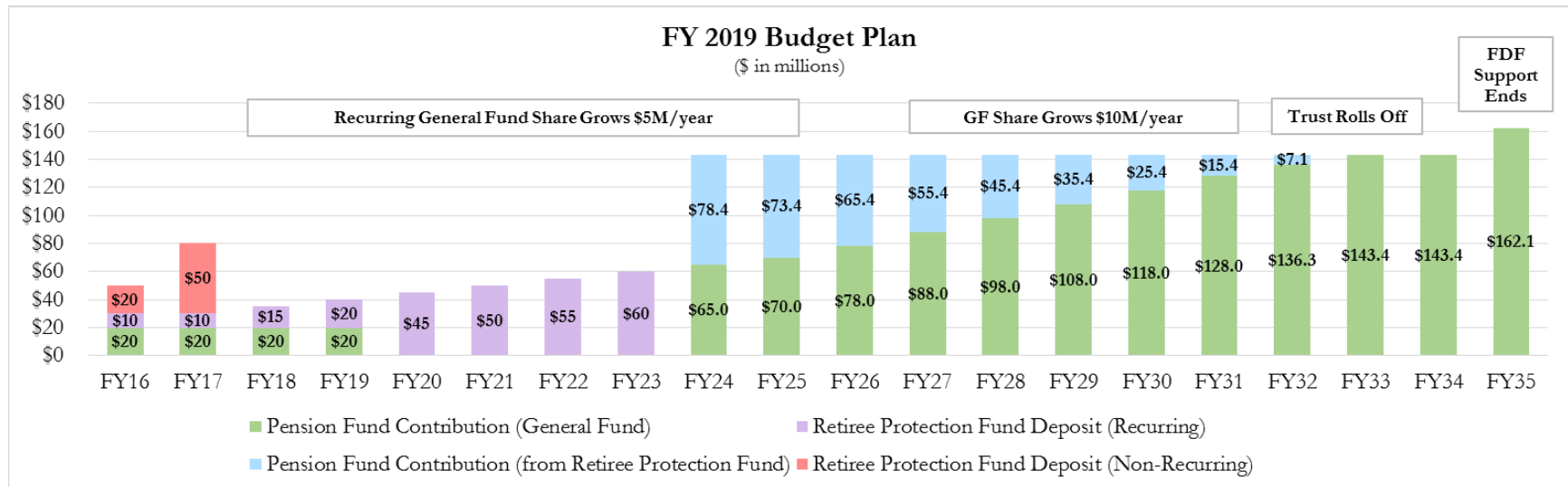


# Office of the Chief Financial Officer

## Retiree Protection Fund (RPF)

### Background

- City adopted a funding strategy for its legacy pension obligations during the FY18 budget cycle.
  - Contribute to the RPF through FY23 to build up trust assets that will be used to partially offset the City’s annual required legacy pension plan contributions that resume in FY24.
  - Allows the City to gradually build up its capacity to meet the annual legacy pension contributions from its General Fund.
  - City will continue revising its funding plan as new information becomes available in conjunction with the annual budget and planning process (e.g., updated actuarial valuations for the legacy pension plans, RPF investment returns).
- City approved a new ordinance and a trust agreement to establish the RPF effective August 11, 2017. The RPF is an irrevocable Internal Revenue Code Section 115 trust fund exclusively for satisfying the City’s legacy pension contributions.
- The City transferred the \$105M, plus interest, from funds appropriated in FY16-FY18 to the RPF in early September 2017.



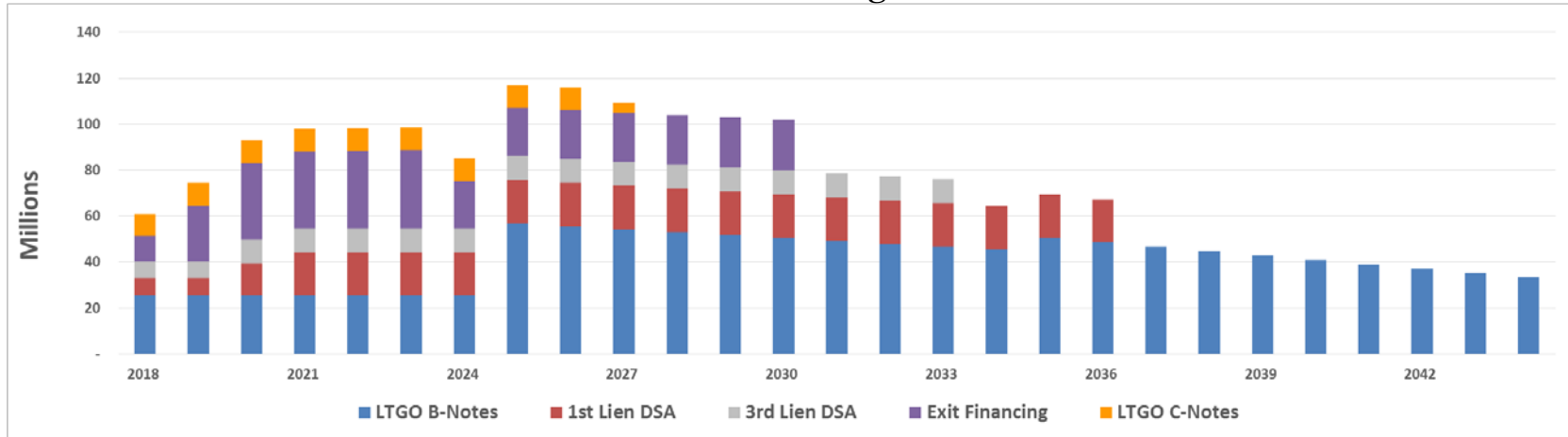
Pension contribution amounts above represent the General Fund share only, which is net of payments from other sources, such as the Foundation for Detroit’s Future (FDF), Detroit Institute of Arts, and Great Lakes Water Authority.



