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# City of Detroit

## CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director  
Legislative Policy Division Staff 

DATE: February 4, 2020

RE: Review of the 2019 Comprehensive Annual Financial Report (CAFR) for the City of Detroit

### Executive Summary

The Legislative Policy Division (LPD) in this memorandum provides the City Council a report on the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019 (2019 CAFR). A copy of the 2019 CAFR has been presented to the members of the Budget, Finance and Audit Committee for review.

We acknowledge and commend the efforts of the OCFO (Office of the Chief Financial Officer) staff to complete the 2019 CAFR on December 14, 2019 ahead of the deadline of December 31, 2019.

Plante & Moran, PLLC, the City's independent auditor, issued an unqualified ("clean") opinion for the 2019 CAFR, 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 2019 CAFR is fairly presented in all material aspects. As a result, investors, creditors, rating agencies and other interested parties reading the City's 2019 CAFR can rely on the audited financial statements and the information contained therein.

LPD's review of the 2019 CAFR 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)?

- 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 2019 CAFR focuses on major issues we raise from our review of the 2019 CAFR as we feel the 2019 CAFR addresses the preceding focus questions. However, to gain a broader “high level” understanding of the 2019 CAFR from a financial perspective, LPD encourages the reader of this report to also read the “Introductory Section & Transmittal Letter” (pages i-vi of the 2019 CAFR) and the “Management Discussion and Analysis” section (pages 3-16 of the 2019 CAFR) in the 2019 CAFR.

**Major Issues from the City’s General Fund Financial Statements in the 2019 CAFR (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 2019 CAFR 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 resources<sup>1</sup> less liabilities and deferred inflows of resources<sup>2</sup>) 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 ended up with an \$80.9 million operating surplus for FY 2019.
- The General Fund had an accumulated unassigned fund balance (surplus) of \$123.2 million at June 30, 2019, a \$8.3 million decrease from the \$131.5 million accumulated unassigned surplus at June 30, 2018.<sup>3</sup> This means the City had sufficient assets to pay its obligations at June 30, 2019. Expenditures were less than budgeted mainly due to unfilled positions.
- The City’s General Fund assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$692.1 million. As a result, the General Fund had a total fund balance at June 30, 2019 of \$692.1 million, an \$80.9 million increase from the \$611.2 million total fund balance at June 30, 2018.
- Most of the General Fund total fund balance of \$692.1 million at June 30, 2019 is assigned for reinvestment, future liabilities, and potential risks: a) \$77.3 million for Budget Reserve;

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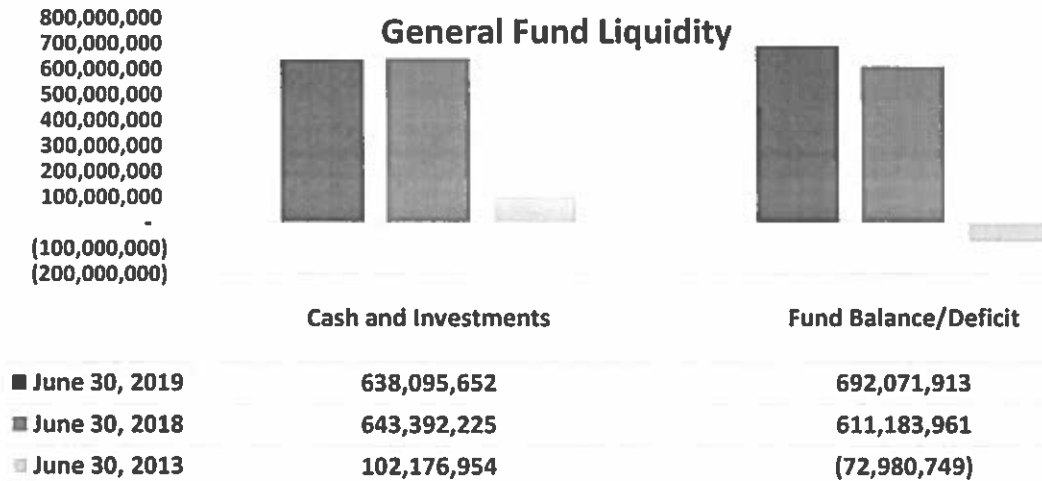
<sup>1</sup> A deferred outflows of resources is a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. An example of a deferred outflow of resources is an employer pension contribution made after the measurement date.

<sup>2</sup> 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.

<sup>3</sup> The City has used the General Fund accumulated unassigned surplus for important expenditures. Of the FY 2018 \$131.5 million accumulated unassigned surplus, \$73 million was budgeted in FY 2020 for blight remediation; \$32.5 million was budgeted in FY 2020 for capital improvements; and \$12.1 million was budgeted in FY 2020 for risk management.

b) \$76.6 million for Risk Management Fund; c) \$105.5 million for blight and capital projects; and d) \$56.3 million for subsequent appropriations. In addition, a total of \$129.5 million of the fund balance is set-aside and restricted for future pension contributions.

- The General Fund’s cash and investments and restricted cash at June 30, 2019 totaled \$638.1 million. 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. The graph below details the General Fund’s improved liquidity per cash and investments and total fund balance for fiscal years 2019, 2018, 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 \$638.1 million in General Fund cash and investments is sizable, the lion share of it is either obligated, restricted or assigned to a specific purpose.

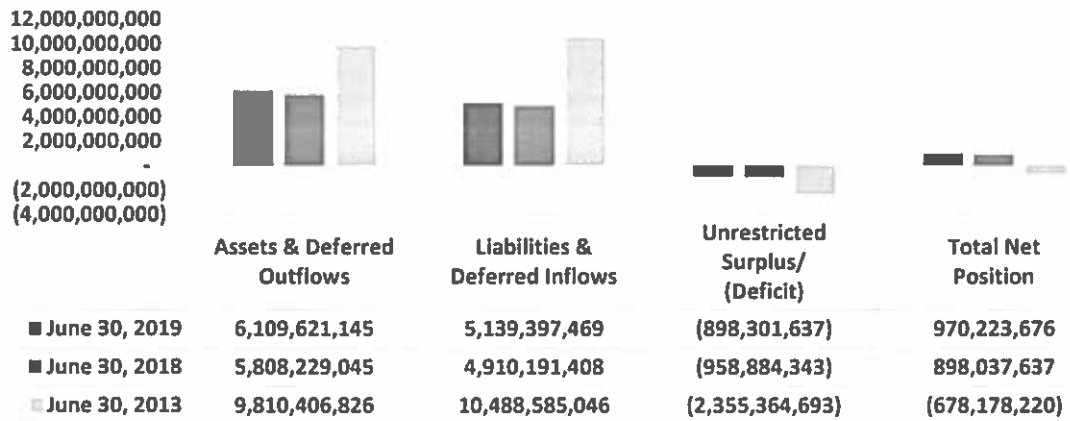
**Major Issues from the City’s Governmental-Wide Financial Statements in the 2019 CAFR (Long-term perspective)**

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

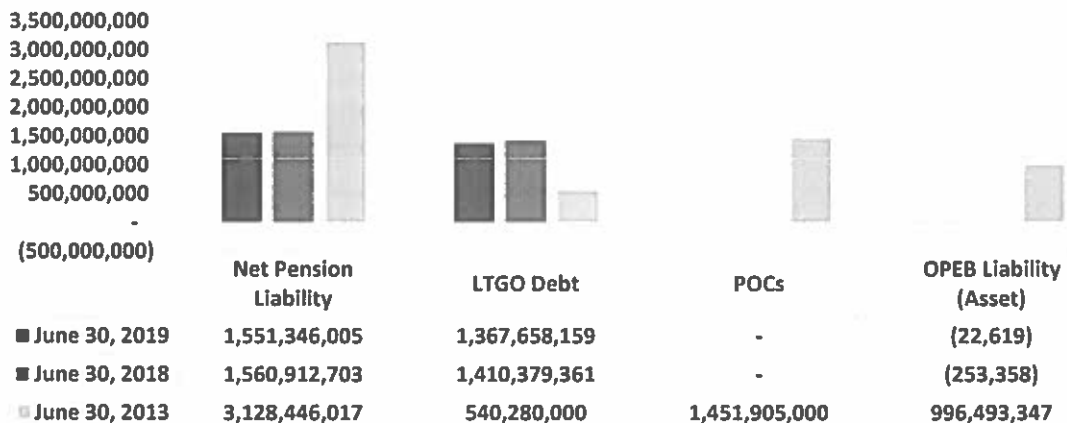
- Over time, increases and decreases in net position measure whether the City's citywide financial condition is improving or eroding. The primary government's (citywide) net position (net worth) was \$970.2 million, meaning total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$970.2 million at June 30, 2019, an increase of \$72.2 million from the \$898.0 billion net position at June 30, 2018. The increase was mainly due to the \$77.3 million increase in income tax revenues.
- The graph below details the primary government's financial results for fiscal years 2019, 2018 and 2013.

### Primary Government Financial Results



- As the previous graph indicates, the primary government's unrestricted net position deficit was \$898.3 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, 2019. This was mainly due to the City's huge legacy pension and debt obligations which are detailed below for fiscal years 2019, 2018, and 2013.

### Primary Government Legacy Debt Burden



- The City’s net pension liability of \$1.551 billion and \$1.368 billion of LTGO (Limited Tax General Obligation) debt<sup>4</sup> are 30% and 27%, respectively, of the primary government’s total liabilities of \$5.100 billion on June 30, 2019. 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.
- After June 30, 2023, the City will have significant annual obligations to fund pensions, especially if the Net Pension Liability is not significantly reduced by then. Beginning in 2024, the Plan of Adjustment assumed that the UAAL (Unfunded Actuarial Accrued Liability<sup>5</sup>) would be funded over 30 years and projected an annual General Fund contribution of \$111 million beginning in fiscal year 2024. Based on the latest actuarial valuation as of June 30, 2019, the anticipated General Fund contributions starting in FY 2024 are projected to be \$164.3 million<sup>6</sup>. Fortunately, the OCFO has taken action to mitigate the pension required contributions in 2024 by setting aside \$129.5 million from General Fund surpluses in the Retirement Protection Trust Fund as of June 30, 2019.
- Of the primary government’s \$1.551 billion net pension liability at June 30, 2019, \$692.2 million was attributable to the General Retirement System (GRS), and \$859.2 million was attributable to the Police and Fire Retirement System (PFRS)<sup>7</sup>. The primary government’s net pension liability decreased \$10.0 million from the \$1.561 billion balance on June 30, 2018.<sup>8</sup>
- Of the GRS primary government net pension liability of \$692.2 million, \$691.2 million was attributable to the GRS legacy Component II pension plan, and \$1.0 million to the Component I new pension plan per the bankruptcy. Of the PFRS net pension liability of \$859.2 million, all of it was attributable to the PFRS legacy Component II pension plan, and (\$33.2) million (net pension asset, meaning pension system’s plan fiduciary net position exceeds pension system’s total pension liability) to the Component I new pension plan per the bankruptcy. The GRS legacy Component II pension plan was 70.0% funded as of June 30, 2018. The PFRS legacy Component II pension plan was 76.9% funded as of June 30, 2018.<sup>9</sup>
- The General Retirement System (GRS) Legacy Pension Fund (Component II) had total expenditures of \$264.6 million for the year ended June 30, 2019<sup>10</sup>. The total Net Position of the fund was \$1.811 billion at June 30, 2019, a \$142.0 million decrease from the prior

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<sup>4</sup> Limited Tax General Obligation (LTGO) debt is typically paid from General Fund revenues. Unlimited Tax General Obligation (UTGO) debt is typically paid from a property tax debt millage that was approved by the voters.

<sup>5</sup> The Unfunded Actuarial Accrued Liability (UAAL) represents the amount of actuarially accrued liabilities greater than the actuarially value of assets of a pension plan.

<sup>6</sup> Page 118 of the 2019 CAFR, Note 13, Pension Settlements

<sup>7</sup> Pages 107-108 of the 2019 CAFR and from 2018 actuarial reports.

<sup>8</sup> The GRS Pension and Police and Fire Pension Plans investment rate of return net of fees and expenses were 6.5% and 8.2%, respectively for the year ended June 30, 2018 per the FY 2019 Pension Financial Statements (Page 8 GRS and Page 8 PFRS).

<sup>9</sup> Pages 130 and 131 of the 2019 CAFR, Schedule of Changes in Net Pension Liability and Related Ratios.

<sup>10</sup> GRS (Component II) “total expenditures” is synonymous with “total deductions” on page 189 of the 2019 CAFR.

year<sup>11</sup>. The GRS Legacy Pension Fund has a high payout ratio (1:6.8) compared to its net position, meaning if GRS pension expenditures continue at this rate, total GRS pension net position would be depleted in approximately six years and ten months. The Net Pension Liability to the GRS Legacy Pension Fund was \$832.7 million as of June 30, 2018.<sup>12</sup> The City's pension obligations are a burden that have to be closely monitored.

- The Police and Fire Retirement (PFRS) Legacy Pension Fund had total expenditures of \$312.7 million for the year ended June 30, 2019<sup>13</sup>. The total Net Position of the fund was \$2.676 billion at June 30, 2019, a \$195.3 million decrease from the prior year<sup>14</sup>. The PFRS Legacy Pension Fund has a lower payout ratio (1:8.6, meaning the total PFRS pension net position would be depleted in approximately eight years and seven months at this rate of PFRS pension expenditures) than the GRS Legacy Pension Fund but it is still of concern. The City's Net Pension Liability to the PFRS Legacy Pension Fund was \$859.2 million as of June 30, 2018.<sup>15</sup>
- Of concern is the transfer of \$9.0 million and \$4.0 million transfer from the GRS and PFRS Legacy pension funds, respectively, in FY 2019 to the Component 1 pension plans.<sup>16</sup> It appears the legacy plan annuitants are funding the new pension plans with the excess earnings from their annuities. The earnings should be retained by the annuity fund to provide for investment shortfalls in future years. We need for the OCFO and retirement systems to better explain these transfers.
- The OCFO has taken commendable steps to reduce the LTGO debt and gross debt service for fiscal years 2025-2030 by refunding certain bond obligations. In FY 2019, the OCFO refunded \$197.7 million of the 2014 B(1) (\$192.2 million) and B(2) (\$5.5 million) bonds with the proceeds from the issuance of \$176.0 million, Distributable State Aid Fifth Lien Financial Recovery Refunding Bonds (Limited Tax General Obligation Bonds), Series 2018 Bonds to the Michigan Finance Authority. The refunding was done to reduce the gross debt service for fiscal years 2025-2030 by approximately \$155.0 million. In addition to the reduced debt service, the City will also save approximately \$10.0 million as a result of this refunding.<sup>17</sup> Debt service beginning in fiscal year 2025 would have increased by approximately \$31 million per year through fiscal year 2030 in absence of these transactions.
- The primary government (citywide) had \$2.132 billion in total revenue for the year ended June 30, 2019, an increase of \$251.4 million from the prior fiscal year. The primary government had \$2.064 billion in total expenses for the year ended June 30, 2019, an

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<sup>11</sup> Page 189 of the 2019 CAFR

<sup>12</sup> Page 101 of the 2019 CAFR. Per page 99 of the 2019 CAFR, as permitted by GASB No. 68, the City has chosen to use June 30, 2018 as its measurement date for the net pension liability (asset) for its fiscal year 2019 financial statements.

<sup>13</sup> PFRS (Component II) "total expenditures" is synonymous with "total deductions" on page 190 of the 2019 CAFR.

<sup>14</sup> Page 190 of the 2019 CAFR

<sup>15</sup> Page 102 of the 2019 CAFR. Per page 99 of the 2019 CAFR, as permitted by GASB No. 68, the City has chosen to use June 30, 2018 as its measurement date for the net pension liability (asset) for its fiscal year 2019 financial statements.

<sup>16</sup> Pages 189 and 190 of the FY 2019 CAFR

<sup>17</sup> Page 85 of the 2019 CAFR, Note 7 – Long-term Debt

increase of \$167.4 million from the prior fiscal year. As a result, total primary government revenues exceed total expenses by \$68 million.

- We noted an error on page 20 of the FY 2019 CAFR. The Governmental Activities Net Position (Deficit) – Beginning of year (as restated, see Note 1) was \$337,838,390 and appears to be \$1,244,265 in error. The balance per the FY 2018 CAFR (page 21) was a deficit of \$341,907,770. Note 1 (page 51) details the adjustment to increase the beginning net position for governmental activities by \$2,825,115. As a result, The Governmental Activities Net Position (Deficit) – Beginning of year (as restated, see Note 1) should be a deficit of \$339,082,655 (341,907,770 – 2,825,115). The OCFO needs to explain how it determined the FY 2019 beginning balance deficit of \$337,838,390. If such an error was made the integrity of the FY 2019 CAFR financial statements would be questionable.

	Governmental Activities	Business-Type Activities	Primary Government Total
Net position - June 30, 2018 - As previously reported	\$ (341,907,770)	1,239,945,407	898,037,637
To restate Fiduciary Funds to ISF	2,825,115		2,825,115
Net position - June 30, 2018 - As restated	<u>\$ (339,082,655)</u>	<u>1,239,945,407</u>	<u>900,862,752</u>
Amount per 2019 CAFR	(337,838,390)	1,239,945,407	902,107,017
Difference	(1,244,265)	-	(1,244,265)

**Major Issues from the City’s Enterprise Fund Financial Statements in the 2019 CAFR (Long-term perspective)**

- The City’s enterprise funds<sup>18</sup> had a net position of \$1.259 billion at June 30, 2019, an increase of \$19.0 million from the \$1.240 billion net position at June 30, 2018. The enterprise fund cumulative unrestricted net position totaling \$773.2 million in FY 2019 was a \$23.9 million decrease from the \$797.1 million in FY 2018.
- In FY 2019 Water and the Sewage Disposal Funds had unrestricted net positions of \$456.9 million and \$543.1 million, respectively, mainly due to the bifurcation which exchanged the water and sewer regional systems assets and liabilities including long term debt to GLWA for \$50.0 million in annual lease payments over 40 years effective January 1, 2016. The unrestricted net position increased \$10.4 million for Water and decreased \$12.7 million for Sewage in FY 2019 from the prior year.
- While the Water and Sewage Disposal Funds have large unrestricted net positions at June 30, 2019, both funds have large capital and infrastructure repair and replacement needs and debt obligations to GLWA that will require a large share of that unrestricted net position. A benefit of the net unrestricted net position is that water and sewer rate increases to Detroit customers will be mitigated, as the unrestricted net position through the annual \$50 million

<sup>18</sup> The 2019 CAFR classifies “enterprise funds” as “business-type activities” in the City’s government-wide financial statements.

lease payment from GLWA, will provide a significant amount of the funding for both Funds' capital, infrastructure, and debt obligation needs.<sup>19</sup>

- In FY 2019, both the Water and the Sewage Disposal Funds had positive income (Change in Net Position) of \$15.7 million and \$24.8 million respectively.
- The lease receivable from GLWA on DWSD's Statement of Net Position does not agree with the lease payable on GLWA's Statement of Net Position for FY 2019. GLWA shows the lease to be \$25.5 million less than DWSD for the Water Fund and \$31.1 million less for the sewage Disposal Fund. Detailed below is the difference. GLWA and DWSD use a different discount rate which causes the difference in the reported amounts.

	in Millions					
	Water			Sewer		
	DWSD	GLWA	Difference	DWSD	GLWA	Difference
Receivable From GLWA	\$ 447.0	421.5	25.5	\$ 546.3	515.2	31.1

- It is important to note that as of June 30, 2019, the Sewage Disposal Fund shows a balance of \$44.0 million in a liability account entitled "shortfall loan payable to Great Lakes Water Authority".<sup>20</sup> This appears to be attributable to a negative balance caused by a budget shortfall of \$47.8 million for the DWSD sewer fund which exceeds the two percent threshold (i.e., actual receipts falling short of budget for either the water fund or sewer fund by greater than two percent) per the 2018 MOU. The budget shortfall not cured by the end of the fiscal year following the year in which they arise shall be repaid in full, in installments over a period not to exceed three fiscal years. The installment payments will include a surcharge based on the three-year U.S. Treasury note plus 150 basis points.<sup>21</sup>
- **The City needs to closely observe the financial performance of the Water and Sewage Disposal Funds after the bifurcation to ensure revenues cover expenses and essential services are provided.**
- The Transportation Fund had an unrestricted net position deficit at June 30, 2019 of \$255.7 million, a \$32.0 million increase from the \$223.7 million deficit on June 30, 2018, mainly due to a \$25.2 million increase in net pension liability. The General Fund contributed \$61.5 million in subsidies to the Transportation Fund in FY 2019, which is \$6.3 million more than the General Fund contribution of \$55.2 million made in FY 2018.
- The Public Lighting Authority of Detroit (the "PLA") had a \$35.9 million net position at June 30, 2019, a \$1.0 million increase from the \$34.9 million at June 30, 2018. In addition, the City provided a subsidy of \$10.1 million to the PLA. The PLA had an unrestricted net position of \$30.7 million in the FY 2019 CAFR, which is mainly due to the \$18.8 million excess utility user tax revenues collected that will be used to pay its future debt obligations

<sup>19</sup> Attachment V "Questions on FY 2017 DWSD Financial Statements Net Position and DWSD Management Responses"

<sup>20</sup> Page 27 of the 2019 CAFR.

<sup>21</sup> Note 20. Subsequent Events on page 76 of the 2018 GLWA CAFR.