# Office of the Chief Financial Officer

## Debt Service

### Limited Tax General Obligation Debt Service



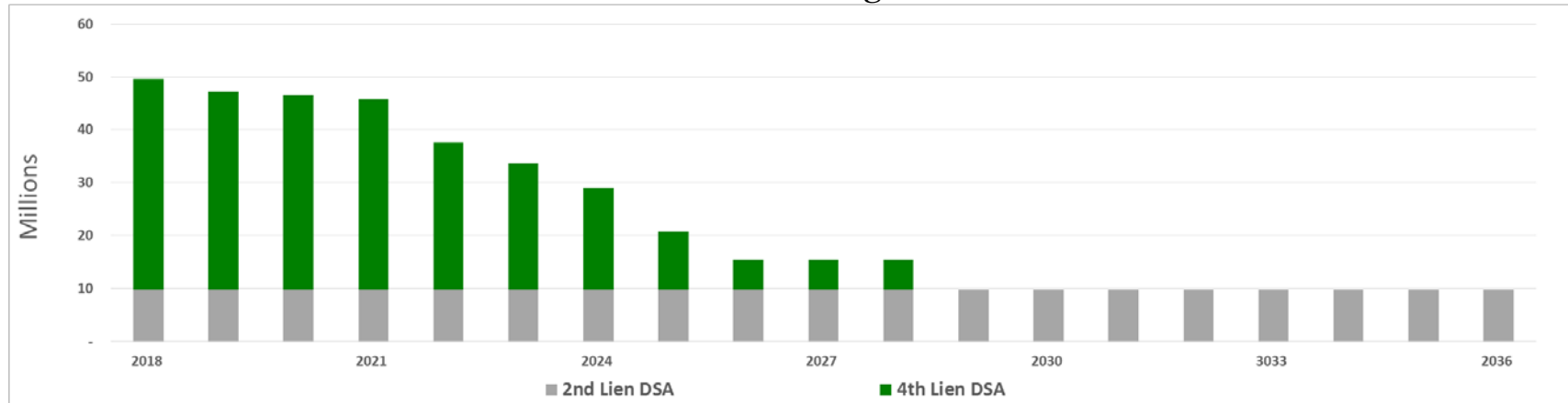
\* LTGO C-Notes represent the prior debt service before factoring in early redemption activity that has occurred during FY18, including the use of \$15M in proceeds from the sale of the Premier Parking Garage and \$52.3M from unassigned fund balance to redeem principal. On April 13, 2018, the City will have redeemed all of its outstanding C-Notes.

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
1st Lien DSA	\$ 7.7	\$ 7.7	\$ 14.1	\$ 18.8	\$ 18.8	\$ 18.8	\$ 18.8	\$ 18.8	\$ 18.8	\$ 18.8
3rd Lien DSA	7.3	7.3	10.4	10.4	10.4	10.4	10.4	10.4	10.4	10.4
Exit Financing	10.9	24.0	33.3	33.6	33.9	34.2	20.7	21.0	21.2	21.4
LTGO B-Notes	25.3	25.3	25.3	25.3	25.3	25.3	25.3	56.9	55.6	54.3
<b>LTGO C-Notes</b>	<b>9.7</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>4.3</b>
<b>Total</b>	<b>\$ 60.9</b>	<b>\$ 74.3</b>	<b>\$ 93.1</b>	<b>\$ 98.1</b>	<b>\$ 98.4</b>	<b>\$ 98.7</b>	<b>\$ 85.2</b>	<b>\$ 117.1</b>	<b>\$ 116.0</b>	<b>\$ 109.2</b>





**Unlimited Tax General Obligation Debt Service**



\* UTGO Debt Service is supported by a dedicated property tax millage set at a level sufficient to pay scheduled debt service.

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
2nd Lien DSA	\$ 9.8	\$ 9.8	\$ 9.8	\$ 9.8	\$ 9.8	\$ 9.8	\$ 9.8	\$ 9.8	\$ 9.8	\$ 9.8
4th Lien DSA	39.8	37.4	36.7	35.9	27.8	23.9	19.2	10.9	5.6	5.6
<b>Total</b>	<b>\$ 49.6</b>	<b>\$ 47.2</b>	<b>\$ 46.5</b>	<b>\$ 45.7</b>	<b>\$ 37.6</b>	<b>\$ 33.7</b>	<b>\$ 29.0</b>	<b>\$ 20.7</b>	<b>\$ 15.4</b>	<b>\$ 15.4</b>

# City of Detroit Accounts Payable - Checks vs. ACH