(the PLA collects \$12.5 million in utility users' tax annually from the General Fund to meet annual debt service requirements).<sup>22</sup>

- Other Enterprise Funds include the Airport Fund and Parking Fund. The Parking Fund net position on June 30, 2019 was \$27.8 million, a decrease of \$4.6 million from the \$32.4 million net position on June 30, 2018. The Parking Fund reported a \$7.1 million asset contribution to governmental activities which contributed to the decrease in net position. The OCFO needs to explain what this transaction was. The Millennium parking garage was sold on July 19, 2019 for \$18.7 million. Its book value was \$7 million. The gain was approximately \$11 million after expenses. The proceeds were used for land acquisitions for the FCA project. The Airport Fund had a \$6.7 million unrestricted deficit net position on June 30, 2019, an increase of \$2.9 million from the \$3.8 million unrestricted deficit net position at June 30, 2018. A lawsuit settlement was the major reason for the increased deficit. The General Fund subsidy to the Airport increased \$1.3 million to \$2.2 million for FY 2019 from the \$.9 million in FY 2018.
- The new Internal Service Funds (Employees Benefit Plan Fund and Disability Income Protection Plan Fund) were reported with the Enterprise Funds as Governmental Activities in the FY 2019 CAFR. The Employee Benefit Plan Fund had a \$2.2 million net position on June 30, 2019. The Disability Income Protection Plan Fund had a \$.9 million net position on June 30, 2019. An Internal Service Fund is a fund used in governmental accounting to account for goods or services shifted between departments on a cost reimbursement basis. The Employee Benefit Plan Fund provides the City's employees health care (e.g., hospitalization premiums) and other insurance benefits such as life, dental, and vision. The Disability Income Protection Plan Fund provides the disability insurance for qualified disabled City employees. The Fund that the employee works in is responsible for reimbursing the Internal Service Fund for the costs incurred. We in LPD would like to see an Internal Service Fund created for Risk Management so that all claims, litigation and workers compensation costs can be properly accounted for and properly reimbursed.

**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 strengthened<sup>23</sup>:

- *The City now has achieved a balanced budget for the fifth consecutive year.* While the Finance Review Commission (FRC) has no active role any longer it will continue to exist for a 10-year term. The City is still required to submit monthly financial reports, adopted budget and 4-year financial plan to the FRC each year. So long as the City continues to balance its budgets and meet other basic fiscal requirements, the FRC will stay inactive for the rest of its existence.<sup>24</sup>
- Three credit rating upgrades in less than three years.

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<sup>22</sup> Attachment VI represents LPD's calculation of the \$18.8 million in excess utility users tax revenues collected for the purpose of paying future PLD debt obligations.

<sup>23</sup> Most of the information in this section is from pages iv and v of the 2019 CAFR

<sup>24</sup> 2019 CAFR, Note 13, pages 121-122

- Detailed below are the General Fund surplus for FY 2015-2019:
  - General Fund surplus for FY 2015                   \$384.3 million<sup>25</sup>
  - 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
  - General Fund surplus for FY 2019                   \$ 80.9 million
  
- Over the past three 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 42% over five years (\$361.0 million in FY 2019 compared to \$253.8 million in FY 2014).<sup>26</sup>
  
- The Property tax collection rate has increased to 83% in FY 2019 compared to 69% in FY 2014.
  
- In February 2018, the OCFO established an Administrative Issuance System, which includes key policies, process flows, standard operating procedures, and detailed work instructions for all operations with the OCFO. <https://detroitmi.gov/departments/office-chief-financial-officer/administrative-issuance-system> can be visited for a current listing of all policies.

**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 2019 CAFR**

Inevitably, a government’s financial position will be effected 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 CAFR, in the statistical section<sup>27</sup> of the CAFR and/or as part of the required supplementary information (RSI)<sup>28</sup>.

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<sup>25</sup> 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.

<sup>26</sup> In April 2019, the City received a one-time corporate tax receipt of approximately \$23 million that will be non-recurring. This amount is included in the \$361.0 million.

<sup>27</sup> Page 194 of the 2019 CAFR

<sup>28</sup> Page 126 of the 2019 CAFR

The following major observations regarding the economic condition perspectives of the City and other initiatives are from LPD's review of the introductory section<sup>29</sup> in the 2019 CAFR:

- The City's current economic condition is improving. The future outlook for recovery and improvement is positive. Businesses are transferring employees from suburban cities to the City of Detroit. New residents are moving into the City. However, much of the improvement in economic development is located in concentrated areas of the City (i.e., mid-town, downtown and certain neighborhoods of the City).
- The City is proactively attracting new companies and supporting the expansion of existing businesses and local entrepreneurs to create job opportunities for residents with the goal of ensuring that all Detroiters benefit from the City's revival. The City through the Detroit Economic Growth Corporation has facilitated development projects since 2018 that has stimulated \$4.6 billion worth of private investments and 13,425 new jobs. The City has focused on small business growth and is empowering small business owners which enabled the successful openings of 86 businesses across various neighborhoods.
- The City is actively working to be a national hub for automobile and transportation innovation with new investments announced by Ford to rebuild the abandoned train station for its Center of New Technology Development, FCA to open the first new Assembly plant in Detroit in 30 years, Waymo to build self-driving cars in Detroit and the University of Michigan to build a new Detroit Center for Innovation.
- In 2019, Detroit saw a nine year high for employment, with over 230,000 Detroiters employed in the month of July 2019; Detroit's unemployment rate was reduced to 7.8% as unemployed workers found jobs and people were returning to the job market.
- In 2019, the City of Detroit announced that \$1 billion in grants had been raised in five years to support improving quality of life for Detroiters. This includes support from over 80 philanthropic foundations.
- In an issuer comment in April 2019 following the passage of the FY 2020 Budget, Moody's Investor Service wrote, "The credit-positive budget reflects sound financial practices, including conservative revenue assumptions and long-range projections, a significant capital investment and continues to set aside funds for a scheduled pension cost spike in fiscal 2024."
- Through targeted budget investments and the attraction of over \$1 billion in grant resources over the past five years, the City has been able to make significant improvements in services provided to Detroiters. The City has dramatically increased its police force to meet neighborhood policing needs, expand Ceasefire into nine precincts and create a Real Time Crime Center to monitor and respond to crime immediately. One hundred sixty-eight buses were purchased to allow for expansion of public transportation. The City has demolished 20,000 blighted buildings, and today, sweeps 2,000 miles of neighborhood roads three times a year. With philanthropic support, the City has renovated 148 parks,

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<sup>29</sup> Pages i to vi of the 2019 CAFR

provided work opportunities to 30,000 youth, and supported 4,200 neighborhood cleanups.<sup>30</sup>

- In 2019, the City announced a partnership with Michigan’s top three public universities to provide the City with Detroit-specific economic data analysis and forecasting services.
- History of total primary government net position:<sup>31</sup>
  - FY 2019 \$ 970.2 million
  - FY 2018 \$ 898.0 million
  - FY 2017 \$ 812.1 million
  - FY 2016 \$ 994.5 million
  - 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 in recent years.

- History of general fund unassigned surplus (deficit) and total general fund balance:<sup>32</sup>
  - 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 improve, the following represent economic and fiscal risks that should be considered<sup>33</sup>:

- Potential legislation placing additional limitations on local revenues.
- Uncertainty over the Wayne County property tax foreclosure process and its impact on City revenue.
- Potential federal aid reductions due to projected federal budget deficits.

<sup>30</sup> Pages iv and v of the 2019 CAFR

<sup>31</sup> Information is from statistical section of 2019 CAFR, pages 196 and 197

<sup>32</sup> Information is from statistical section of 2019 CAFR, pages 202 and 203

<sup>33</sup> Fiscal risks are primarily from the September 2019 Detroit Revenue Estimating Conference report, which can be accessed at

[https://detroitmi.gov/sites/detroitmi.localhost/files/migrated\\_docs/financial-reports/Sept2019RevenueEstimatingConferenceReportFINAL.pdf](https://detroitmi.gov/sites/detroitmi.localhost/files/migrated_docs/financial-reports/Sept2019RevenueEstimatingConferenceReportFINAL.pdf)

- Potential losses in casino revenue if new or expanded casinos or other gaming substitutes open nearby, and if past revenue trends do not continue.
- Reduction of Statutory State Revenue Sharing dollars due to challenges in the State's budget from declining finances and other critical issues.
- Lower census numbers result in loss of federal/state funds tied to population. It is critical that the City encourage its residents to participate in the 2020 census.
- Potential recession in the near future.

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

- Potential for increased economic development to increase the City's tax base and generate additional revenues for the City.
- Sales tax on internet purchases may increase state local share distributions to city/villages/townships.
- Increased State-shared revenues from recreational marijuana sales.
- Increased wagering tax revenue from online gaming and sports betting legislation, assuming no adverse substitution effect to existing brick and mortar gaming.
- Revenue gains from continued economic development projects throughout the city.
- Potential increases in property tax revenue from additional increases in taxable value from uncapping as property sales occur and as abatements expire.

#### **Other Major Issues/Observations from the Review of the 2019 CAFR**

Below are other major issues and observations from LPD's review of the 2019 CAFR.

In Note 14 of the 2019 CAFR, the City disclosed the programs and the estimated amount of taxes abated during FY 2019, which was \$20.6 million, an \$18.1 million decrease from the \$38.7 million as of June 30, 2018. Listed below is a comparison of the taxes abated in 2019 and 2018.

Program	Legislation	Abatement Amount			Comment
		2019 Total Taxes	2018 Total Taxes	Difference Total Taxes	
Brownfield Redevelopment Act (BRA)	PA 381 1996	\$ 1,179,840	\$ 1,118,136	\$ 61,704	Cleanup of Environmental Issues
Industrial Facilities Act (IFT)	PA 198 1974	426,216	606,817	(180,601.00)	Redevelopment of Facility
Commercial Rehabilitation Act (CRA)	PA 210 2005	1,966,521	1,543,958	422,563.00	Rehabilitation of Qualified Facility
Commercial Redevelopment Act (CFT)	PA 255 1978	6,573	6,876	(303.00)	Redevelopment of Commercial Property
Renaissance Zone Act (RZ)	PA 376 1996	5,094,819	6,840,208	(1,745,389.00)	Economic Development in Designated Area
Obsolete Property Rehab Act (OPRA)	PA 146 2000	1,729,275	1,251,594	477,681.00	Redevelopment of Obsolete and Blighted Buildings
Neighborhood Enterprise Zone (NEZ)	PA 147 1992	4,278,780	4,571,933	(293,153.00)	Financial Investment in Property
Land Bank Fast Track Act (LB)	PA 258-263 2003	483,462	313,285	170,177.00	Improvement of Property
Eligible Manf. Personal Property (EMPP)	PA 328 1998	-	11,123,269	(11,123,269.00)	Exempts Personal Property from Tax
Sr. Citizen/Disabled Fam. Hous. Exempt.	PA 78 2016	63,652	153,479	(89,827.00)	Manage Sr. Citizen & Disabled Family Housing
MSHDA	PA 346 1966	5,360,686	11,214,777	(5,854,091.00)	Provide 7 Manage Low-Income Housing
<b>Totals</b>		<b>\$ 20,589,824</b>	<b>\$ 38,744,332</b>	<b>\$ (18,154,508)</b>	

- The Solid Waste Fund had a \$67.4 million Fund Balance on June 30, 2019 compared to a \$61.4 million fund balance on June 30, 2018. In addition, the Street Fund had a \$100.9 million Fund Balance on June 30, 2019. It appears the City has not properly allocated pension and legacy costs and other reimbursable costs (such as central staff services, workers compensation, and litigation costs) to these funds which have the means to pay for

them and relieve the General Fund of these costs. In the questions section we ask the OCFO what methodology will be explored to ensure these Special Revenue Funds are reimbursing the General Fund for reimbursable costs.

- The Plan of Adjustment (POA) required the BSEED to annually repay the General Fund a series of payments through FY 2023 totaling \$17.7 million for the loans made to the BSEED when it ran deficits prior to the bankruptcy<sup>34</sup>. In FY 2019 the BSEED repaid the General Fund \$15.0 million in accordance with the POA.
- As of June 30, 2019, the City lacked proper controls to ensure compliance with laws and regulations, which included: 1) the City failed to escheat balances to the State of Michigan; and 2) the City was not in compliance with the State's Public Act 2 of 1968, Uniform Budgeting and Accounting Act, because in some accounts actual expenditures exceeded appropriations approved by Council.
- Several funds had a large unassigned fund balance deficit or unrestricted net position deficit on June 30, 2019, including: the General Grants Fund (Special Revenue Fund)-a \$4.2 million deficit; the Detroit Transportation Corporation (Component Unit)-a \$664,367 deficit; the Local Development Finance Authority (Component Unit)-a \$16.4 million deficit; the Museum of African American History (Component Unit)-a \$1.7 million deficit; the Transportation Fund (DDOT) (Enterprise Fund)-a \$255.7 million deficit; and the Airport Fund (Enterprise Fund)-a \$6.7 million deficit . However, the City is not required to file a deficit elimination plan with the State for any of these funds or component units because they had a positive working capital (current assets/resources exceed current liabilities) as of June 30, 2019.<sup>35</sup>
- Of concern is the \$4.2 million deficit in the General Grants Fund and the impact to the General Fund. There is a \$5.7 million deferred inflows of resources, which are revenues that were not collected in time to be recognized in FY 2019, which contributes to the deficit. The City switched its grants revenue recognition from collections made within 180 days to 90 days after the end of the fiscal year. As a result, of the traditional slow payment process by the granting agencies, some grant revenues are likely to not be recognized in the period that the expenditures were made which contributes to the deferred inflows of resources and deficit for the Grants Fund.
- The Managements, Discussion and Analysis (MD&A) in the 2019 CAFR was not sufficiently detailed to explain major variances and other relevant financial information. As a result, we have many unanswered questions concerning major changes to the City's assets, liabilities, revenues and expenses for the year ended June 30, 2019. In the questions section of our report we are asking the OCFO to explain the significant changes in FY 2019 so we can gain better knowledge of the City's financial condition on June 30, 2019.

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<sup>34</sup> Ten Year Plan of Adjustment, Restructuring and Reinvestment initiatives – Enterprise Agencies, Building Safety Engineering Environmental Department (BSEED) – General Fund pages 62-63 of 70, Fourth Disclosure Statement filed with the Bankruptcy Court on May 5, 2014 (13-53846-swr Doc 4391-2)

<sup>35</sup> Page 53 of the 2019 CAFR, Note 2

The Administration should be commended for the thoroughness of the 2019 CAFR. It behooves the Budget, Finance and Audit Committee to continue to do its due diligence to understand and examine the 2019 CAFR.

**Introduction**

The Budget, Finance and Audit standing committee is in the process of reviewing and analyzing the 2019 CAFR. The Legislative Police Division (LPD) provides this report to facilitate the committee’s review of the 2019 CAFR.

The 2019 CAFR was issued on December 14, 2019 before the deadline of December 31, 2019. LPD acknowledges and commends the efforts of the OCFO (Office of the Chief Financial Officer) staff to complete the 2019 CAFR before the deadline for the second year in a row.

**Independent Auditor’s Report on the City’s 2019 CAFR**

The City’s independent auditor, Plante & Moran PLLC gave the City’s 2019 audited financial statements and related notes to the financial statements included in the 2019 CAFR an unqualified (“clean”) opinion.

A “clean” opinion means that the audited financial statements are free of material misstatements and present fairly the financial position of the City as of June 30, 2019 in accordance with U.S. generally accepted accounting principles. As a result, investors, creditors, rating agencies and other interested parties reading the City’s 2019 CAFR can rely on the audited financial statements and the information contained therein. The clean opinion, however, does not mean that Plante & Moran is signifying that the City has a financial clean bill of health.

**Focus and Questions Considered while Reviewing the City’s 2019 CAFR**

The table below represents LPD’s focus while reviewing the City’s 2019 CAFR.

Focus	Question
Near-term financing situation	Will the City of Detroit be able to pay its bills (both expected and unexpected) on time?
Financial position	Is the City of Detroit’s financial health improving or deteriorating?
Impact of bankruptcy after June 30, 2015	To what extent has the City’s emergence from bankruptcy on December 10, 2014 improved the City’s financial condition?
Economic position	Is it likely that today’s financial position for the City of Detroit will improve or deteriorate in the future?

**Major Issues from the City’s General Fund Financial Statements in the 2019 CAFR (Near-term perspective)**

The governmental fund financial statements (general fund, special revenue fund, debt service fund, capital projects fund, and permanent fund) are used to assess a local government’s near-term financing situation since their measurement focus is primarily near-term. The governmental fund financial statements shows for the fiscal year the revenues collected and the services they were spent on such as public protection, recreation, debt and capital. It answers the question “What did you do with the money we gave you?”

The chief governmental fund is the general fund. The general fund financial statement is based on modified accrual accounting, which means that the general fund also represents the City’s check

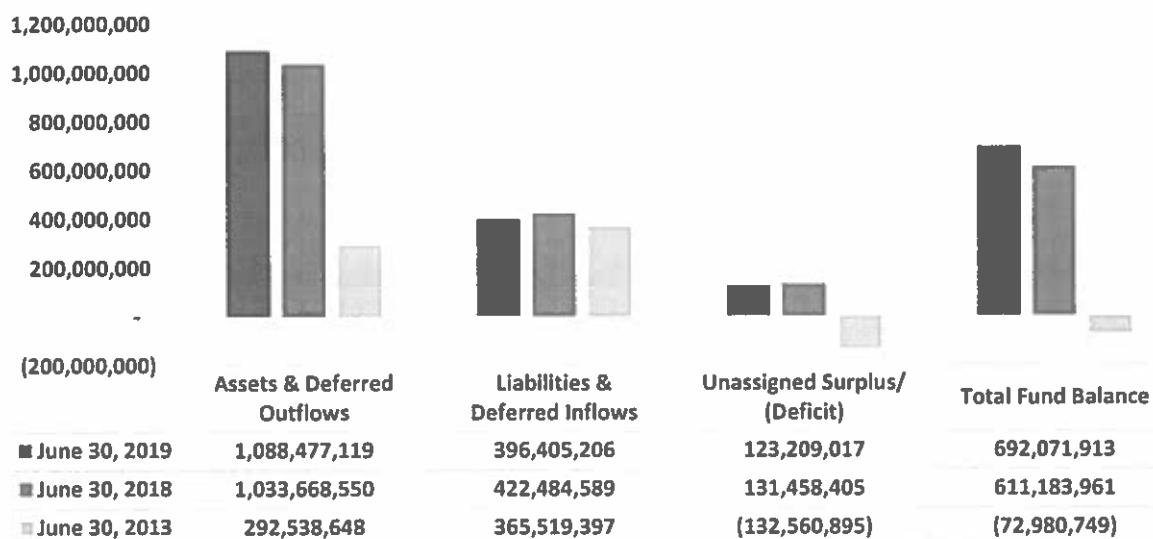
book of receipts and disbursements for the day to day operations to provide the City’s most basic services (police, fire, administration, recreation, etc.) over a one-year period. As a result, the state of the general fund requires a near-term focus to ensure the bills are being paid on time.

Attachments I and II are respectively, the General Fund’s FY 2019 Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances compared to FY 2018 and FY 2013. These statements show the City’s General Fund’s financial condition: pre-bankruptcy (FY 2013); and post-bankruptcy (FY 2019 and FY 2018). The following analysis of Attachments I and II provides details on the major issues and variances for the General Fund in the FY 2019 CAFR when compared to FY 2018 and FY 2013.

**General Fund Bankruptcy Impact as of June 30, 2019.** As can be seen in Attachments I and II, the City eliminated its General Fund deficit and has greatly improved since FY 2013 due to the bankruptcy settlements. The General Fund is now able to pay its bills on time. Its financial health is improving. The future outlook for the City’s financial health is relatively good as of June 30, 2019. However, there are still many issues such as the legacy pension and debt obligations, education system, poverty levels, low property assessed values and low tax base that could impair the City’s financial recovery if not satisfactorily addressed.

The General Fund’s fund balance went from a deficit of \$73.0 million in FY 2013 to a surplus of \$692.1 million in FY 2019, an increase of \$765.1 million due to the bankruptcy settlements and issuance of new debt for restructuring and Quality of Life projects.

### General Fund Financial Results



**General Fund’s Fund Balance.** The General Fund’s fund balance was a \$692.1 million at June 30, 2019, an \$80.9 million increase from the \$611.2 million balance at June 30, 2018<sup>36</sup>. The following chart reflects the change in fund balance.

<sup>36</sup> Page 22 of the 2019 CAFR and page 23 of the 2018 CAFR



**General Fund Balance Summary**  
(in millions)

	<u>2019</u>	<u>2018</u>	<u>2013</u>
Nonspendable:			
Prepaid Expenditures and Advances	\$ 71,707,370	23,017,234	4,050,006
Restricted for:			
Capital Acquisitions	-	-	979,826
Retiree Benefits	129,540,325	103,278,781	
QOL Program	24,445,977	38,262,992	
Debt service	27,500,000	27,500,000	
Committed for:			
Risk Management Operations	20,000,000	20,000,000	54,550,314
Assigned for:			
Budget Reserve	77,280,192	62,280,192	
Budget Carryforward	-	-	
Subsequent Appropriations	56,312,495	58,626,131	
Blight and Capital	105,500,000	100,000,000	
Pension	-	-	
Risk Management Operations	56,576,537	46,760,226	
Unassigned:			
General Fund Surplus	123,209,017	131,458,405	(132,560,895)
<b>Total Fund Balances (Deficit)</b>	<b>\$ <u>692,071,913</u></b>	<b><u>611,183,961</u></b>	<b><u>(72,980,749)</u></b>

The \$80.9 million increase in the fund balance in FY 2019 to \$692.1 million was mainly due to the increase in income tax revenues (\$50.8 million) and increase in financing revenues (\$25.8 million) due to the refunding of the 2014 B bonds. The General Fund nonspendable, restricted and assigned fund balances increased \$89.1 million in FY 2019 from the prior year. This was due to: (1) \$48.7 million increase in nonspendable for prepaid expenditures and advances mainly due to the refunding of the 2014 B(1) and B(2) bonds which were allocated, as advances, to the enterprise funds for their share of the bonds; (2) \$26.3 million increase in restricted for retiree benefits due to the City's contribution to the Retiree Protection Trust Fund and interest earned on the fund's assets; and (3) \$15 million increase in assigned for budget reserve due to the transfer from BSEED for the amounts owed per the POA.

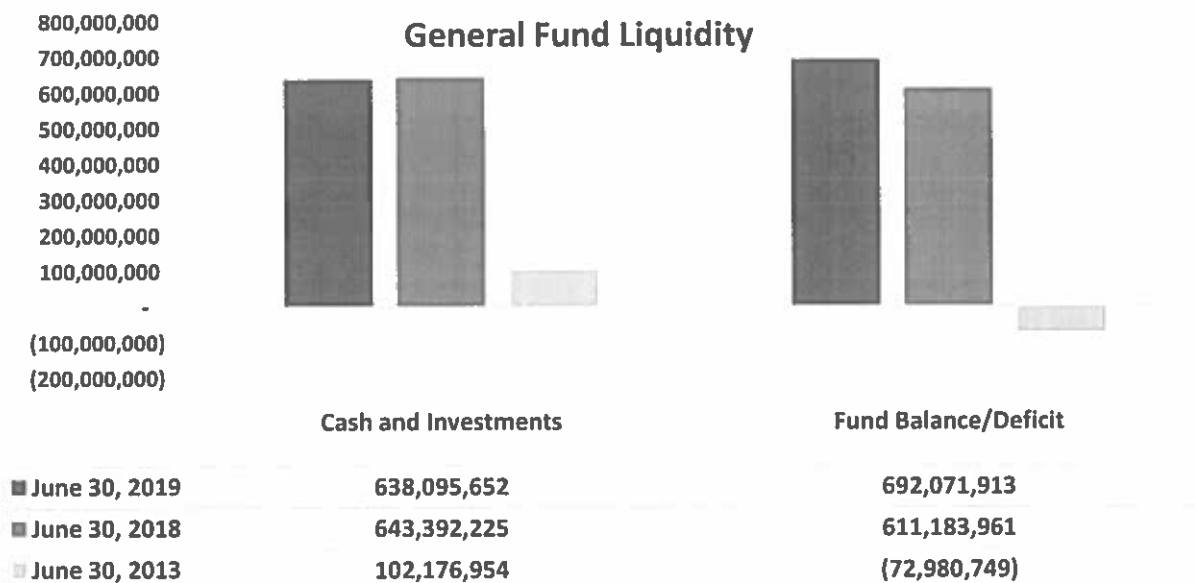
The fund balance committed for the Risk Management operations was \$20.0 million in FY 2019 in accordance with the City ordinance that requires a minimum \$20.0 million fund balance for that fund. An additional fund balance assigned for Risk Management operations of \$56.6 million for FY 2019 is to provide for projected future payments from the fund.

The fund balance assigned for Subsequent Appropriations was \$56.3 million and will fund additional approved appropriations in FY 2020. The fund balance assigned for blight and capital was \$105.5 million and will fund demolitions and capital assets. The fund balance assigned for pension contributions was \$129.5 million and will be set aside in the Retiree Protection Trust Fund to help stabilize City pension contributions beginning in FY 2024 when per the POA the City must begin to fund the legacy pension systems (Component II).

**General Fund Surplus.** The General Fund had an accumulated unassigned fund balance (surplus) of \$123.2 million at June 30, 2019 a \$8.2 million decrease from the \$131.4 million accumulated surplus at June 30, 2018 and \$255.8 million increase from the \$132.6 million accumulated deficit on June 30, 2013. The FY 2019 General Fund unassigned surplus decreased \$8.2 million to \$123.2 million from FY 2018 because the \$80.9 million increase in Fund Balance (revenues less

expenditures and other financing sources and uses) was offset by the \$89.1 million increase in the General Fund nonspendable, restricted and assigned fund balances, as described above.<sup>37</sup>

**General Fund Solvency.** The General Fund’s liquidity and solvency was much improved at June 30, 2019. The General Fund assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$692.1 million, and cash and investments totaled \$638.1 million.<sup>38</sup> In FY 2013 the City’s liabilities exceeded its assets by \$73.0 million and it only had \$102.2 million in cash and investments. The main reason for the General Fund’s improved liquidity and solvency was the elimination of certain obligations from the bankruptcy. While the bankruptcy substantially reduced the City’s obligations, especially legacy pension and retiree health costs, challenges and risks remain to secure the liquidity to fund the resources necessary to provide satisfactory City services such as public protection and transportation. The City’s liquidity risk will continue until the changes adopted under the Plan of Adjustment are implemented effectively by the City over the long-term and other quality of life issues plaguing the City are also addressed satisfactorily.



An additional cautionary note regarding General Fund liquidity is warranted. Although \$638.1 million in General Fund cash and investments as of June 30, 2019 is sizable, the lion share of it is either obligated (there is \$60 million due to other funds as of June 30, 2019), restricted (for instance there was \$24.4 million in unspent exit financing bond proceeds as of June 30, 2019 that at some point will be spent) or assigned (for instance \$77.3 million represents the budget reserve and another \$129.5 million represents the pension payment going to the Retiree Protection Trust Fund as of June 30, 2019) to a specific purpose. As a result, available cash for discretionary spending is minimal<sup>39</sup>.

**General Fund Cash.** In FY 2016 the OCFO classified restricted cash for the first time for cash that was restricted such as for debt service, grants, and escrow requirements.<sup>40</sup> A total of \$302.6

<sup>37</sup> Pages 21, 22, 24 and 25 of the 2019 CAFR, Attachment I and Attachment II

<sup>38</sup> Pages 21 and 22 of the 2019 CAFR

<sup>39</sup> It is anticipated that the June 30, 2019, the General Fund unassigned fund balance of \$123.2 million will be significantly reduced and applied in the FY 2021 budget for blight remediation and capital projects.

<sup>40</sup> Page 22 and 69 of the 2016 CAFR, Note 4

million of restricted cash was included on the General Fund's balance sheet on June 30, 2019 compared to \$171.0 million on June 30, 2018. The General Fund had \$638.1 million of cash on June 30, 2019 which included \$302.6 million of restricted cash compared to \$643.4 million of cash on June 30, 2018 including the \$171.0 million of restricted cash. In the questions section we ask the OCFO to explain why the restricted cash increased \$131.6 million in FY 2019.

**General Fund Advances to Other Funds.** Advances to other funds were \$47.9 million on June 30, 2019, an increase of \$34.9 million from the \$13.0 million balance on June 30, 2018. These advances are for the refunding of the 2014 B(1) and B(2) bonds in FY 2019 and the allocable share of the refunded bonds to the City's enterprise agencies.

**General Fund Advances to Component Units.** Advances to component units totaled \$15.9 million on June 30, 2019, a \$7.8 million increase from the \$8.1 million on June 30, 2018. The advance to the Detroit Land Bank increased \$5.0 million to \$12.0 million in FY 2019 and the \$2.8 million advance for the refunding of the 2014 B(1) and B(2) bonds in FY 2019 was allocated to the Library.

**General Fund Chargebacks.** For accounting purposes, the transfer of delinquent property taxes receivable to Wayne County is recognized as a sale, with a corresponding liability recorded for the estimated amount that will be charged back to the City. The amount owed to Wayne County for chargebacks is included in the line item due to other governmental agencies on the General Fund Balance Sheet. During the year ended June 30, 2019, the General Fund transferred (sold) to the County \$53.6 million of delinquent property taxes receivable, and \$23.4 million were charged back to the General Fund from prior year sales. As of June 30, 2019, the General Fund has recorded a liability of \$3.3 million for the estimated amount of property tax receivables sold to the County that will be charged back in future years.<sup>41</sup> The General Fund's liability for chargebacks due Wayne County on June 30, 2018 was \$4.8 million. As the City's property tax collection rate and auction receipts improve, the chargeback liability decreases.

**General Fund Deferred Inflows of Resources.** The deferred inflows of resources was \$221.1 million on June 30, 2019, an increase of \$10.0 million from the \$211.1 million on June 30, 2018.<sup>42</sup> The \$172.8 million future amount due from the DIA and Foundations per the "Grand Bargain" in the Plan of Adjustment cannot be recognized as revenue in the General Fund because they have not been received within 60 days of the end of the City's fiscal year per the City's modified accrual basis of accounting.<sup>43</sup> Per the "Grand Bargain" annual amounts will be received by the General Fund through June 30, 2023. While they are accounts receivable, they are considered deferred inflows of resources and not recognized as revenue until actually received.

**General Fund Revenue and Expenditures.** The following chart shows the General Fund's revenues, expenditures, and net change in fund balance for fiscal years 2019, 2018, and 2013.

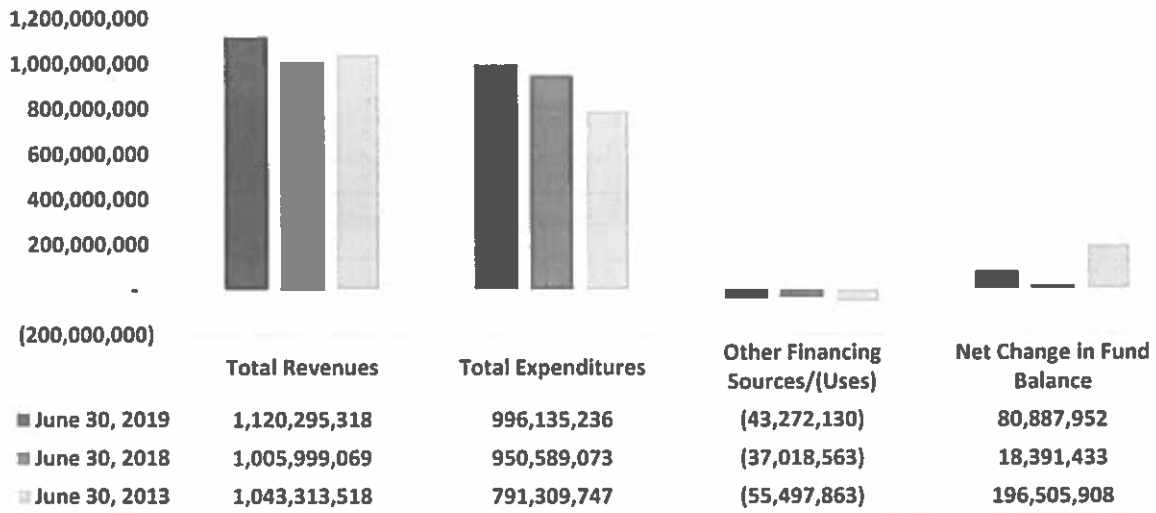
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<sup>41</sup> Page 49 of the 2019 CAFR, Property Taxes, Note 1

<sup>42</sup> Page 21 of the 2019 CAFR and page 22 of the 2018 CAFR

<sup>43</sup> Page 45 of the 2019 CAFR, Measurement Focus and Basis of Accounting, Note 1

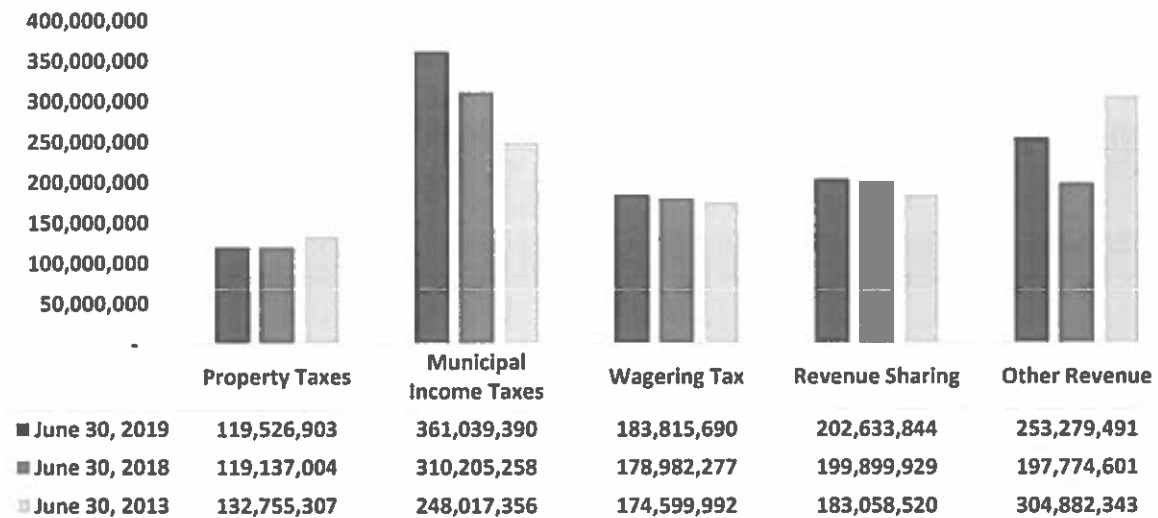
### General Fund Net Change in Fund Balance



The General Fund’s total revenues increased \$114.3 million in FY 2019 mainly due to increases in: (1) municipal income tax revenue (\$50.8 million); (2) wagering tax revenues (\$4.8 million); (3) State shared revenue (\$2.7 million); (4) Local Community Stabilization Authority (\$4.6 million); (5) sales and charges for services revenues (\$7.2 million); (6) investment earnings (\$3.3 million); (7) DIA and Foundation revenue (\$12.0 million); and (8) financing revenue (\$25.8 million). The \$80.9 million net change in fund balance for the year ended June 30, 2019 was the fifth straight year since the exit from bankruptcy that the General Fund had a positive amount.

The table below details the major sources of General Fund revenue for fiscal years 2019, 2018, and 2013.

### Major Sources of General Fund Revenues



**General Fund Municipal Income Tax.** Municipal income tax revenue was \$361.0 million for the year ended June 30, 2019, an increase of \$50.8 million from the \$310.2 million for the year ended June 30, 2018. The increase was due to the improved economy, better collection efforts and the transition of the administration of the City’s income taxes to the State of Michigan. In addition, the City benefitted from a one-time collection of \$23.0 million from a corporate entity.

**General Fund Wagering Tax.** The Wagering tax was \$183.8 million for FY 2019, a \$4.8 million increase from the \$179.0 million for the year ended June 30, 2018. Wagering taxes have been a steady and reliable source of income for the City.

**General Fund State Local Community Stabilization Authority.** The State Local Community Stabilization Authority revenue was classified as an intergovernmental revenue by the City for the first time in FY 2019 and totaled \$4.6 million. This was for the State's reimbursement of the City's share of personal property taxes that were phased out by the State law passed in 2014. The City had previously recorded these revenues as property tax revenue in prior years.

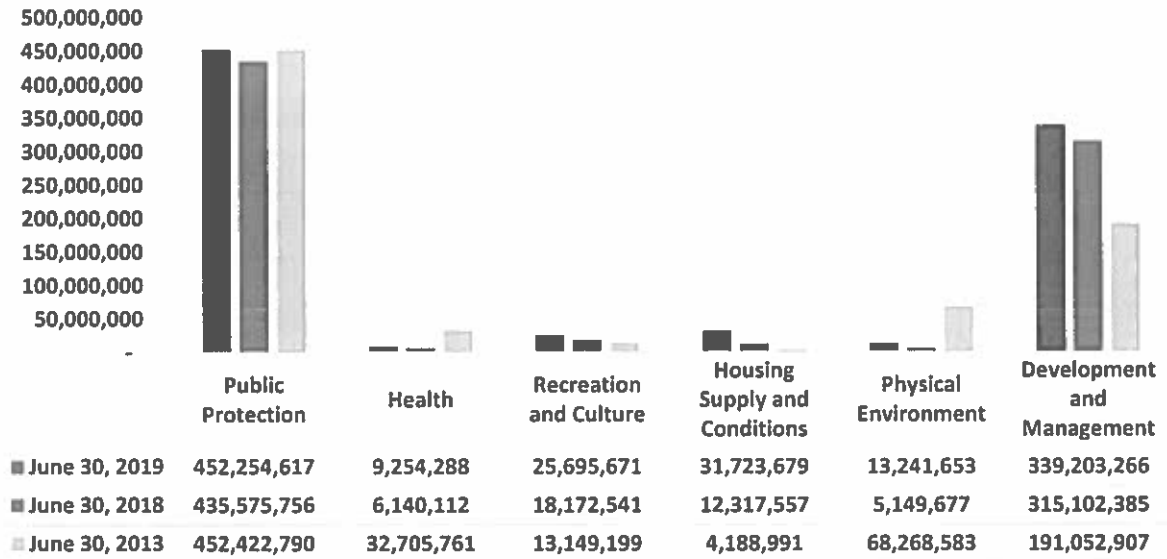
**General Fund DIA and Foundation Revenue.** The DIA and Foundation revenue was \$18.7 million for the year ended June 30, 2019, an increase of \$12.0 million from the \$6.7 million for FY 2018. It appears that the increase was due to the recognition of interest revenue of \$12.1 million in FY 2019. In the questions section we ask the OCFO to explain the increase in this revenue.

**General Fund Financing Revenue.** The General Fund Financing revenue was \$25.8 million for the year ended June 30, 2019. In FY 2019, the City issued \$176.0 million of Distributable State Aid Fifth Lien refunding bonds (Limited Tax General Obligation) Series 2018 bonds to the Michigan Finance Authority for the purpose of purchasing a portion of the 2014 B(1) and B(2) bonds and the costs of issuance of the new bonds. On December 13, 2018, the City purchased at a discount from par, \$197.7 million of the 2014 (B(1)) (\$192.3 million at a price of \$87 per \$100 in principal amount) and 2014 (B(2)) (\$5.4 million at a price of \$85 per \$100 in principal amount). As a result, the City recognized a total of \$25.8 million in financing revenue for the discount from the par amount of the 2014 B bonds that were refunded.

**General Fund Expenditures.** General Fund expenditures totaled \$996.1 million in FY 2019, an increase of \$45.5 million from the \$950.6 million total in FY 2018. The largest changes in expenditures for FY 2019 were: (1) decrease of \$42.1 million for principal payments on debt service; (2) development and management increase of \$24.1 million; (3) housing supply and conditions increase of \$19.4 million; (4) public protection increase of \$16.7 million; and economic development increase of \$14.0 million.

The table below details the major sources of General Fund expenditures for fiscal years 2019, 2018, and 2013.

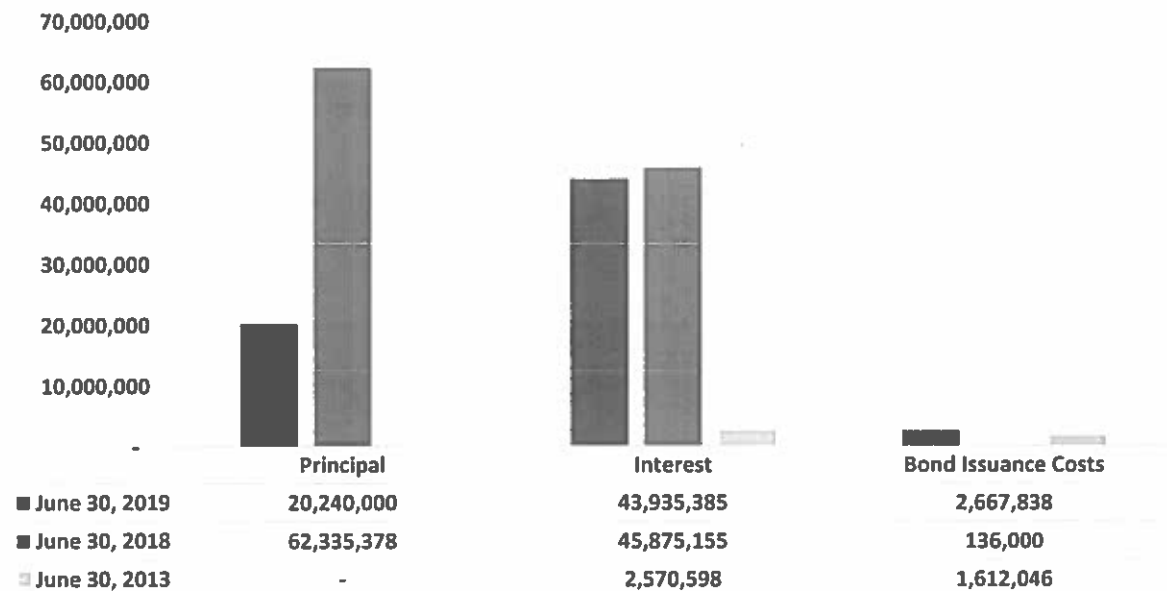
## General Fund Expenditure Detail



**General Fund Housing Supply and Conditions Expenditures.** Housing supply and conditions expenditures were \$31.7 million in FY 2019, an increase of \$19.4 million from the \$12.3 million in FY 2018. This appears to be due to the increase in blight and demolition costs paid by the General Fund in FY 2019. In the questions section we ask the OCFO to explain the increase in housing supply and conditions expenses.

**General Fund Debt Service.** The following chart details the General Fund debt service for fiscal years 2019, 2018, and 2013.

## General Fund Debt Service



**General Fund Principal Expense.** Principal expense was \$20.2 million in FY 2019, a decrease of \$42.1 million from the \$62.3 million in FY 2018. The main reason for the decrease was the \$52.3 million redemption of the 2014 C bonds in FY 2018, which caused the principal expense to be much higher in the prior year<sup>44</sup>.

**General Fund Proceeds.** General Fund proceeds from bonds were \$176.0 million in FY 2019. Proceeds from Bonds and Notes Issued in FY 2019 were much higher than in FY 2018 (no bonds and notes were issued during FY 2018) because of the refunding of the \$197.7 million Limited Tax General Obligation (LTGO) 2014 B(1) and B(2) Bonds that occurred in FY 2019 from proceeds of the \$176.0 million series 2018 Bonds.<sup>45</sup>

**General Fund Subsidies Included in Transfers Out.** The General Fund subsidies in FY 2019 to the Transportation Fund, Airport and Public Lighting Authority were \$61.5 million, \$2.2 million and \$10.1 million, respectively. The General Fund subsidies in FY 2018 to the Transportation Fund, Airport, and Public Lighting Authority were \$55.2 million, \$.9 million and \$10.3 million, respectively.<sup>46</sup>

**General Fund Principal Paid to Bond Agents for Refunded Bonds.** Principal paid for refunded bonds was \$158.6 million in FY 2019 compared to \$0 million in FY 2018. As discussed previously, this was for the refunding of the FY 2014 B(1) and B(2) bonds. The 2014 B bonds principal refunded totaled \$197.7 million but \$39.1 million was allocated to the enterprise and library funds for their share leaving the General Fund with \$158.6 million.

### **Financial Review Commission**

Michigan Public Act 181 of 2014, M.C.L. §§ 141.1631, *et seq.* (Act 181) established the Detroit Financial Review Commission (the “Commission”) as of the Effective Date (December 10, 2014) to monitor the City’s compliance with the Plan of Adjustment and Public Act 181 and to provide oversight of the City’s financial activities. The Commission has broad authority to obtain and review the City’s financial records on an ongoing basis, approve budgets and contracts, and conduct financial audits of the City. Michigan Public Act 182 of 2014, M.C.L. 117.4s-t, imposes further requirements, including that the City adopt a multi-year financial plan and appoint a chief financial officer (CFO).

On April 30, 2018, the City of Detroit exited active state financial oversight, achieving full self-governance for the first time in four decades. The FRC voted unanimously to end active oversight after the City delivered its third consecutive audited balanced budget<sup>47</sup>.

The FRC will continue to exist for a 10-year term, although it will play no active role in the City of Detroit operations. The City will be required to submit monthly financial reports and will also submit its adopted budget and 4-year financial plan each year. So long as the City continues to balance its budgets and meet other basic financial fiscal requirements, the FRC will stay inactive for the rest of its existence.

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<sup>44</sup> Page v of the 2018 CAFR, Introduction to the Report

<sup>45</sup> Page 85 of the 2019 CAFR, Note 7

<sup>46</sup> Page 69 of the 2019 CAFR and pages 69 and 174 of the 2018 CAFR

<sup>47</sup> Pages 121-122 of the 2019 CAFR

The nature of the oversight is scaled back. The Commission must waive many of the requirements such as budget and contract approval on an annual basis. The Commission may rescind the waiver if it determines that there is a substantial likelihood that certain criteria will occur, including the City failing to pay debt when due, the City incurring a budget deficit in any year in excess of 5 percent of expenditures in that year, or the City failing to comply with the revised municipal finance act or to obtain the prior approval of the Commission to issue debt. If the Commission waives the requirements for 10 consecutive years, the Commission is dissolved. The Commission granted its second annual waiver on June 24, 2019, which extends through June 30, 2020.<sup>48</sup>

**Major Issues from the City’s Government-Wide Financial Statements in the 2019 CAFR (Long-term perspective)**

The government-wide financial statements are used to best assess local government’s financial condition since their measurement focus is primarily long term. They include the Primary Government, Governmental and Business (Enterprise Funds) – Type Activities and Component Units of the City.

The government-wide financial statements are designed to provide a broad overview of the City’s finances and operations, in a manner similar to a private sector business. They show how current services are funded and the full cost of the services provided. They answer the question “Did this year’s taxpayer pay the full cost of the services delivered this year?” The financial statements include the Statement of Net Position (i.e., *balance sheet*), and the Statement of Activities (i.e., *income statement*). These statements are prepared using the economic resources measurement focus and accrual basis of accounting.

The Statement of Net Position and the Statement of Activities are two financial statements that report information about the City as a whole, and about its activities that should help answer this question: How has the City’s financial position, as a whole, changed as a result of this year’s activities? These statements include all non-fiduciary assets and liabilities. The Statement of Net Position presents all of the City’s assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position measure whether the City’s financial position is improving or eroding.

The Statement of Activities presents information showing how the City’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and, earned but unused vacation leave).

Attachments III and IV are respectively, the Primary Government’s FY 2019 Statement of Net Position and Statement of Activities (Changes in Net Position) compared to FY 2018 and FY 2013. These statements show the City’s Primary Government’s financial condition: (1) pre-bankruptcy (FY 2013); and (2) post-bankruptcy (FY 2018 and FY 2019). The following analysis of Attachments III and IV provides details on the major issues and variances for the Primary

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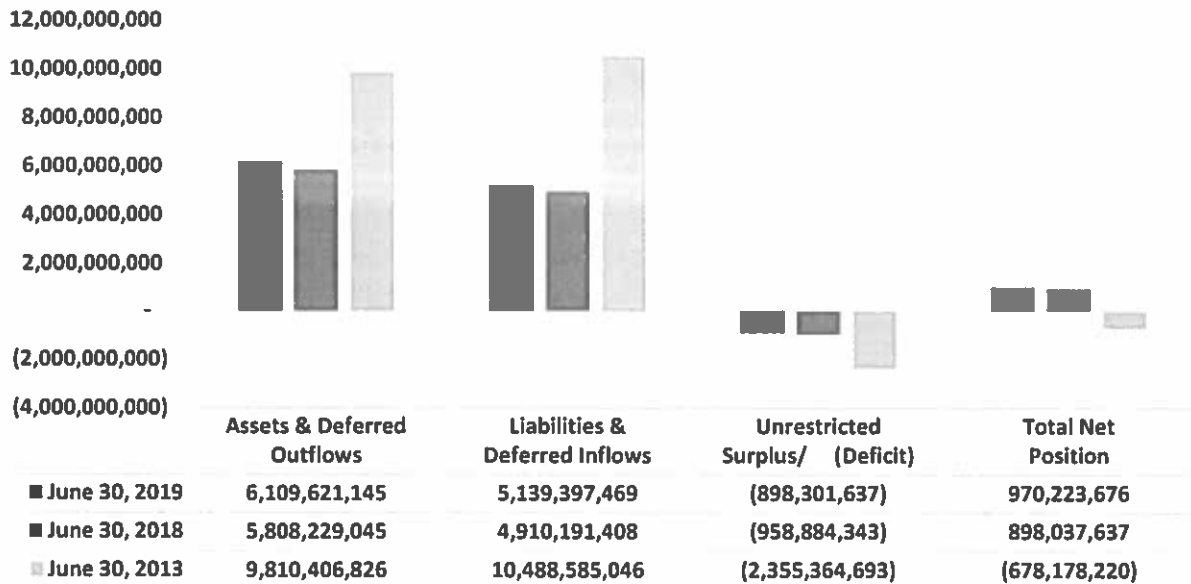
<sup>48</sup> Page 122 of the 2019 CAFR (Note 13)



Government's Government-Wide financial statements in the FY 2019 CAFR when compared to FY 2018 and FY 2013.

**Primary Government's Statement of Net Position.** At June 30, 2019, the City's primary government had a Net Position of \$970.2 million, a \$72.2 million increase from the \$898.0 million Net Position on June 30, 2018.<sup>49</sup> The increase was mainly due to the increases in income tax and charges for services revenues.

### Primary Government Financial Results



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 GLWA, which included \$5.1 billion of revenue bonds<sup>50</sup>.

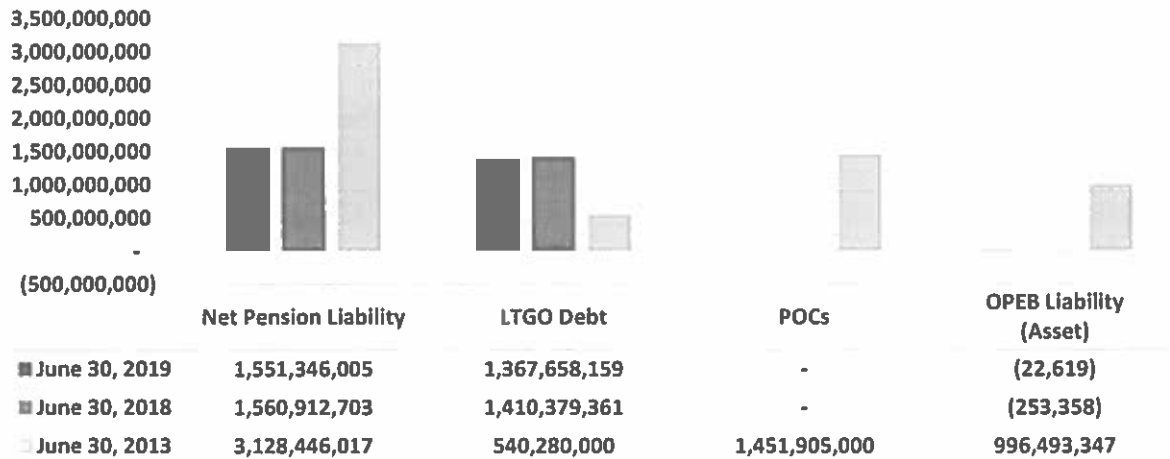
**Bankruptcy Impact as of June 30, 2019.** As can be seen in Attachments III and IV, the bankruptcy enabled the City to reduce its legacy pension and OPEB (retiree benefits) and debt costs. The net pension liability was \$2.918 billion in FY 2015 and was actually based on the amount due as of June 30, 2014, which was prior to the bankruptcy exit on December 10, 2014. The net pension liability post-bankruptcy on June 30, 2018 was \$1.551 billion or \$1.367 billion less due to the changes agreed to in the bankruptcy.

The City, since the bankruptcy, still has a large net pension liability and other large debt obligations which will be a challenge to the future fiscal health of the City. Furthermore, there are many other social and economic issues such as the education system, poverty levels, low property assessed values and low tax base that could impair the City's financial recovery if not satisfactorily addressed.

<sup>49</sup> Pages 18 and 19 of the 2019 CAFR and Pages 18 and 19 of the 2018 CAFR

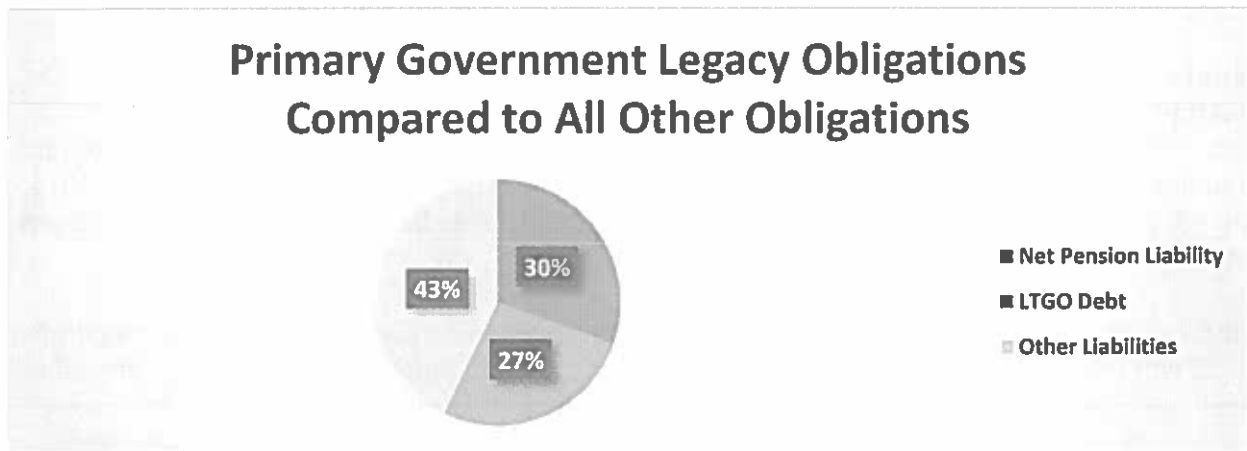
<sup>50</sup> Page 122 of the 2016 CAFR

## Primary Government Legacy Debt Burden



The large net pension liability and LTGO (Limited Tax General Obligation) debt is of concern. 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 increased due to the exit financing and other debt issued per the City’s Plan of Adjustment. This debt will mostly be paid from the revenues of the General Fund which will leave less funding available for City services. As discussed previously the LTGO debt was reduced in FY 2019 due to the refunding of \$197.7 million of 2014 B bonds with proceeds from the \$176.0 million of 2018 bonds issued in FY 2019. The gross debt service for fiscal years 2025-2030 will be reduced by \$155 million because of this refunding. In addition, the refunding saved approximately \$10 million.<sup>51</sup>

The chart below shows that the net pension liability and LTGO debt are 30% and 27% of the primary government’s total liabilities of \$5.1 billion on June 30, 2019. A financially healthy government would have no or very small percentages of total liabilities for such legacy costs.



**Primary Government’s Unrestricted Net Position.** The primary government’s unrestricted net position was a deficit of \$898.3 million as of June 30, 2019, a \$60.6 million decrease from the \$958.9 million deficit at June 30, 2018 and \$1.457 billion decrease from the \$2.355 billion deficit

<sup>51</sup> Page 85 of the 2019 CAFR, Note 7 – Long-term Debt

on June 30, 2013.<sup>52</sup> A deficit in unrestricted net position 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, 2019. The City's legacy debt and pension liabilities are major contributors to the deficit.

**Retiree Protection Fund.** Under the City's bankruptcy plan of adjustment, the City's required pension contributions to its legacy plans are based on a fixed schedule through FY 2023. Beginning in FY 2024, the City's required pension contributions to its legacy plans will be based on a funding policy to be established by the Retirement Systems to amortize the remaining unfunded actuarial accrued liabilities of each legacy plan. Under these requirements, the City's General Fund required contributions increase from zero in FY 2023 to an actuarially determined annual amount beginning in FY 2024. To meet this challenge, the City developed and began executing a funding strategy during 2017. Under the strategy, the City will contribute \$335 million to the newly established Retiree Protection Fund (RPF) through FY 2023 to build up trust assets that will be used to partially offset the City's required pension plan contributions that resume in FY 2024<sup>53</sup>. This process allows the City to gradually build up its capacity to meet the annual required pension contributions from its General Fund budget. The RPF is an irrevocable IRC Section 115 trust established in August 2017 under new legislation adopted by the City. Each year, the City will continue revising its funding plan as new information becomes available in conjunction with the annual budget and planning process<sup>54</sup>. The City deposited \$125 million into the fund through June 30, 2019. With investment earnings the balance was \$129.5 million on June 30, 2019.<sup>55</sup> Based on the latest actuarial valuation dated June 30, 2018, the anticipated General Fund required contributions to the legacy pension plans starting in FY 2024 are projected to be \$164.3 million. The POA assumed the contribution would be \$111 million in FY 2024<sup>56</sup>.

**Primary Government's Cash and Investments.** The City's cash and investments were \$1.450 billion on June 30, 2019, a \$207 million increase from the \$1.243 billion on June 30, 2018.<sup>57</sup> The increase was mainly due to the bankruptcy impact which reduced legacy expenses, increased cash through borrowing (e.g., exit financing) and improved liquidity.

**Primary Government's Advance to Component Unit.** The advance due from component units totaled \$15.9 million on June 30, 2019. The advance to the Detroit Land Bank Authority (DLBA) was \$12.0 million in FY 2019.<sup>58</sup> The DLBA's financial statements indicate it was an advance ("bridge funds") for the Hardest Hit Fund demolitions until the grant funds are received and the City can be reimbursed from MSHDA. The City has granted the DLBA a \$20.0 million line of credit. The advance to the Detroit Public Library (DPL) totaled \$3.9 million on June 30, 2019. This was for the DPL's share of the 2014 C Bonds redeemed in FY 2018 and 2014 B bonds refunded in FY 2019.

**Primary Government's Receivable from GLWA.** The receivable from GLWA was \$1.069 billion on June 30, 2019.<sup>59</sup> The receivable was mainly due for the present value of the \$50.0

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<sup>52</sup> Page 18 of the 2019 CAFR and Page 19 of the 2018 CAFR

<sup>53</sup> Page 118 of the 2019 CAFR, Note 13

<sup>54</sup> Page iv of the 2018 CAFR

<sup>55</sup> Page 118 of the 2019 CAFR, Note 13

<sup>56</sup> Ibid

<sup>57</sup> Page 17 of the FY 2019 CAFR and Page 18 of the 2018 CAFR

<sup>58</sup> Page 69 of the 2019 CAFR

<sup>59</sup> Page 17 of the 2019 CAFR

million annual lease payment due over the next 39 years per the City's final agreement with GLWA. The annual lease payment from GLWA to the Water Fund is \$22.5 million and the present value of the receivable from GLWA on June 30, 2019 was \$447.0 million. The annual lease payment from GLWA to the Sewage Disposal Fund is \$27.5 million and the present value of the receivable from GLWA on June 30, 2019 was \$546.3 million<sup>60</sup>.

**Primary Government's Capital Assets.** Total primary government capital assets were \$2.920 billion on June 30, 2019, a \$98.0 million increase from the \$2.822 billion on June 30, 2018<sup>61</sup>. The Automobile Parking Fund transferred assets with a net book value of \$7.2 million to governmental activities.<sup>62</sup> Major capital assets acquired and projects completed or in progress during the year ended June 30, 2019 included the following:<sup>63</sup>

- \$34.7 million for road construction and resurfacing
- \$18.1 million for renovation of parks and recreation centers
- \$18.9 million for police and fire department capital improvements
- \$36.7 million for police, fire and department of public works (DPW) vehicles
- \$9.1 million for recreation and general service departments machinery and equipment
- \$3.7 million for DPW facility improvements

**Primary Government's Deferred Outflows of Resources.** The deferred outflows of resources decreased \$47.6 million in FY 2019 from the prior year mainly due to the net difference between projected and actual earnings on pension plan investments and differences between expected and actual experience for both the GRS and PFRS pension systems<sup>64</sup>. Deferred outflows of resources, represents a consumption (expense) of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows on June 30, 2019 for the two pension funds were based on a measurement date of June 30, 2018 and the pension contributions received subsequent to the measurement date even though received in FY 2019 will be recognized as an expense and reduction of the net pension liability in the year ended June 30, 2020.<sup>65</sup>

**Primary Government's Due to Other Governmental Agencies.** Due to other governmental agencies was \$32.0 million on June 30, 2019, a \$55.0 million decrease from the \$87.0 million on June 30, 2018. In prior years the Due to GLWA was included in this balance. In FY 2019 a new line item for Due to GLWA was established and totaled \$30.9 million.

**Primary Government's Net Pension Liability.** The primary government's net pension liability on June 30, 2019 was \$1.551 billion (GRS - \$692.2 million and PFRS - \$859.1 million<sup>66</sup>), a \$10.0 million decrease from the \$1.561 billion (GRS - \$757.5 million and PFRS - \$803.4 million) on June 30, 2018. The primary government's \$1.551 billion net pension liability in the June 30, 2019 CAFR's Statement of Net Position is based on the actuarial report dated June 30, 2018.<sup>67</sup> The

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<sup>60</sup> Page 27 of the 2019 CAFR and from 2019 water and sewer trial balance reports.

<sup>61</sup> Page 17 of the 2019 CAFR and page 18 of the 2018 CAFR

<sup>62</sup> Page 74 of the 2019 CAFR

<sup>63</sup> Page 15 of the 2019 CAFR, MD&A

<sup>64</sup> Pages 17, 102 and 103 (Note 8) of the 2019 CAFR and page 96 of the 2018 CAFR

<sup>65</sup> Pages 102 and 103 of the 2019 CAFR, Note 8

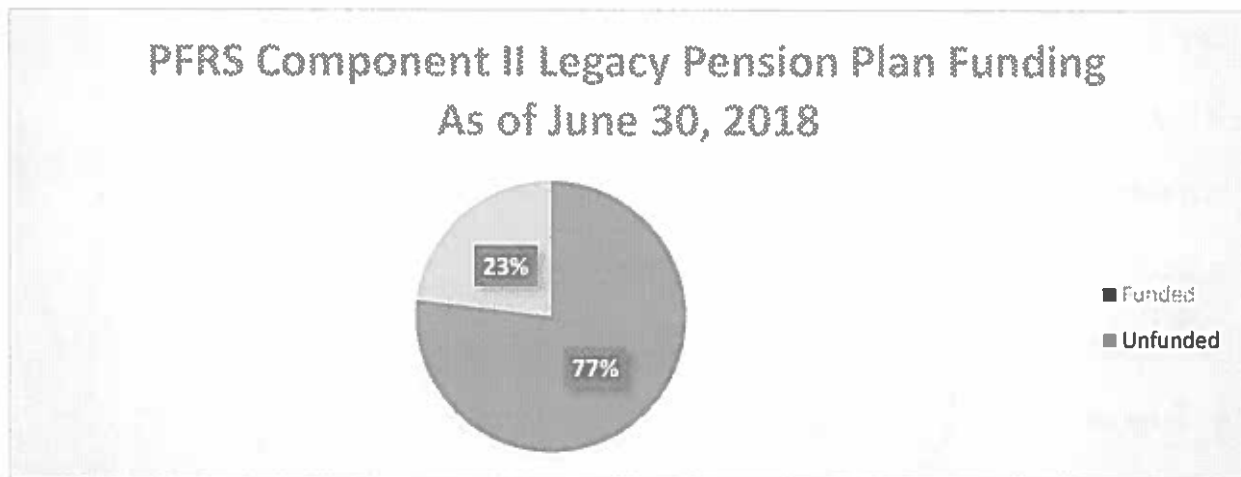
<sup>66</sup> Pages 107-108 of 2019 CAFR and from 2018 actuarial reports.

<sup>67</sup> Pages 18, 100-102 of the 2019 CAFR

Police and Fire Retirement System (PFRS) and General Retirement System (GRS) Legacy Pension Plans (Component II) and the new pension plan (Component I) are detailed in Footnote 8 of the FY 2019 CAFR.<sup>68</sup> GLWA and the Library respectively have \$132.0 million and \$9.8 million of the total net pension liability of \$833.9 million for the City's GRS Component I and II pension plans. The GRS legacy Component II pension plan was 70.0% funded as of June 30, 2018<sup>69</sup>.



The PFRS legacy Component II pension plan was 76.9% funded as of June 30, 2018.<sup>70</sup>



The GRS net pension liability was less in FY 2019 mainly due to a change in assumptions by the actuary. Investment income was down because returns were 6.5% for FY 2018 compared to 14.1% in FY 2017. The PFRS legacy net pension liability increased \$31 million in FY 2019 as investment income was down because returns were 8.2% for FY 2018 compared to 12.0% in FY 2017<sup>71</sup>.

The net pension liability is summarized below by retirement system plan and by City reporting category.

<sup>68</sup> Pages 100-102 and 107-108 of the 2019 CAFR

<sup>69</sup> Page 101 of the 2019 CAFR.

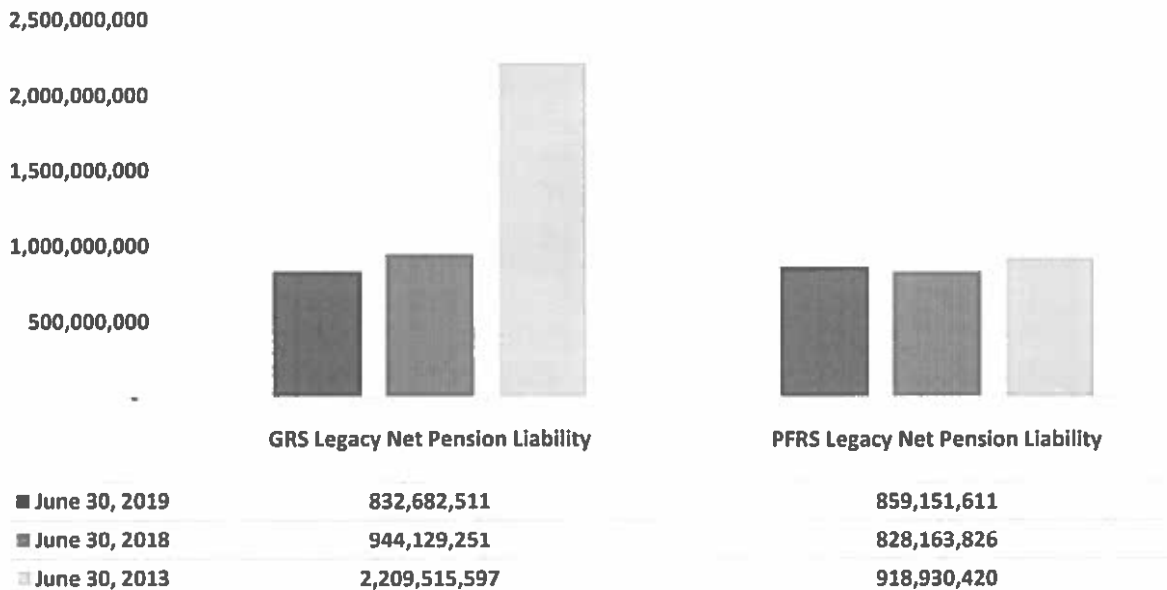
<sup>70</sup> Page 102 of the 2019 CAFR

<sup>71</sup> The GRS and PFRS Pension Plans investment rate of return net of fees and expenses were 6.5% and 8.2%, respectively for the year ended June 30, 2018 per the FY 2019 Pension Financial Statements (Page 8 GRS and Page 8 PFRS).

	GRS Comp II	GRS Comp I	PFRS Comp II	PFRS Comp I	Total
Governmental Activities	\$ 407,546,824	(2,042,819)	859,151,611	(33,187,146)	1,231,468,470
DDOT	221,236,943	2,371,017			223,607,960
Water	33,417,707	252,825			33,670,532
Sewer	22,341,050	359,343			22,700,393
Airport	904,472	3,404			907,876
Parking	5,766,781	36,847			5,803,628
Total Primary Government Net Pension Liability	691,213,777	980,617	859,151,611	(33,187,146)	1,518,158,859
Library	9,487,568	266,168			9,753,736
GLWA	131,981,166	-			131,981,166
Total Net Pension Liability All City Retirement Systems	<b>\$ 832,682,511</b>	<b>1,246,785</b>	<b>859,151,611</b>	<b>(33,187,146)</b>	<b>1,659,893,761</b>

The net pension liability significantly decreased from the \$3.128 billion on June 30, 2013. However, it is still substantial and will consume large amounts of General Fund revenues in the future leaving less for City services such as public protection. The graph below shows the net pension liability for both the GRS and PFRS legacy (Component II) pension systems for fiscal years 2019, 2018, and 2013<sup>72</sup>.

### Legacy Pension Plan Net Pension Liability



<sup>72</sup> The FY 2013 net pension liability of \$3,128,446,017 (GRS - \$2,209,515,597 and PFRS - \$918,930,420) billion is from the FY 2015 CAFR, page 99 of Note VII (f). In FY 2013, GASB 68 net pension liability reporting was not required. However, we are including it here for comparison purposes to show the reductions resulting from the Plan of Adjustment. In FY 2014 the net pension liability totaled \$2,918,025,938 (GRS - \$1,786,441,192 and PFRS - \$1,131,584,746).

During November 2015, the actuary for each of the plans revised the calculation of the Unfunded Actuarial Accrued Liabilities (UAAL) for the frozen plans using updated mortality tables and other assumptions. The effect of the revised calculations was to increase the UAAL for the frozen plans by approximately \$491 million. Beginning in 2024, the Plan of Adjustment assumed that the UAAL would be funded over 30 years and projected an annual General Fund contribution of \$111 million beginning in fiscal year 2024. Based on the revised calculations, as of November 2015, the General Fund contribution was projected to be \$194 million per year. In fiscal year 2016, the City began to set aside funds in a restricted fund - Retirement Protection Fund (RPF) for application to a portion of its annual General Fund contribution obligation to the plans beginning in fiscal year 2024 to allow the City to better manage its liability at that time. On June 30, 2019 the balance of the RPF was \$129.5 million. The latest estimate of the General Fund contribution for FY 2024 is \$164.3 million based on the June 30, 2018 actuarial valuation.<sup>73</sup>

The pension plan fiduciary net position as a percentage of total Pension liability (i.e., unfunded liability) for the City's four pension plans as of June 30, 2018<sup>74</sup> are detailed below.

<u>Pension Plan</u>	<u>FY 2018 Percentage Funded</u>	<u>FY 2017 Percentage Funded</u>
PFRS Component II Legacy	76.9%	77.9%
PFRS Component I New	135.0%	136.1%
GRS Component II Legacy	70.0%	67.6%
GRS Component I New	98.7%	86.6%

**Primary Government's Long-Term Obligations.** Total primary government long-term obligations were \$3.138 billion at June 30, 2019, an increase of \$279.0 million from the \$2.859 billion at June 30, 2018.<sup>75</sup> The long-term obligations increased mainly due to the issuance in FY 2019 of: (1) \$135.0 million of unlimited tax general obligation bonds (Series 2018); (2) \$81.6 million of Sewer revenue bonds; and (3) \$51.0 million revenue bonds for Street Fund projects. The addition of debt in FY 2019 was partially offset by principal payments of existing debt. In addition, the FY 2019 long-term obligations added: (1) \$44.0 million for the Sewerage Disposal Fund shortfall due GLWA for prior years; and (2) \$39.7 million increase in claims and lawsuits. The shortfall due GLWA and the \$39.7 million increase of obligations for claims and lawsuits are concerning. In the questions section we are asking the OCFO to explain the increase in claims and lawsuits and the Sewerage Disposal Fund's shortfall due to GLWA.<sup>76</sup>

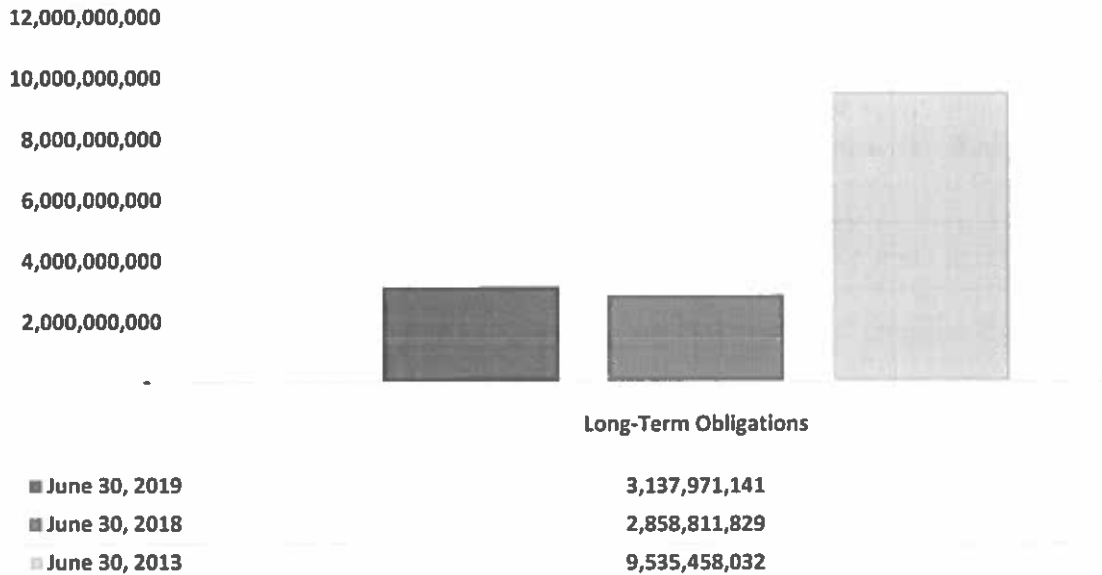
<sup>73</sup> Pages 118, Note 13 of the 2019 CAFR

<sup>74</sup> Pages 130-132 of the 2019 CAFR and Pages 126-127 of the 2018 CAFR

<sup>75</sup> Page 18 of the 2019 CAFR and page 18 of the 2018 CAFR

<sup>76</sup> Pages 78-81 of the 2019 CAFR

## Long-Term Obligations



The decreases in long-term obligations from June 30, 2013 are mainly due to the bifurcation and transfer of the regional water and sewer systems' assets and liabilities to GLWA, which included \$5.1 billion of revenue bonds<sup>77</sup>. Also, the reductions in retiree health care (OPEB) and POCs resulting from the bankruptcy contributed to the decrease in long-term obligations from 2013.

**City Debt Ratings.** As of June 30, 2019, the City's debt has the following ratings<sup>78</sup>:

	Date of Rating	Rating Agency	Rating
Distributable State Aid First Lien Refunding bonds (LTGO) Series 2016B-1	12/15/2017	Moody's	Aa2
	7/24/2018	S&P	AA-
Distributable State Aid bonds - Third Lien Refunding Bonds (LTGO) Series 2016B-2	12/15/2017	Moody's	Aa2
	7/24/2018	S&P	AA-
Distributable State Aid bonds - Fourth Lien Refunding Bonds (UTGO) Series 2016A-1	12/15/2017	Moody's	Aa2
	7/24/2018	S&P	AA-
Distributable State Aid bonds - Fourth Lien Refunding Bonds (UTGO) Series 2016A-2	12/15/2017	Moody's	Aa2
	7/24/2018	S&P	AA-
Distributable State Aid - Second Lien Bonds (UTGO) Series 2010 A	12/15/2017	Moody's	Aa2
Distributable State Aid Fifth Lien Bonds, Series 2018	11/12/2018	Moody's	Aa3
City of Detroit Issuer Rating	5/23/2018	Moody's	Ba3
	2/5/2019	S&P	BB-

<sup>77</sup> Page 122 of the 2016 CAFR

<sup>78</sup> Page 95 of the 2019 CAFR, Note 7



The City's credit ratings on uninsured general obligation bonds as of June 30, 2019 were:

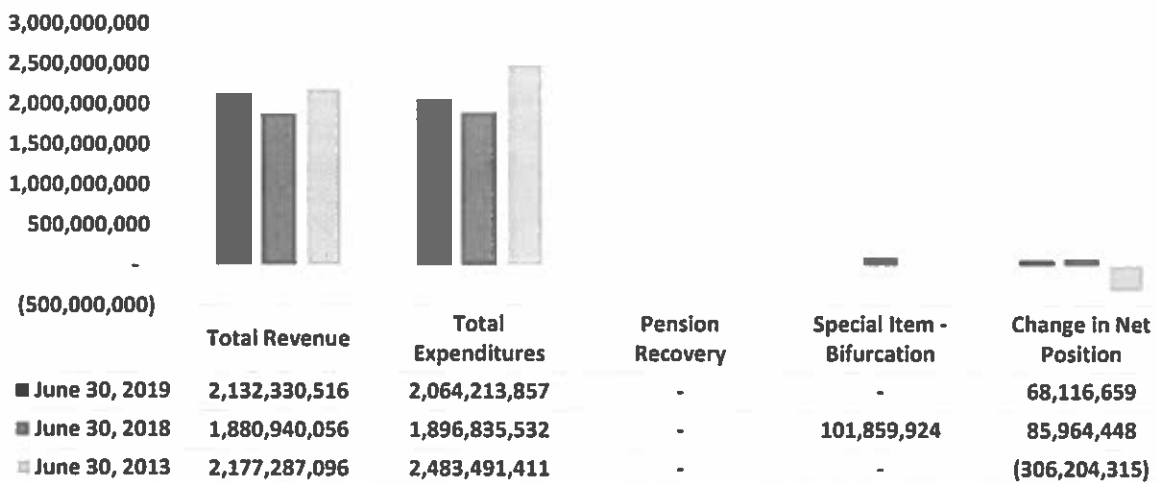
Moody's Investor Service, Inc.	Ba3
Standard & Poor's Corporation	BB- <sup>79</sup>

City debt ratings have improved because of the improved financial condition of the City and the revenues securing the payment of the debt. The City credit ratings for the uninsured general obligation bonds are below investment grade due to weakness in Detroit's economic base relative to its peers. Because of the credit rating below investment grade the City will have higher borrowing costs.<sup>80</sup>

**Primary Government's Deferred Inflows of Resources.** Deferred inflows of resources were \$39.4 million on June 30, 2019, an increase of \$18.2 million from the \$21.2 million on June 30, 2018.<sup>81</sup> Deferred inflows of resources, represents an acquisition (Asset) of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows of resources from pensions result from three transactions: the variance between the plans' actual investment earnings compared to the plans' assumed investment earnings, the variance between the plans' actual experience compared to the plans' assumed experience, and changes in assumptions.<sup>82</sup> In the questions section we are asking the OCFO to explain why the deferred inflows of resources increased in FY 2019.

**Primary Government Change in Net Position.** The chart below details the primary government's change in net position for fiscal years 2019, 2018, and 2013 (Attachment IV). As discussed previously, the change in net position in FY 2019 was a \$68.1 million surplus mainly because of the increases in income tax and charges for services revenues.

**Primary Government Change in Net Position**



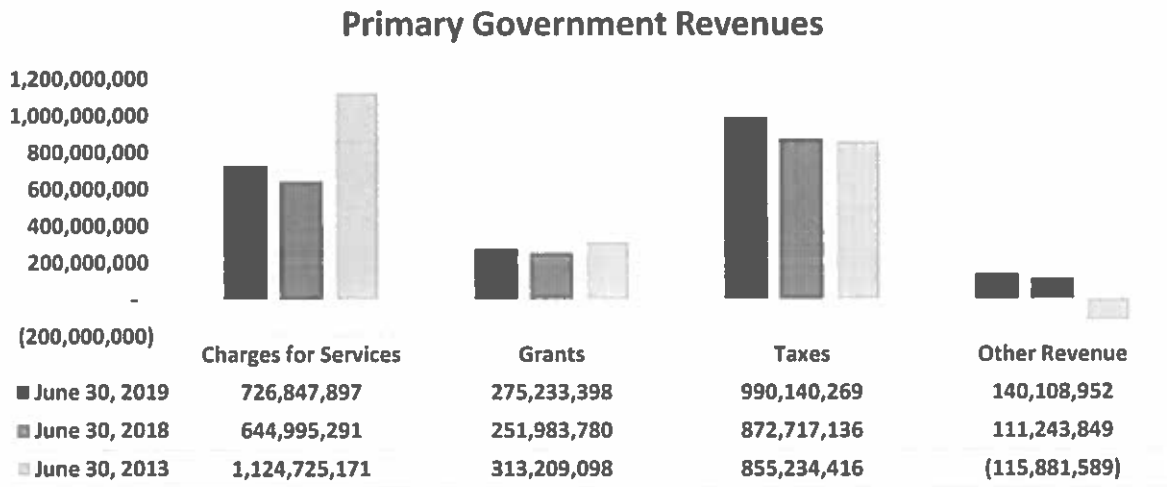
<sup>79</sup> Page 16 of the 2019 CAFR, MD&A

<sup>80</sup> Ibid

<sup>81</sup> Page 18 of the 2019 CAFR and page 19 of the 2018 CAFR

<sup>82</sup> Page 47 and pages 106-107 of the 2016 CAFR

**Primary Government's Revenues.** The chart below details the primary government's major revenues for fiscal years 2019, 2018, and 2013 and shows the sources of some of the City's main revenues.



**Primary Government's Charges for Services.** The charges for services revenue was \$726.8 million on June 30, 2019, an increase of \$81.9 million from the \$645.0 million on June 30, 2018.<sup>83</sup> Detailed below is a comparison of the various charges for services for FY 2019 and FY 2018.

	FY 2019	FY 2018	Difference
Public Protection	85,794,552	82,142,006	3,652,546
Health	2,326,609	2,543,252	(216,643)
Recreation and Culture	4,162,855	2,097,986	2,064,869
Economic Development	21,974,750	6,581,729	15,393,021
Housing Supply and Conditions	817,929	-	817,929
Physical Environment	41,766,310	44,307,433	(2,541,123)
Transportation Facilitation	4,695,448	3,728,872	966,576
Development and Management	122,447,673	42,238,300	80,209,373
Water	101,609,566	115,019,869	(13,410,303)
Sewer	297,703,405	291,130,813	6,572,592
Transportation	20,190,340	29,236,816	(9,046,476)
Automobile Parking	10,149,706	12,013,301	(1,863,595)
Airport	571,913	619,190	(47,277)
Public Lighting Authority	12,636,841	13,335,724	(698,883)
<b>Total</b>	<b>726,847,897</b>	<b>644,995,291</b>	<b>81,852,606</b>

The following had significant changes for charges for services revenue: (1) economic development \$15.4 million increase; (2) development and management \$80.2 million increase; (3) water \$13.4 million decrease; and (4) transportation (DDOT) \$9.0 million decrease. In the questions section we are asking the OCFO to explain these major changes in the charges for services revenues for FY 2019.

**Primary Government's Property Tax Revenue.** The property tax revenue was \$181.4 million for the year ended June 30, 2019, a \$22.3 million increase from the \$159.1 million for the year

<sup>83</sup> Pages 19-20 of the 2019 CAFR and pages 20-21 of the 2018 CAFR

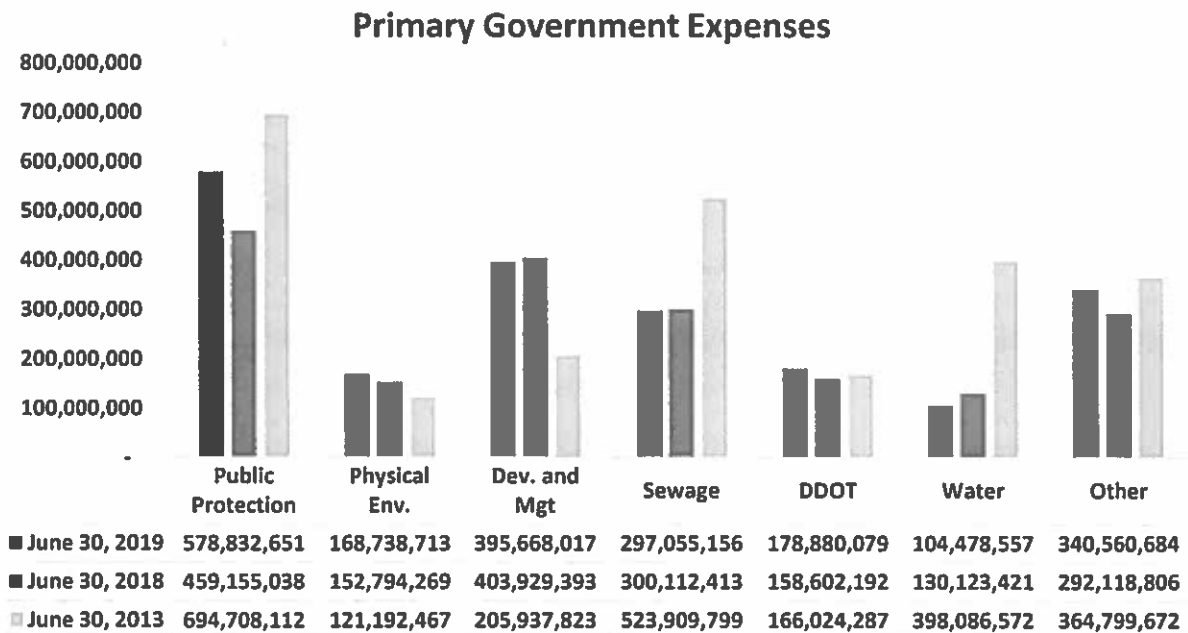
ended June 30, 2018. Collections were improved in FY 2019 which contributed to the increase in the property tax revenue.

**Primary Government’s Municipal Income Tax Revenue.** The municipal income tax revenue was \$376.7 million for the year ended June 30, 2019, a \$77.4 million increase from the \$299.3 million for the year ended June 30, 2018. In FY 2019 there was a \$23.0 million one-time collection from a corporate entity that contributed to the increase. In the questions section we are asking the OCFO to explain the increase in municipal income taxes in FY 2019.

**Primary Government’s Investment Earnings Revenue.** The investment earnings were \$26.9 million for the year ended June 30, 2019, a \$10.5 million increase from the \$16.4 million for the year ended June 30, 2019. The City’s improved cash position, increase in interest rates and the improvement of the OCFO’s Treasury management of cash contributed to the increase in investment earnings in FY 2019.

**Primary Government’s Miscellaneous Revenue.** Miscellaneous revenue was \$113.3 million for the year ended June 30, 2019, an \$18.5 million increase from the \$94.8 million for the year ended June 30, 2018. In the questions section we are asking the OCFO to explain the increase in miscellaneous revenue for FY 2019.

**Primary Government’s Expenditures.** The chart below details the primary government’s major Expenditures for fiscal years 2019, 2018, and 2013 and shows the major programs that the City expends funds for.



**Primary Government’s Public Protection Expenses.** Public protection expenses were \$578.8 million in FY 2019, a \$119.6 million increase from the \$459.2 million amount in FY 2018. In the questions section we are asking the OCFO to explain why public protection expenses increased so much in FY 2019.

**Primary Government’s Recreation and Culture Expenses.** Recreation and culture expenses were \$29.4 million, an \$8.0 million decrease from the \$37.4 million in FY 2018. In the questions section we are asking the OCFO to explain why recreation and culture expenses decreased so much in FY 2019.

**Primary Government’s Economic Development Expenses.** Economic development expenses were \$99.9 million for the year ended June 30, 2019, a \$54.6 million increase from the \$45.3 million for the year ended June 30, 2018. In the questions section we are asking the OCFO to explain why the economic development expenses increased so much in FY 2019.

**Primary Government’s Transportation Expenses.** Transportation expenses were \$63.8 million for the year ended June 30, 2019, a \$28.0 million increase from the \$35.8 million for the year ended June 30, 2019. The increase in spending for the street maintenance projects contributed to the increase in FY 2019.

**Primary Government’s Housing and Supply Conditions Expenses.** Housing and supply conditions expenses were \$34.1 million in FY 2019, an increase of \$9.1 million from the \$25.0 million in FY 2018. The increase in blight and demolition activity contributed to the increase in FY 2019.

**Primary Government’s Physical Environment Expenses.** Physical environment expenses were \$168.7 million in FY 2019, a \$15.9 million increase from the \$152.8 million amount in FY 2018. In the questions section we are asking the OCFO to explain why physical environment expenses increased in FY 2019.

**Primary Government’s Development and Management Expenses.** Development and Management expenses were \$395.7 million in FY 2019, a decrease of \$8.3 million from the \$403.9 million in FY 2018. In the questions section we are asking the OCFO to explain why development and management expenses decreased in 2019.

**Primary Government’s Interest on Long-term Debt.** Interest on long-term debt was \$34.0 million in FY 2019, a \$28.5 million decrease from the \$62.5 million in FY 2018. In the questions section we ask the OCFO to explain why the interest on long-term debt decreased so much in FY 2019.

**Primary Government’s Water Expense.** Water expenses were \$104.5 million in FY 2019, a \$25.6 million decrease from the \$130.1 million in FY 2018. In the questions section we ask the OCFO to explain why water expenses decreased in FY 2019.

**Primary Government’s Transportation Expense.** Transportation expenses were \$178.9 million in FY 2019, a \$20.3 million increase from the \$158.6 million in FY 2018. In the questions section we ask the OCFO why the transportation expense increased so much in FY 2019.

**Primary Government’s Automobile Parking Expenses.** Automobile parking expenses were \$16.1 million in FY 2019, a decrease of \$13.4 million from the \$29.5 million in FY 2018. Parking sold the Premier garage in FY 2018 at a loss of \$21.1 million which contributed to the higher expenses in FY 2018. In FY 2019 Parking contributed \$7.1 million of assets to the City’s governmental activities which increased expenses in FY 2019. In July 2019 (FY 2020) the City

sold the Millennium garage for \$18.7 million. Its book value was \$7 million and a gain of approximately \$11 million net of expenses was recorded for FY 2020. The proceeds were used for land acquisitions for the FCA project.

**CITY'S LONG-TERM OBLIGATIONS POST-BANKRUPTCY.** The bankruptcy exit provides the City relief from legacy costs mainly OPEB and pension obligations. However, LPD provides the following observations:

- While the City eliminated a substantial amount of its obligations with the bankruptcy settlements, it did incur additional debt to provide for some of the settlements and restructuring/Quality of Life projects. Much of the new debt such as the 2014 B(1) and B(2) bonds was limited tax general obligation (LTGO) debt and will have to be paid from the general revenues of the City. This along with other “secured” LTGO bond debt issued before the bankruptcy will divert the City’s General Fund’s revenues, which could have been used for core City services such as police and fire, to pay off the debt service. Of the City’s primary government’s \$1.738 billion of General Obligation bond debt at June 30, 2019<sup>84</sup>, a total of \$1.368 billion<sup>85</sup> is LTGO debt which will ultimately have to be paid from the general revenue. Furthermore, much of the debt issued for the bankruptcy settlements was structured to defer principal payments for several years and will have a greater adverse impact on the General Fund in future years.
- The OCFO has taken commendable steps to reduce the LTGO debt and gross debt service for fiscal years 2025-2030 by redeeming and refunding certain bond obligations. In FY 2018, the OCFO redeemed \$52.3 million of the 2014 C bonds with surplus funds. On December 13, 2018, the City issued its \$176 million Distributable State Aid Fifth Lien Financial Recovery Refunding Bonds (LTGO) Series 2018 Bonds (the “2018 DSA Bonds”) for the purpose of purchasing \$197.7 million of its Series 2014 B (1) and its B (2) Financial Recovery Bonds, and paying the costs of issuance associated with the 2018 DSA Bonds.<sup>86</sup>
- The OCFO estimates the debt service on LTGO bonds for FY 2025-2030 will be reduced by \$155 million because of the above debt issuances. Debt service beginning in fiscal year 2025 would have increased by approximately \$31 million per year through fiscal year 2030 in absence of these transactions. In addition, to the reduced debt service, the City will also save approximately \$21.7 million (\$11.7 million interest savings on 2014 C Bonds and \$10 million on 2014 B(1) and 2014 B(2) Bonds) as a result of these transactions.<sup>87</sup>
- On December 10, 2018, the City issued \$135,000,000 Unlimited Tax General Obligation Bonds, Series 2018 for the purpose of financing the cost of certain capital projects of the City and paying cost of issuance associated with the 2018 UTGO Bonds. The 2018 UTGO Bonds are secured by the debt millage on City property taxes. The 2018 UTGO Bonds are tax exempt and mature on April 1, 2038.<sup>88</sup>

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<sup>84</sup> Pages 78-80 of the 2019 CAFR, Note 7

<sup>85</sup> Pages 86-90 of the 2019 CAFR

<sup>86</sup> Page 85 of the 2019 CAFR

<sup>87</sup> Page 85 of the 2019 CAFR and page 118 of the 2018 CAFR, Note 14 - Subsequent Events

<sup>88</sup> Page 83 of the 2019 CAFR, Note 7

- Also, pension obligations have only been reduced and not eliminated even though the City's required contributions are limited by the Plan of Adjustment through June 30, 2023. After June 30, 2023, the City will have significant annual obligations to fund pensions, especially if the Net Pension Liability is not significantly reduced by then. Beginning in 2024, the Plan of Adjustment assumed that the UAAL would be funded over 30 years and projected an annual General Fund contribution of \$111 million beginning in fiscal year 2024. Based on the latest actuarial valuation as of June 30, 2016, the anticipated General Fund contributions starting in FY 2024 are projected to be \$164.3 million<sup>89</sup>. As mentioned previously, the OCFO has taken action to mitigate the pension required contributions in 2024 by setting aside \$129.5 million in the Retirement Protection Trust Fund as of June 30, 2019.
- **Legacy GRS Pension System Payout Ratio.** The General Retirement System (GRS) Legacy Pension Fund (Component II) had total expenditures of \$264.6 million for the year ended June 30, 2019<sup>90</sup>. The total Net Position of the fund was \$1.811 billion at June 30, 2018<sup>91</sup>, a decrease of \$142.0 million from the prior year.<sup>92</sup> The GRS Legacy Pension Fund has a high payout ratio (1:6.8) compared to its net position, meaning if GRS pension expenditures continue at this rate, total GRS pension net position would be depleted in approximately six years and ten months. The Net Pension Liability to the GRS Legacy Pension Fund was \$832.7 million as of June 30, 2018.<sup>93</sup> The City's pension obligations are a burden that have to be closely monitored.
- **PFRS Pension System Payout Ratio.** The Police and Fire Retirement (PFRS) Legacy Pension Fund had total expenditures of \$312.7 million for the year ended June 30, 2019.<sup>94</sup> The total Net Position of the fund was \$2.676 billion at June 30, 2019, a \$195.3 million decrease from the prior year.<sup>95</sup> The PFRS Legacy Pension Fund has a lower payout ratio (1:8.6, meaning the total PFRS pension net position would be depleted in approximately eight years and seven months at this rate of PFRS pension expenditures) than the GRS but it is still of concern. The City's Net Pension Liability to the PFRS Legacy Pension Fund was \$859.2 million as of June 30, 2018.<sup>96</sup>
- Of concern is the transfer of \$9.0 million and \$4.0 million transfer from the GRS and PFRS Legacy pension funds, respectively, in FY 2019 to the Component 1 pension plans.<sup>97</sup> It

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<sup>89</sup> Page 118 of the 2019 CAFR, Note 13, Bankruptcy - Pension Settlements

<sup>90</sup> GRS (Component II) "total expenditures" is synonymous with "total deductions" on Page 189 of the 2019 CAFR.

<sup>91</sup> Page 189 of the 2019 CAFR

<sup>92</sup> Page 189 of the 2019 CAFR and 180 of the 2018 CAFR

<sup>93</sup> Page 101 of the 2019 CAFR. Per page 99 of the 2019 CAFR, as permitted by GASB No. 68, the City has chosen to use June 30, 2018 as its measurement date for the net pension liability (asset) for its fiscal year 2019 financial statements. The net pension liability (asset) was calculated using the total pension liability and the Systems' fiduciary net position as of June 30, 2018. The June 30, 2018 total pension liability was determined by an actuarial valuation performed as of June 30, 2017, which updated procedures to roll forward the estimated liability to June 30, 2018.

<sup>94</sup> PFRS (Component II) "total expenditures" is synonymous with "total deductions" on Page 190 of the 2019 CAFR.

<sup>95</sup> Page 190 of the 2019 CAFR and 180 of the 2018 CAFR

<sup>96</sup> Page 99 of the 2019 CAFR. Per page 99 of the 2019 CAFR, as permitted by GASB No. 68, the City has chosen to use June 30, 2018 as its measurement date for the net pension liability (asset) for its fiscal year 2019 financial statements. The net pension liability (asset) was calculated using the total pension liability and the Systems' fiduciary net position as of June 30, 2018. The June 30, 2018 total pension liability was determined by an actuarial valuation performed as of June 30, 2017, which updated procedures to roll forward the estimated liability to June 30, 2018.

<sup>97</sup> Pages 189 and 190 of the FY 2019 CAFR

appears the legacy plan annuitants are funding the new pension plans with the excess earnings from their annuities. The earnings should be retained by the annuity fund to provide for investment shortfalls in future years. We need for the OCFO and retirement systems to better explain these transfers. In the FY 2019 financial statements for the GRS the transfer is explained as follows: “The Combined Plan document setting forth the Legacy Plan (Component II) contains a provision for the transfer of certain excess investment returns to the new Hybrid Plan (Component I). If the annual rate of return credited to the member annuity savings fund account is less than the actual rate of return net of expenses of the Plan’s invested assets for the second plan year preceding the plan year in which the annual rate of return is credited, the excess earned shall be transferred to the pension accumulation fund maintained under Component I of the Combined Plan and will be used to fund transition costs related to Component I. The transition cost is a measure of the liability that Component I of the Combined Plan has at its inception due to the fact that members in Component I receive vesting and eligibility credit under Component I for service that was earned prior to July 1, 2014 and is otherwise credited to members under Component II. Such transition costs have been calculated by the plan’s actuary. Yearly transfers to fund these costs are required in the second year following the year in which the return is earned based on a two-year “lookback”, therefore, for example, any transfers based on the plan year ended June 30, 2017 will be calculated and transferred during the plan year ended June 30, 2019. Based on these provisions, for plan year ended June 30, 2019, \$9.0 million was transferred from Component II to Component I toward the transition costs.”<sup>98</sup>

- **If new revenue sources are not established, and revenues as projected in the Plan of Adjustment do not materialize, the City will severely struggle to maintain a viable government without strong cost containment measures. The years after June 30, 2023 will be challenging as the City resumes making regular pension contributions and much of the principal on the debt issued from the bankruptcy settlements become due.**

### **Major Issues from the City’s Enterprise Fund Financial Statements in the 2019 CAFR (Long-term perspective)**

**Enterprise Fund’s Net Position.** The City’s enterprise funds had a net position of \$1.259 billion at June 30, 2019, an increase of \$19.0 million from the \$1.240 billion net position at June 30, 2018. The enterprise fund cumulative unrestricted net position was a surplus totaling \$773.2 million in FY 2019 a \$23.9 million decrease from the \$797.1 million in FY 2018<sup>99</sup>.

**Water and Sewage Disposal Funds.** In FY 2019 Water and the Sewage Disposal Funds had unrestricted net positions of \$456.9 million and \$543.1 million, respectively, mainly due to the bifurcation which exchanged the water and sewer regional systems assets and liabilities including long term debt to GLWA for \$50.0 million in annual lease payments over 40 years.<sup>100</sup> The Water Fund unrestricted net position increased by \$10.4 million and the Sewage Disposal Fund unrestricted net position decreased by \$12.7 million from the FY 2018 balances.

<sup>98</sup> Pages 29 and 30 of the FY 2019 GRS financial statements, Note 9 – Commitments. Note: there is similar language for the PFRS system on page 30 of the FY 2019 PFRS financial statements, Note 9-Commitments.

<sup>99</sup> Pages 20 and 28-30 of the 2019 CAFR and pages 19, and 27-28 of the 2018 CAFR

<sup>100</sup> Pages 27 and 28 of the 2019 CAFR

The Sewage Disposal Fund shows a balance of \$44.0 million in a liability account entitled “shortfall loan payable to Great Lakes Water Authority” on June 30, 2019.<sup>101</sup> This appears to be attributable to a negative balance caused by a budget shortfall for the Sewage Disposal Fund which exceeds the two percent threshold (i.e., actual receipts falling short of budget for either the water fund or sewer fund by greater than two percent) per the 2018 MOU. The budget shortfall not cured by the end of the fiscal year following the year in which they arise shall be repaid in full, in installments over a period not to exceed three fiscal years. The installment payments will include a surcharge based on the three-year U.S. Treasury note plus 150 basis points.<sup>102</sup> As of November 7, 2018, DWSD has discussed options to cure this shortfall with its Board of Commissioners and at a Reconciliation Committee meeting on October 19, 2018. A written agreement was under discussion to document the plan to cure.<sup>103</sup> In the questions section of this report we ask the OCFO to provide us with an update on this loan payable to GLWA.

While the Water and Sewage Disposal Funds have large unrestricted net positions at June 30, 2019, both funds have large capital and infrastructure repair and replacement needs and debt obligations to GLWA that will require a large share of that unrestricted net position. According to DWSD representatives, a benefit of the net unrestricted net position is that water and sewer rate increases to Detroit customers will be mitigated, as the unrestricted net position through the annual \$50 million lease payment from GLWA, will provide a significant amount of the funding for both Funds’ capital, infrastructure, and debt obligation needs.<sup>104</sup>

Per page 17 and 27 of the 2019 CAFR, there is recorded a \$993.3 million receivable from GLWA for the lease as of June 30, 2019. The receivable was for the present value of the \$50.0 million annual lease payment due over 40 years per the City’s agreement with GLWA. The annual lease payment from GLWA to the Water Fund is \$22.5 million and the present value of the receivable from GLWA on June 30, 2019 was \$447.0 million. The annual lease payment from GLWA to the Sewage Disposal Fund is \$27.5 million and the present value of the receivable from GLWA on June 30, 2019 was \$546.3 million<sup>105</sup>.

It should be noted that the \$50 million lease payment is funded from a portion of the common-to-all revenue requirements for the regional systems. The lease payments follow the flow of funds under the related GLWA Master Bond Ordinance. The parties to the Leases anticipated that, due to efficiencies, restructuring opportunities, local and regional capital improvements underway or planned for the future, and other cost savings, funding of the lease payment would not increase the revenue requirements for the regional systems by more than 4 percent per year. Nothing in the Leases changes the obligation of GLWA to comply with the rate covenant under the Master Bond Ordinances. The lease payments are not treated as a GLWA operation and maintenance expense and may be applied by the City, solely at the City’s direction and discretion, to the cost of improvements to the local system infrastructure located within the City (payable after debt service and pension liability payments in the flow of funds), the payment of debt service on GLWA Bonds

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<sup>101</sup> Page 27 of the 2019 CAFR.

<sup>102</sup> Note 20. Subsequent Events on page 76 of the 2018 GLWA CAFR.

<sup>103</sup> Note 20. Subsequent Events on page 76 of the 2018 GLWA CAFR.

<sup>104</sup> Attachment V “Questions on FY 2017 DWSD Financial Statements Net Position and DWSD Management Responses”

<sup>105</sup> The 2019 water and sewer lease receivables from the GLWA were obtained from 2019 water and sewer trial balance reports.



associated with such improvements, or the City’s share of debt service on GLWA Bonds associated with common-to-all improvements. Any bonds to finance regional system improvements or DWSD local infrastructure are now issued by the GLWA and are secured by the net revenue (as defined in the Master Bond Ordinances) of the systems.

Pursuant to the Leases, GLWA has exclusive right to establish rates for water and sewer service for both wholesale and retail (City of Detroit) customers; however, GLWA may delegate rate setting to an agent and under the Water and Sewer Services Agreement, and as provided in a December 15, 2015 Court Order, has delegated to the City’s Board of Water Commissioners its rights to set rates and collect revenue with respect to retail customers of the City.

As a result of the Leases, DWSD reports activity only related to City retail customers (Detroit retail class). Per the Water and Sewer Services agreement between DWSD and GLWA and the Master Bond Ordinances, the Detroit retail class continues to pay its common-to-all share of debt service revenue requirements and its allocated share of debt service revenue requirements associated with improvements to the local water and sewer systems based on a percentage of total debt service<sup>106</sup>.

The lease receivable from GLWA on DWSD’s Statement of Net Position does not agree with the lease payable on GLWA’s Statement of Net Position for FY 2019. GLWA shows the lease to be \$25.5 million less than DWSD for the Water Fund and \$31.1 million less for the sewage Disposal Fund. The difference is due to GLWA using a different discount rate, which is higher than DWSD but produces a lower obligation. Detailed below is the difference<sup>107</sup>. In the questions section we ask the OCFO is DWSD in recent negotiations with GLWA for GLWA to consider using DWSD’s discount rate.

	in Millions					
	Water			Sewer		
	DWSD	GLWA	Difference	DWSD	GLWA	Difference
Receivable From GLWA	\$ 447.0	421.5	25.5	\$ 546.3	515.2	31.1

In FY 2019 the Water Fund had \$19.4 million in operating income while the Sewage Disposal Fund had \$22.6 million in operating income.<sup>108</sup> Sewage Disposal Fund revenues were up while expenses were down in 2019 compared to the prior year.

The Water and Sewage Disposal Funds show pension recovery expenses as a contra (negative) expense for FY 2019 of \$13.4 million and \$10.1 million respectively. In addition, the Water and Sewage Disposal Funds show GLWA’s share of the pension recovery as a contra (negative) revenue for FY 2019 of \$9.9 million and \$6.7 million which partially offsets the pension recovery expense<sup>109</sup>. The net impact is a \$6.9 million reduction in expenses for both funds. We are asking the OCFO to explain what the pension recovery expense is. It appears to be an adjustment to the net pension liability for overcharges in previous years.

<sup>106</sup> Pages 119-120 of the 2019 CAFR

<sup>107</sup> Page 27 of the 2019 CAFR and pages 66 and 67 of GLWA’s FY 2019 CAFR

<sup>108</sup> Page 29 of the 2019 CAFR (Operating Income (Loss) line)

<sup>109</sup> Page 29 of the 2019 CAFR

Of concern is the GLWA \$200.8 million deficit on June 30, 2019 and the impact it will have on rates to DWSD’s customers. GLWA is technically insolvent as its liabilities and deferred inflows exceed its assets and deferred outflows. GLWA will need to increase its rates to its wholesale customers including DWSD to meet its obligations. The following schedule details GLWA’s deficits<sup>110</sup> and net position for FY 2017 to FY 2019.<sup>111</sup>

	Fiscal Year		
	2017	2018	2019
Unrestricted Deficit	(1,095,078,075)	(903,746,081)	(126,936,239)
Net Position	(102,834,993)	(178,754,764)	(200,824,621)
Change in Net Position	(88,151,113)	(75,919,771)	(22,069,857)

**The City needs to closely observe the financial performance of the Water and Sewage Disposal Funds after the bifurcation to ensure the funds maintain solvency and the resources to provide the City’s citizens with excellent water and sewage service.**

**Transportation Fund.** The Transportation Fund had an unrestricted net position deficit at June 30, 2019 of \$255.7 million, a \$32.0 million increase from the \$223.7 million deficit on June 30, 2018. This was mainly due to the \$25.2 million increase in the net pension liability from \$198.4 million at June 30, 2018 to \$223.6 million at June 30, 2019. The General Fund provided \$61.5 million in subsidies to the transportation Fund in FY 2019 compared to \$55.2 million in FY 2018.<sup>112</sup>

DDOT miscellaneous revenue was down \$8.3 million from FY 2018 because of one-time insurance proceeds of \$8.1 million related to the Shoemaker bus terminal fire paid in FY 2018.

Notwithstanding the Transportation Fund, which traditionally receives a large general fund subsidy for its operations, the business-type funds are struggling to fully recover their cost of delivery. There will be a constant need to re-evaluate the fees/rates assessed by the business-type entities, as well as explore and implement operational efficiencies, to help avoid future deficits.

**Public Lighting Authority.** Because the PLA is in substance a part of the City’s operation, its financial statements are blended (Blended Component Unit) with the City’s financial statements in the CAFR’s Enterprise Funds section. The PLA had a \$35.9 million net position at June 30, 2019, a \$1.0 million increase from the \$34.9 million at June 30, 2018.<sup>113</sup> The PLA had revenues of \$12.6 million including \$12.5 million transferred from the General Fund’s utility users’ tax revenues. In addition, the City provided a subsidy of \$10.1 million to the PLA. The PLA had \$14.0 million of expenses for the year ended June 30, 2019. The PLA debt service was \$8.3 million.<sup>114</sup>

<sup>110</sup> Page 9 of the GLWA FY 2019 CAFR - GLWA’s Unrestricted Deficit decreased significantly in FY 2019 because of an accounting change in the calculation of the Net Investment in Capital Assets which significantly reduced the amount of that account.

<sup>111</sup> Pages 9 and 12 of GLWA’s FY 2019 CAFR

<sup>112</sup> Page 29 of the 2019 CAFR and pages 28-29 of the 2018 CAFR

<sup>113</sup> Page 30 of the 2019 CAFR and page 29 of the 2018 CAFR

<sup>114</sup> Page 30 of the 2019 CAFR

The PLA had an unrestricted net position of \$30.7 million<sup>115</sup> in the FY 2019 CAFR, which is mainly due to the \$18.8 million of excess utility user tax revenues collected that will be used to pay its future debt obligations, which is shown in the table below. It is our opinion that the excess utility user tax revenues of \$18.8 million should be a restriction of fund balance because these revenues are committed to paying the PLA's debt service on its bonds. This would leave the unrestricted balance at \$11.9 million. In the questions section, LPD raises a question on this issue.

The PLA also has received General Fund subsidies from the City's General Fund. Article 4 of the Interlocal Agreement between the City and PLA<sup>116</sup> requires the City pay PLA for its operating and maintenance, extraordinary maintenance, and administrative costs. In addition, the agreement requires that the City, in no event, be obligated to pay more than \$8,024,000 (Annual Cap Amount) in any given year, excluding any payments for extraordinary maintenance. Article 5 of the agreement requires quarterly payments to the PLA and a reconciliation by the PLA of actual expenses with the quarterly payment made. If the reconciliation discloses an overpayment by the City, the Authority shall credit the difference to the City against the next amounts that may become due under the Agreement. As can be seen from the table below, from FY 2013 through June 30, 2019 a total of \$45.6 million in subsidy has been paid to the PLA. The PLA has incurred \$49.7 million of operating expenses from FY 2013 through FY 2019.

The table below shows the \$18.8 million excess utility user's tax, General Fund subsidy to the PLA, and PLA revenue and expenses from FY 2013 through FY 2019<sup>117</sup>.

	2013	2014	2015	2016	2017	2018	2019	Total
Utility User Tax	\$ 1,200,000	17,549,994	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000	\$ 81,249,994
City Subsidy		757,500	5,527,177	8,886,743	10,039,058	10,302,828	10,099,883	45,613,189
Other Revenue		2,660	1,246,321	1,142,791	1,072,660	835,724	136,841	4,436,997
<b>Total Revenue</b>	<b>1,200,000</b>	<b>18,310,154</b>	<b>19,273,498</b>	<b>22,529,534</b>	<b>23,611,718</b>	<b>23,638,552</b>	<b>22,736,724</b>	<b>131,300,180</b>
Operating Expense	161,549	1,304,983	5,589,821	8,157,578	7,813,490	12,711,589	13,958,851	49,697,861
Other Expense					10,493	(205,540)	(526,096)	(721,143)
Debt Service		585,489	8,997,509	8,600,792	8,509,892	8,385,092	8,255,294	43,334,068
Bond Issuance		916,636	2,119,241		5,000	5,000	-	3,045,877
<b>Total Expense</b>	<b>161,549</b>	<b>2,807,108</b>	<b>16,706,571</b>	<b>16,758,370</b>	<b>16,338,875</b>	<b>20,896,141</b>	<b>21,688,049</b>	<b>95,356,663</b>
<b>Surplus/(Deficit)</b>	<b><u>\$1,038,451</u></b>	<b><u>15,503,046</u></b>	<b><u>2,566,927</u></b>	<b><u>5,771,164</u></b>	<b><u>7,272,843</u></b>	<b><u>2,742,411</u></b>	<b><u>1,048,675</u></b>	<b><u>\$ 35,943,517</u></b>
Principal Paid		-	2,970,000	3,030,000	3,120,000	3,245,000	3,749,458	16,114,458
Excess UUT	1,200,000	16,047,869	(1,586,750)	869,208	865,108	864,908	495,248	\$ 18,755,591

**Other Enterprise Funds.** Other Enterprise Funds include the Airport Fund and Parking Fund.

The General Fund subsidy to the Airport increased \$1.3 million to \$2.2 million for FY 2019 from \$.9 million in FY 2018. The Airport Fund had a \$6.7 million unrestricted deficit net position on

<sup>115</sup> Page 28 of the 2019 CAFR

<sup>116</sup> Interlocal Agreement between the City of Detroit and Public Lighting Authority for the Operation, Maintenance and Management of a Public Lighting System

<sup>117</sup> FY 2013, 2014, 2015, 2016, 2017, 2018, 2019 PLA financial statements

June 30, 2019, an increase of \$2.9 million from the \$3.8 million unrestricted deficit net position at June 30, 2018. A lawsuit settlement was the major reason for the increased deficit.

The Parking Fund net position on June 30, 2019 was \$27.8 million, a decrease of \$4.6 million from the \$32.4 million net position on June 30, 2018. Parking Fund revenues in FY 2019 were \$10.1 million, a \$1.9 million decrease when compared to the \$12.0 million in FY 2018. The Parking Fund had a \$4.8 million unrestricted net position on June 30, 2019, an increase of \$4.3 million from the \$.5 million unrestricted net position on June 30, 2018.<sup>118</sup>

In FY 2019 Parking contributed \$7.1 million of assets to the City’s governmental activities in FY 2019. In July 2019 (FY 2020) the City sold the Millennium garage for \$18.7 million. Its book value was \$7.0 million and a gain of approximately \$11.0 million net of expenses was recorded for FY 2020. The proceeds were used for land acquisitions for the FCA project.

**Other Major Issues/Observations from the Review of the 2019 CAFR**

**Downtown Development Authority Bond Issue.** The Downtown Development Authority issued \$287.4 million of 2018A refunding bonds for their 2014 and 2017 bonds in FY 2019.<sup>119</sup>

**Tax Abatement Disclosures.** In the FY 2019 CAFR, Note 14 Tax Abatements are reported as required by GASB Statement No. 77, Tax Abatement Disclosures<sup>120</sup>. The City disclosed the programs and the estimated amount of taxes abated during the most recent year. Detailed below is a summary of the programs and abated amounts for FY 2019.

Program	Legislation	Abatement Amount			Comment
		2019	2018	Difference	
		Total Taxes	Total Taxes	Total Taxes	
Brownfield Redevelopment Act (BRA)	PA 381 1996	\$ 1,179,840	\$ 1,118,136	\$ 61,704	Cleanup of Environmental Issues
Industrial Facilities Act (IFT)	PA 198 1974	426,216	606,817	(180,601.00)	Redevelopment of Facility
Commercial Rehabilitation Act (CRA)	PA 210 2005	1,966,521	1,543,958	422,563.00	Rehabilitation of Qualified Facility
Commercial Redevelopment Act (CFT)	PA 255 1978	6,573	6,876	(303.00)	Redevelopment of Commercial Property
Renaissance Zone Act (RZ)	PA 376 1996	5,094,819	6,840,208	(1,745,389.00)	Economic Development in Designated Area
Obsolete Property Rehab Act (OPRA)	PA 146 2000	1,729,275	1,251,594	477,681.00	Redevelopment of Obsolete and Blighted Buildings
Neighborhood Enterprise Zone (NEZ)	PA 147 1992	4,278,780	4,571,933	(293,153.00)	Financial Investment in Property
Land Bank Fast Track Act (LB)	PA 258-263 2003	483,462	313,285	170,177.00	Improvement of Property
Eligible Manf. Personal Property (EMPP)	PA 328 1998	-	11,123,269	(11,123,269.00)	Exempts Personal Property from Tax
Sr. Citizen/Disabled Fam. Hous. Exempt.	PA 78 2016	63,652	153,479	(89,827.00)	Manage Sr. Citizen & Disabled Family Housing
MSHDA	PA 346 1966	5,360,686	11,214,777	(5,854,091.00)	Provide 7 Manage Low-Income Housing
Totals		\$ 20,589,824	\$ 38,744,332	\$ (18,154,508)	

In FY 2019 the City gave an estimated \$20.6 million of tax abatements so as to be competitive in Southeastern Michigan to encourage business and residency growth. This was \$18.1 million less than the \$38.7 million in tax abatements for FY 2018, which was mainly due to the omission of the personal property tax exemptions, which were \$11.1 million in FY 2018. In the questions section we are asking the OCFO to explain why the personal property tax exemptions were omitted and why the abatements decreased so much in FY 2019.

<sup>118</sup> Pages 180-181 of the 2019 CAFR and pages 173-174 of the 2018 CAFR

<sup>119</sup> Page 93 of the 2019 CAFR

<sup>120</sup> Pages 122-123 of the 2019 CAFR, Note 14

**Fair Allocation of Legacy Costs to Solid Waste Fund.** The City is not properly allocating the pension and legacy costs to the Solid Waste Fund and some other City funds (e.g., BSEED, and Street Funds) that have the means to pay for them. Legacy costs were allocated to funds based on payroll costs. The Solid Waste Fund was partially privatized for waste disposal and recycling services in FY 2014. When a Fund is privatized and the City payroll is reduced or eliminated there is no process to properly allocate all the legacy costs that the Fund has incurred. The General Fund is left having to pay for those legacy costs. The Solid Waste Fund had a \$67.4 million Fund Balance on June 30, 2019, which was a \$6.0 million increase from the \$61.4 million Fund Balance in FY 2018.<sup>121</sup> The Solid Waste Fund was not charged for its share of the settlements for OPEB (e.g., retiree health care) through the 2014 B(1) and B(2) bonds (VEBA Bonds) and the POCs in FY 2015 - FY 2019. The Solid Waste Fund Balance is growing because it is not paying its fair share of the legacy costs. In the questions section we ask the OCFO what methodology will be explored to ensure these Special Revenue Funds are reimbursing the General Fund for reimbursable costs.

**Other Governmental Entities.** The other governmental entities' June 30, 2019 financial statements and related management letters should at least be presented to the Council's Budget, Finance and Audit (B, F&A) committee since the elected officials of the primary government are financially accountable of the legally separate organizations termed "Discretely Presented Component Units". As a result, the B, F&A role is more critical to the legislative body's role of maintaining fiduciary responsibility for the City.

**Non Compliance with Legal and Contractual Provisions.** The City was not in compliance with legal and contractual provisions for the year ended June 30, 2019 (see Note 2 in the CAFR)<sup>122</sup>, which included:

- The City failed to properly escheat balances to the State as required; and the City was not in compliance with the State of Michigan Public Act 2 of 1968, Uniform Budgeting and Accounting Act, Section 141.435 (2), which requires total budgeted expenditures not to exceed estimated revenue plus accumulated fund balance. The City's final budget for several non-major special revenue funds resulted in a projected deficit. The City incurred expenses against certain appropriations in excess of the amount appropriated by City Council. The City amended the FY 2019 budget subsequent to year end.

**Joe Louis Arena.** On October 24, 2019, the City entered an agreement to sell the Joe Louis Arena property and parking garage to a developer. FGIC assigned its rights to the property from the bankruptcy settlement to the developer. The developer will be required to pay the City \$12.1 million in annual payments through 2038 to repay the City's loan from the Michigan Strategic Fund which was used to demolish the JLA arena.<sup>123</sup>

The Administration should be commended for the thoroughness of the 2019 CAFR. It behooves the Budget, Finance and Audit Committee to continue to do its due diligence to understand and examine the 2019 CAFR.

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<sup>121</sup> Page 157 of the 2019 CAFR and Page 145-146 of the 2018 CAFR

<sup>122</sup> Page 53 of the 2019 CAFR Note 2

<sup>123</sup> Page 125 of the 2019 CAFR Note 15

### Questions for the Administration

Listed below are LPD's questions for the City's Administration on the 2019 CAFR. LPD respectfully requests that the Administration respond to the issues/observations indicated in four weeks. LPD wants to thank the Administration in advance for their responses.

1. We noted an error on page 20 of the FY 2019 CAFR. The Governmental Activities Net Position (Deficit) – Beginning of year (as restated, see Note 1) was \$337,838,390 and appears to be \$1,244,265 in error. The balance per the FY 2018 CAFR (page 21) was a deficit of \$341,907,770. Note 1 (page 51) details the adjustment to increase the beginning net position for governmental activities by \$2,825,115. As a result, The Governmental Activities Net Position (Deficit) – Beginning of year (as restated, see Note 1) should be a deficit of \$339,082,655 ( $341,907,770 - 2,825,115$ ). If such an error was made the integrity of the FY 2019 CAFR financial statements would be questionable. How was the FY 2019 CAFR's beginning balance deficit of \$337,838,390 calculated?
2. The Parking Fund reported a \$7.1 million asset contribution to governmental activities which contributed to the decrease in net position. What was this transaction for? Was it transferred to the General Fund?
3. The Solid Waste Fund had a \$67.4 million Fund Balance on June 30, 2019 compared to a \$61.4 million fund balance on June 30, 2018. In addition, the Street Fund had a \$100.9 million Fund Balance on June 30, 2019. It appears the City has not properly allocated pension and legacy costs and other reimbursable costs (such as central staff services, workers compensation, and litigation costs) to these funds which have the means to pay for them and relieve the General Fund of these costs. What methodology will be explored to ensure these Special Revenue Funds are reimbursing the General Fund for reimbursable costs? Has consideration been given to establishing an Internal Service Fund to account and ensure reimbursement of workers compensation and claims expenses?
4. Of concern is the transfer of \$9.0 million and \$4.0 million transfer from the GRS and PFRS Legacy pension funds, respectively, in FY 2019 to the Component 1 pension plans. It appears the legacy plan annuitants are funding the new pension plans with the excess earnings from their annuities. The earnings should be retained by the annuity fund to provide for investment shortfalls in future years. What are these transfers? Is this the first time for transfers from legacy plans to the new pension plans to occur? Why are the excess earnings from the pension plan's annuity fund required to pay them? Does the OCFO anticipate that transfers from the legacy plans to the new pension plans to occur in the future?
5. The lease receivable from GLWA on DWSD's Statement of Net Position does not agree with the lease payable on GLWA's Statement of Net Position for FY 2019. GLWA shows the lease to be \$25.5 million less than DWSD for the Water Fund and \$31.1 million less for the sewage Disposal Fund. The difference is due to GLWA using a different discount rate, which is higher than DWSD but produces a lower obligation. Detailed below is the difference:

	in Millions					
	Water			Sewer		
	DWSD	GLWA	Difference	DWSD	GLWA	Difference
Receivable From GLWA	\$ 447.0	421.5	25.5	\$ 546.3	515.2	31.1

Is DWSD in the process of negotiating with GLWA to have GLWA use DWSD's discount rate to agree on the calculation of the lease receivable from GLWA? If it is unlikely that GLWA would change its discount rate to reflect DWSD's discount rate, then would it be more prudent for DWSD to use GLWA's discount rate when calculating the lease receivable from GLWA to be recorded on the water and sewer financial statements?

6. The Sewage Disposal Fund shows a balance of \$44.0 million in a liability account entitled "shortfall loan payable to Great Lakes Water Authority" on June 30, 2019. As of November 7, 2018, DWSD has discussed options to cure this shortfall with its Board of Commissioners and at a Reconciliation Committee meeting on October 19, 2018. A written agreement was under discussion to document the plan to cure. Please provide us with an update on this loan payable to GLWA. Also, how does DWSD owe this loan when it has generated surpluses the past two fiscal years?
7. In the 2019 CAFR, two new Internal Service Funds (Employees Benefit Plan Fund and Disability Income Protection Plan Fund) were reported. An Internal Service Fund is a fund used in governmental accounting to account for goods or services shifted between departments on a cost reimbursement basis. The Employee Benefit Plan Fund provides the City's employees health care (e.g., hospitalization premiums) and other insurance benefits such as life, dental, and vision. The Disability Income Protection Plan Fund provides the disability insurance for qualified disabled City employees. The Fund that the employee works in is responsible for reimbursing the Internal Service Fund for the costs incurred. We in LPD would like to see an Internal Service Fund created for Risk Management so that all claims, litigation and workers compensation costs can be properly accounted for and properly reimbursed. Is the OCFO amenable to establishing an Internal Service Fund for Risk Management?
8. Attachment VI shows LPD's calculation of the \$18.8 million in excess utility user tax payments to the Public Lighting Authority (PLA) through FY 2019. Utility user tax payments are used strictly for the use of making debt service (principal and interest) payments. On page 28, the 2019 CAFR shows a \$30.7 million unrestricted surplus figure for the PLA, which appears to be misleading. LPD respectfully request that the OCFO work with PLD's CFO to show excess utility user tax payments to the PLA as restricted for debt service in future PLA financial statements that eventually becomes incorporated in the City's CAFR.

Note: Attachments I and II provide the account variance analysis for most of the following questions:

9. The General Fund had \$638.1 million of cash on June 30, 2019 which included \$302.6 million of restricted cash compared to \$643.4 million of cash on June 30, 2018 including

the \$171.0 million of restricted cash. Why did the restricted cash increase \$131.6 million in FY 2019?

10. The DIA and Foundation revenue was \$18.7 million for the year ended June 30, 2019, an increase of \$12.0 million from the \$6.7 million for FY 2018. Why did this revenue increase by \$12.0 million in FY 2019?
11. Housing supply and conditions expenditures were \$31.7 million in FY 2019, an increase of \$19.4 million from the \$12.3 million in FY 2018. Why did the housing supply and conditions expenses increase so much in FY 2019?

Note: Attachments III and IV provide the account variance analysis for most of the following questions:

12. Primary government Claims and judgement obligations increased \$39.7 million in FY 2019 (pages 78-81 Long-term debt schedules). Why did claims and judgments increase so much in FY 2019? What is being done to mitigate claims and judgments?
13. Deferred inflows of resources were \$39.4 million on June 30, 2019, an increase of \$18.2 million from the \$21.2 million on June 30, 2018. Why did the deferred inflows of resources increase in FY 2019?
14. The primary government charges for services revenue was \$726.8 million on June 30, 2019, an increase of \$81.9 million from the \$645.0 million on June 30, 2018. Detailed below is a comparison of the various charges for services for FY 2019 and FY 2018.

	FY 2019	FY 2018	Difference
Public Protection	85,794,552	82,142,006	3,652,546
Health	2,326,609	2,543,252	(216,643)
Recreation and Culture	4,162,855	2,097,986	2,064,869
Economic Development	21,974,750	6,581,729	15,393,021
Housing Supply and Conditions	817,929	-	817,929
Physical Environment	41,766,310	44,307,433	(2,541,123)
Transportation Facilitation	4,695,448	3,728,872	966,576
Development and Management	122,447,673	42,238,300	80,209,373
Water	101,609,566	115,019,869	(13,410,303)
Sewer	297,703,405	291,130,813	6,572,592
Transportation	20,190,340	29,236,816	(9,046,476)
Automobile Parking	10,149,706	12,013,301	(1,863,595)
Airport	571,913	619,190	(47,277)
Public Lighting Authority	12,636,841	13,335,724	(698,883)
Total	726,847,897	644,995,291	81,852,606

The following had significant changes for charges for services revenue: (1) economic development \$15.4 million increase; (2) development and management \$80.2 million increase; (3) Water \$13.4 million decrease; and (4) transportation (DDOT) \$9.0 million decrease. For these four primary government revenue accounts, please explain the significant changes in the charges for services revenues for FY 2019. Please explain the rates that were enacted in FY 2019 that support the increases.



15. Primary government municipal income tax revenue was \$376.7 million for the year ended June 30, 2019, a \$77.4 million increase from the \$299.3 million for the year ended June 30, 2018. Why did the municipal income taxes increase so much in FY 2019?
16. Primary government miscellaneous revenue was \$113.3 million for the year ended June 30, 2019, an \$18.5 million increase from the \$94.8 million for the year ended June 30, 2018. Why did miscellaneous revenue increase so much in FY 2019?
17. Primary government public protection expenses were \$578.8 million in FY 2019, a \$119.6 million increase from the \$459.2 million amount in FY 2018. Why did public protection expenses increase so much in FY 2019?
18. Primary government recreation and culture expenses were \$29.4 million, an \$8.0 million decrease from the \$37.4 million in FY 2018. Why did recreation and culture expenses decrease so much in FY 2019?
19. Primary government economic development expenses were \$99.9 million for the year ended June 30, 2019, a \$54.6 million increase from the \$45.3 million for the year ended June 30, 2018. Why did the economic development expenses increase so much in FY 2019?
20. Primary government physical environment expenses were \$168.7 million in FY 2019, a \$15.9 million increase from the \$152.8 million amount in FY 2018. Why did physical environment expenses increase so much in FY 2019?
21. Primary government development and management expenses were \$395.7 million in FY 2019, an \$8.3 million decrease from the \$403.9 million amount in FY 2018. Why did development and management expenses decrease, especially in light of the fact that development and management expenses in the general fund increased by \$24.1 million (please see page 53 of this report)?
22. Primary government interest on long-term debt was \$34.0 million in FY 2019, a \$28.5 million decrease from the \$62.5 million in FY 2018. Why did the interest on long-term debt decrease so much in FY 2019?
23. Primary government water expenses were \$104.5 million in FY 2019, a \$25.6 million decrease from the \$130.1 million in FY 2018. Why did the water expenses decrease so much in FY 2019?
24. Primary government transportation expenses were \$178.9 million in FY 2019, a \$20.3 million increase from the \$158.6 million in FY 2018. Why did the transportation expense increase so much in FY 2019?
25. The Water and Sewage Disposal Funds show pension recovery expenses as a contra (negative) expense for FY 2019 of \$13.4 million and \$10.1 million respectively. In addition, the Water and Sewage Disposal Funds show GLWA's share of the pension recovery as a contra (negative) revenue for FY 2019 of \$9.9 million and \$6.7 million which partially offsets the pension recovery expense. The net impact is a \$6.9 million reduction

in expenses for both funds. What is the pension recovery expense and GLWA's share of the pension recovery?

26. In FY 2019 the City gave an estimated \$20.6 million of tax abatements so as to be competitive in Southeastern Michigan to encourage business and residency growth. This was \$18.1 million less than the \$38.7 million in tax abatements for FY 2018, which was mainly due to the omission of the personal property tax exemptions, which were \$11.1 million in FY 2018. Why were the personal property tax exemptions omitted from the tax abatements in FY 2019? Also, why did the tax abatements decrease so much in FY 2019?

**Conclusion**

LPD commends the Administration for the thoroughness of the 2019 CAFR and the wealth of financial information it contains. In addition, the OCFO should be recognized for their accomplishments in FY 2019.

LPD encourages the Budget, Finance and Audit committee to continue its due diligence in understanding and examining the 2019 CAFR, and future CAFRs to come.

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

Attachments

**Attachment I**

**Balance Sheet  
General Fund**

	Balance June 30, 2019	Balance June 30, 2018	Variance	Balance June 30, 2013
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 335,494,256	472,397,928	(136,903,672)	3,745,156
Investments	-	-	-	98,431,798
Accounts and Contracts Receivable:				
Estimated Withheld Income Taxes Receivable	25,060,264	21,288,094	3,772,170	26,324,313
Utility Users' Taxes Receivable	2,335,565	2,974,059	(638,494)	922,059
Property Taxes Receivable	16,876,420	19,199,238	(2,322,818)	229,037,260
Income Tax Assessments	87,578,648	41,115,527	46,463,121	34,395,579
Special Assessments	24,669,919	24,669,919	-	24,678,690
DIA and Foundation Receivable	172,808,995	179,376,108	(6,567,113)	-
Trade Receivables	212,550,219	203,456,735	9,093,484	182,223,491
Total Accounts and Contracts Receivable	541,880,030	492,079,680	49,800,350	497,581,392
Allowance for Uncollectible Accounts	(277,324,600)	(236,381,371)	(40,943,229)	(438,864,254)
Total Accounts and Contracts Receivable - Net	264,555,430	255,698,309	8,857,121	58,717,138
Due from Other Funds	62,989,777	52,656,741	10,333,036	37,213,151
Advances to Other Funds	47,941,170	13,048,500	34,892,670	-
Due from Fiduciary Funds	3,016,798	2,762,256	254,542	2,795,937
Due from Component Units	896,610	3,223,518	(2,326,908)	1,696,589
Due from Other Governmental Agencies	39,335,261	39,696,200	(360,939)	84,993,602
Advances to Component units	15,930,294	8,112,504	7,817,790	-
Prepaid Expenditures	7,835,906	1,856,230	5,979,676	-
Restricted Cash	302,601,396	170,994,297	131,607,099	-
Restricted Other Assets	7,786,068	11,811,340	(4,025,272)	-
Other Advances	-	-	-	4,050,006
Other Assets	94,153	1,410,727	(1,316,574)	895,271
<b>Total Assets</b>	<b>1,088,477,119</b>	<b>1,033,668,550</b>	<b>54,808,569</b>	<b>292,538,648</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Total Assets and Deferred Outflows of Resources	\$ 1,088,477,119	1,033,668,550	54,808,569	292,538,648
<b>LIABILITIES</b>				
Accounts and Contracts Payable	\$ 44,101,425	44,916,312	(814,887)	18,854,370
Accrued Liabilities	24,926,776	98,570	24,828,206	34,807,913
Accrued Salaries and Wages	29,569,650	30,762,720	(1,193,070)	19,265,344
Due to Other Funds	49,456,893	67,614,518	(18,157,625)	86,548,889
Due to Fiduciary Funds	-	7,848,592	(7,848,592)	44,439,265
Due to Other Governmental Agencies	10,026,955	9,506,457	520,498	81,863,033
Due to Component Units	460,244	-	460,244	1,985,328
Income Tax Refunds Payable	9,900,662	16,335,767	(6,435,105)	8,373,617
Deposits from Vendors and Customers	6,716,401	6,907,360	(190,979)	4,986,969
Unearned Revenue	122,099	-	122,099	45,260,341
Other Liabilities	-	27,434,970	(27,434,970)	14,892,981
Accrued Interest Payable	-	-	-	-
Claims and Judgments	-	-	-	4,241,347
<b>Total Liabilities</b>	<b>\$ 175,281,105</b>	<b>211,425,286</b>	<b>(36,144,181)</b>	<b>365,519,397</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
	221,124,101	211,059,303	10,064,798	-
<b>FUND BALANCES (DEFICIT)</b>				
<b>Nonspendable:</b>				
Prepaid Expenditures and Advances	\$ 71,707,370	23,017,234	48,690,136	4,050,006
<b>Restricted for:</b>				
Capital Acquisitions	-	-	-	979,826
Retiree benefits	129,540,325	103,278,781	26,261,544	-
QOL Program	24,445,977	38,262,992	(13,817,015)	-
Debt service	27,500,000	27,500,000	-	-
<b>Committed for:</b>				
Risk Management Operations	20,000,000	20,000,000	-	54,550,314
<b>Assigned for:</b>				
Budget Reserve	77,280,192	62,280,192	15,000,000	-
Subsequent Appropriations	56,312,495	58,626,131	(2,313,636)	-
Blight and Capital	105,500,000	100,000,000	5,500,000	-
Risk Management Operations	56,576,537	46,760,226	9,816,311	-
<b>Unassigned:</b>				
General Fund Surplus	123,209,017	131,458,405	(8,249,388)	(132,560,895)
<b>Total Fund Balances</b>	<b>692,071,913</b>	<b>611,183,961</b>	<b>80,887,952</b>	<b>(72,980,749)</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit)</b>	<b>\$ 1,088,477,119</b>	<b>1,033,668,550</b>	<b>54,808,569</b>	<b>292,538,648</b>

**Attachment II**  
**Statement of Revenues, Expenditures, And Changes In Fund Balances**  
**General Fund**

	Balance June 30, 2019	Balance June 30, 2018	Variance	Balance June 30, 2013
<b>REVENUES</b>				
Taxes:				
Property Taxes	\$ 119,526,903	\$ 119,137,004	\$ 389,899	\$ 132,755,307
Municipal Income Tax	361,039,390	310,205,258	50,834,132	248,017,356
Utility Users' Tax	28,358,585	28,700,113	(341,528)	35,299,844
Wagering Tax	183,815,690	178,982,277	4,833,413	174,599,992
Other Taxes and Assessments	5,035,762	3,395,606	1,640,156	11,689,666
Interest and Penalties on Taxes	3,137,335	3,144,262	(6,927)	924,928
Licenses, Permits, and Inspection Charges	12,874,413	13,278,160	(403,747)	10,665,160
Intergovernmental:				
Federal	2,528,254	2,810,496	(282,242)	47,517,680
State:				
State Shared Revenue	202,633,844	199,899,929	2,733,915	183,058,520
Local Community Stabilization Authority	4,578,119		4,578,119	
State and Local Sources	1,087,803	1,133,572	(45,769)	8,990,794
Sales and Charges for Services	80,164,430	72,972,064	7,192,366	138,617,705
Ordinance Fines and Forfeitures	19,762,527	21,197,252	(1,434,725)	18,941,254
Revenue from Use of Assets	3,583,553	1,103,072	2,480,481	12,017,348
Investment Earnings (Losses)	18,626,707	15,316,209	3,310,498	(532,986)
DIA and Foundation Revenue	18,675,000	6,669,952	12,005,048	—
Other Revenue	29,063,699	28,053,843	1,009,856	20,750,950
Financing Revenue	25,803,304	—	25,803,304	—
Total Revenues	<u>1,120,295,318</u>	<u>1,005,999,069</u>	<u>114,296,249</u>	<u>1,043,313,518</u>
<b>EXPENDITURES</b>				
Current:				
Public Protection	452,254,617	435,575,756	16,678,861	452,422,790
Health	9,254,288	6,140,112	3,114,176	32,705,761
Recreation and Culture	25,695,671	18,172,541	7,523,130	13,149,199
Economic Development	14,523,405	500,000	14,023,405	
Housing Supply and Conditions	31,723,679	12,317,557	19,406,122	4,188,991
Physical Environment	13,241,653	5,149,677	8,091,976	68,268,583
Development and Management	339,203,266	315,102,385	24,100,881	191,052,907
Debt Service:				
Principal	20,240,000	62,335,378	(42,095,378)	—
Interest	43,935,385	45,875,155	(1,939,770)	2,570,598
Bond Issuance Costs	2,667,838	136,000	2,531,838	1,612,046
Capital Outlay	43,395,434	49,284,512	(5,889,078)	25,338,872
Total Expenditures	<u>996,135,236</u>	<u>950,589,073</u>	<u>45,546,163</u>	<u>791,309,747</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>124,160,082</u>	<u>55,409,996</u>	<u>68,750,086</u>	<u>252,003,771</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sources:				
Transfers In	15,014,307	26,268,117	(11,253,810)	9,256,416
Proceeds From Sale of Assets	4,079,982	3,158,285	921,697	
Proceeds From Bonds and Notes Issued	175,985,000	—	175,985,000	143,530,688
Premium on Debt Issuance	—	—	—	
Uses:				
Transfers Out	(79,755,322)	(66,444,965)	(13,310,357)	(208,284,967)
Principal Paid to Bond Agents for Refunded Bonds	(158,596,097)	—	(158,596,097)	
Total Other Financing Sources (Uses)	<u>(43,272,130)</u>	<u>(37,018,563)</u>	<u>(6,253,567)</u>	<u>(55,497,863)</u>
Net Change in Fund Balances	80,887,952	18,391,433	62,496,519	196,505,908
Fund Balances at Beginning of Year (Restated)	611,183,961	592,792,528	18,391,433	(269,486,657)
Fund Balances at End of Year	<u>\$ 692,071,913</u>	<u>\$ 611,183,961</u>	<u>\$ 80,887,952</u>	<u>\$ (72,980,749)</u>

## Attachment III

### Statement of Net Position Primary Government

	Balance June 30, 2019	Balance June 30, 2018	Variance	Balance June 30, 2013
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 809,524,771	\$ 935,175,427	\$ (125,650,656)	\$ 245,748,434
Restricted Cash and Cash Equivalents	604,888,607	285,003,700	319,884,907	
Investments	35,884,410	22,646,258	13,238,152	946,998,283
Accounts and Contracts Receivable - Net Internal Balances	370,205,350	355,572,117	14,633,233	300,747,636
Due from Primary Government	—	—	—	
Due from Fiduciary Funds	3,016,798	4,793,121	(1,776,323)	
Due from Component Units	1,544,985	3,223,518	(1,678,533)	2,890,675
Due from Other Governmental Agencies	99,078,642	85,988,103	13,090,539	111,724,029
Inventory	10,266,173	9,227,996	1,038,177	20,559,223
Prepaid Expenses	8,720,108	3,264,819	5,455,289	4,917,878
Long-Term Receivable	—	—	—	9,521,918
Loans, Notes, and Pledges Receivable	—	—	—	
Advance to Component Unit/Library	—	—	—	
Advance to Component Unit	15,930,294	8,112,504	7,817,790	24,016,604
Receivable from GLWA	1,069,040,494	1,092,228,800	(23,188,306)	
Other Assets	—	1,410,727	(1,410,727)	1,044,242
Net OPEB Asset	22,104	245,791	(223,687)	
Net Pension Asset	33,187,146	—	33,187,146	1,286,225,715
Deferred Charges	—	—	—	143,230,109
Restricted Assets	7,786,068	11,811,340	(4,025,272)	
Capital Assets:				
Non-Depreciable	566,374,817	515,897,017	50,477,800	931,442,832
Depreciable, Net	2,353,751,562	2,305,610,832	48,140,730	5,781,339,248
Total Capital Assets - Net	<u>2,920,126,379</u>	<u>2,821,507,849</u>	<u>98,618,530</u>	<u>6,712,782,080</u>
Total Assets	<u>5,989,222,329</u>	<u>5,640,212,070</u>	<u>349,010,259</u>	<u>9,810,406,826</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>120,398,816</u>	<u>168,016,975</u>	<u>(47,618,159)</u>	<u>-</u>
<b>LIABILITIES</b>				
Accounts and Contracts Payable	137,650,794	125,050,390	12,600,404	182,314,575
Accrued Liabilities	67,394,635	114,788	67,279,847	53,467,821
Accrued Salaries and Wages	36,201,128	32,894,153	3,306,975	23,330,097
Accrued Interest Payable	22,745,787	19,362,034	3,383,753	169,432,102
Income Tax Refunds Payable	9,900,662	—	9,900,662	
Due to Other Governmental Agencies	32,039,599	87,053,362	(55,013,763)	130,823,920
Due to Fiduciary Funds	—	14,752,844	(14,752,844)	
Due to Component Units	3,462,097	4,183,129	(721,032)	9,125,372
Due to Great Lakes Water Authority	30,895,913	—	30,895,913	
Deposits and Refunds	16,954,868	30,231,752	(13,276,884)	14,172,507
Unearned Revenue	28,455,197	42,915,253	(14,460,056)	18,678,599
Derivative Instruments - Swap Liability	—	—	—	296,488,744
Settlement Credit Contingent Liability	25,000,000	25,000,000	—	
Net Pension Liability	1,551,346,005	1,560,912,703	(9,566,698)	
Other Liabilities	—	87,690,729	(87,690,729)	55,293,277
Long-Term Obligations:				
Due within one year	196,533,372	142,027,351	54,506,021	342,480,094
Due in more than one year	2,941,437,769	2,716,784,478	224,653,291	9,192,977,938
Total Liabilities	<u>5,100,017,826</u>	<u>4,888,972,966</u>	<u>211,044,860</u>	<u>10,488,585,046</u>
DEFERRED INFLOWS OF RESOURCES	<u>39,379,643</u>	<u>21,218,442</u>	<u>18,161,201</u>	<u>-</u>
<b>NET POSITION (DEFICIT)</b>				
Net Investment in Capital Assets	1,608,516,845	1,565,557,488	42,959,357	1,358,091,011
Restricted for:				
Highway and Street Improvement	47,717,486	71,447,148	(23,729,662)	39,980,142
Construction Code	6,135,381	19,580,707	(13,445,326)	
Endowments and Trust (Expendable)	692,513	640,541	51,972	819,870
Endowments and Trust (Non-Expendable)	1,005,096	1,005,096	—	937,861
Capital Projects and Acquisitions	—	8,426,872	(8,426,872)	1,907,238
Debt Service	78,560,233	74,097,075	4,463,158	275,450,351
Water Affordability	1,334,862	—	1,334,862	
Improvements and Extensions	—	7,500,000	(7,500,000)	
Budget Stabilization	7,500,000	1,184,871	6,315,129	
Community and economic development	20,458,036	20,766,624	(308,588)	
Pension	—	—	—	
Grants	23,606,737	15,770,670	7,836,067	
Local Business Growth	478,084	478,084	—	
Police	5,070,312	9,026,833	(3,956,521)	
Rubbish Collection and Disposal	67,449,728	61,439,971	6,009,757	
Unrestricted (Deficit)	<u>(898,301,637)</u>	<u>(958,884,343)</u>	<u>60,582,706</u>	<u>(2,355,364,693)</u>
Total Net Position (Deficit) \$	<u>\$ 970,223,676</u>	<u>\$ 898,037,637</u>	<u>\$ 72,186,039</u>	<u>\$ (678,178,220)</u>

**Attachment IV**

**Statement of Changes In Net Position  
Primary Government**

	<u>Balance June 30, 2019</u>	<u>Balance June 30, 2018</u>	<u>Variance</u>	<u>Balance June 30, 2013</u>
<b>Revenues</b>				
Program revenues				
Charges for services	\$ 726,847,897	\$ 644,995,291	\$ 81,852,606	\$ 1,124,725,171
Operating grants	249,720,555	234,655,745	15,064,810	281,613,540
Capital grants	25,512,843	17,328,035	8,184,808	31,595,558
General revenues				
Property Taxes	181,383,741	159,149,463	22,234,278	199,191,923
Municipal Income Tax	376,668,182	299,346,019	77,322,163	248,017,356
Utility User Tax	28,358,585	28,700,113	(341,528)	35,299,844
Wagering Tax	183,815,690	178,982,277	4,833,413	174,357,416
Shared Taxes	211,656,989	199,899,929	11,757,060	183,058,520
Other Local Taxes	8,257,082	6,639,335	1,617,747	15,309,357
Investment Earnings	26,948,535	16,396,949	10,551,586	(135,001,916)
Miscellaneous	113,336,069	94,846,900	18,489,169	19,120,327
Gain/(Loss) on Sale of Capital Assets	(175,652)	-	(175,652)	
<b>Total Revenues</b>	<u>2,132,330,516</u>	<u>1,880,940,056</u>	<u>251,390,460</u>	<u>2,177,287,096</u>
<b>Expenses</b>				
Public Protection	578,832,651	459,155,038	119,677,613	694,708,112
Health	35,944,711	32,958,070	2,986,641	38,070,128
Education	-	-	-	37,040,734
Recreation and Culture	29,412,201	37,416,517	(8,004,316)	26,856,182
Economic Development	99,866,336	45,345,939	54,520,397	81,455,649
Transportation	63,778,403	35,829,655	27,948,748	20,745,859
Housing Supply and Conditions	34,110,578	25,015,853	9,094,725	5,086,777
Physical Environment	168,738,713	152,794,269	15,944,444	121,192,467
Development and Management	395,668,017	403,929,393	(8,261,376)	205,937,823
Interest on Long-term Debt	34,020,805	62,525,448	(28,504,643)	133,545,027
Sewage Disposal	297,055,156	300,112,413	(3,057,257)	523,909,799
Transportation	178,880,079	158,602,192	20,277,887	166,024,287
Water	104,478,557	130,123,421	(25,644,864)	398,086,572
Automobile Parking	16,141,807	29,509,883	(13,368,076)	20,089,165
Airport	5,071,698	2,420,424	2,651,274	1,910,151
Public Lighting Authority	22,214,145	21,097,017	1,117,128	
<b>Total Expenses</b>	<u>2,064,213,857</u>	<u>1,896,835,532</u>	<u>167,378,325</u>	<u>2,474,658,732</u>
Excess (deficiency) before	68,116,659	(15,895,476)	84,012,135	(297,371,636)
Gain on Sale of Capital Assets	-	-	-	(8,832,679)
Expenses - Pension Recovery	-	-	-	
Special Item - Bifurcation	-	101,859,924	(101,859,924)	
Increase/(decrease) in Net Position	<u>68,116,659</u>	<u>85,964,448</u>	<u>(17,847,789)</u>	<u>(306,204,315)</u>
Net Position, July 1 (Restated)	902,107,017	812,073,189	90,033,828	(371,973,905)
Net Position, June 30	\$ <u>970,223,676</u>	\$ <u>898,037,637</u>	\$ <u>72,186,039</u>	\$ <u>(678,178,220)</u>

## ATTACHMENT V

### Relevant for FY 2018: Questions on FY 2017 DWSD Financial Statements Net Position and DWSD Management Responses

- The FY 2017 financial statements for the Water and Sewage Disposal Funds show unrestricted fund balances of \$401.9 and \$486.1 million, respectively. How do you explain that the unrestricted balances cannot be used to reduce the water and sewer rates charged to its customers? How do you explain to the employee unions that the unrestricted net position cannot be used to provide salary and benefit increases?

#### DWSD Response

Generally speaking, public utilities are capital-intensive operations that frequently rely on the accumulation of significant reserves in order to manage cash flow requirements. DWSD is currently executing on a \$500 million capital program that will be funded from multiple sources including unrestricted fund balances. Utilizing currently available funds also allows DWSD to better manage its long-term debt program by allowing flexibility in the timing of debt issuance.

It is also important to understand that DWSD water and sewer rates are derived from the calculation of revenue requirements that are determined using a modified (or contractual) basis of accounting. In estimating the annual revenue requirements for water and sewer operations, lease collections, debt service payments and capital expenses are calculated on the cash basis of accounting. Depreciation expense is excluded from the calculation. All other revenues and expenses are determined on the accrual basis of accounting.

For rate-setting purposes, the future collection of lease principal amounts, which in the aggregate approximate the unrestricted fund positions of the water and sewer funds, will be applied to reduce future revenue requirements and, arguably, will be considered a source of revenue that does, in fact, reduce future water and sewer rates. The Department may choose in future years to apply those resources in a manner that effectively funds salary and benefit increases, or to any other operational requirement as they may deem appropriate.

- Will the Water and Sewage Funds decide in the future to restrict some of the net position for needed capital/infrastructure expenditures?

#### DWSD Response

Amounts may be required to be restricted in connection with the future issuance of bonds to finance such capital/infrastructure expenditures. The Department has no ability to unilaterally “restrict” funds for such purposes, however, it is our intention to maximize the use of lease receipts for Improvement and Extension Fund projects.

- Why does the Water and Sewage Disposal Funds have such a low net investment in capital assets when the net capital assets are so much higher?

#### DWSD Response

The net investment in capital assets is reduced for the amount of outstanding indebtedness related to the capital assets. Those amounts include the Obligations payable to GLWA (representing DWSD’s allocated share of pre-bifurcation debt), Revenue bonds and State revolving loans as identified in Note 5 to the Financial Statements.

- What is the condition of the DWSD's water and sewer capital/infrastructure? How crucial is it to dedicate available resources to funding repairs and replacement over other needs?

**DWSD Response**

**The water and sewer infrastructure is showing its age and in need of significant repair and/or replacement. We are currently in the process assessing the condition of all water and sewer assets with the intention of developing a long-term plan to address those needs. The Department is currently committed to a five-year, \$500 million program to address the more immediate system concerns.**



**ATTACHMENT VI**

Public Lighting Authority

Excess Subsidy and Utility User Tax (FY 2013-FY 2019)

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>
Utility User Tax	\$ 1,200,000	17,549,994	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000	\$ 81,249,994
City Subsidy		757,500	5,527,177	8,886,743	10,039,058	10,302,828	10,099,883	45,613,189
Other Revenue		2,660	1,246,321	1,142,791	1,072,660	835,724	136,841	4,436,997
<b>Total Revenue</b>	<b>1,200,000</b>	<b>18,310,154</b>	<b>19,273,498</b>	<b>22,529,534</b>	<b>23,611,718</b>	<b>23,638,552</b>	<b>22,736,724</b>	<b>131,300,180</b>
Operating Expense	161,549	1,304,983	5,589,821	8,157,578	7,813,490	12,711,589	13,958,851	49,697,861
Other Expense					10,493	(205,540)	(526,096)	(721,143)
Debt Service		585,489	8,997,509	8,600,792	8,509,892	8,385,092	8,255,294	43,334,068
Bond Issuance		916,636	2,119,241		5,000	5,000	-	3,045,877
<b>Total Expense</b>	<b>161,549</b>	<b>2,807,108</b>	<b>16,706,571</b>	<b>16,758,370</b>	<b>16,338,875</b>	<b>20,896,141</b>	<b>21,688,049</b>	<b>95,356,663</b>
<b>Surplus/(Deficit)</b>	<b><u>\$1,038,451</u></b>	<b><u>15,503,046</u></b>	<b><u>2,566,927</u></b>	<b><u>5,771,164</u></b>	<b><u>7,272,843</u></b>	<b><u>2,742,411</u></b>	<b><u>1,048,675</u></b>	<b><u>\$ 35,943,517</u></b>
Principal Paid		-	2,970,000	3,030,000	3,120,000	3,245,000	3,749,458	16,114,458
<b>Excess UUT</b>	<b>1,200,000</b>	<b>16,047,869</b>	<b>(1,586,750)</b>	<b>869,208</b>	<b>865,108</b>	<b>864,908</b>	<b>495,248</b>	<b>\$ 18,755,591</b>

