



Mayor's Proposed Budget

FY 2021-2024 Four-Year Financial Plan

March 6, 2020

Proposed Budget Details

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Introduction - CFO

- This proposed Two-Year Budget and Four-Year Plan builds on our collaborative work with City Council to provide **opportunity, quality of life, public safety, and fiscal sustainability** for Detroit.
- I am proud of our work together to build a **vibrant and equitable Detroit** by:
 - Investing in public safety, parks, recreation, education, and our cultural assets
 - Bringing in new automotive, technology, apparel, hospitality, and construction jobs
 - Training Detroiters and connecting them with jobs, while eliminating barriers to employment
 - Growing entrepreneurship and revitalizing neighborhood commercial corridors
 - Creating and preserving thousands of affordable housing units
 - Helping families keep and maintain their homes
- General Fund revenue is up **\$27 million** versus last year, largely due to the strength of our **income tax**.

Budget Constraints

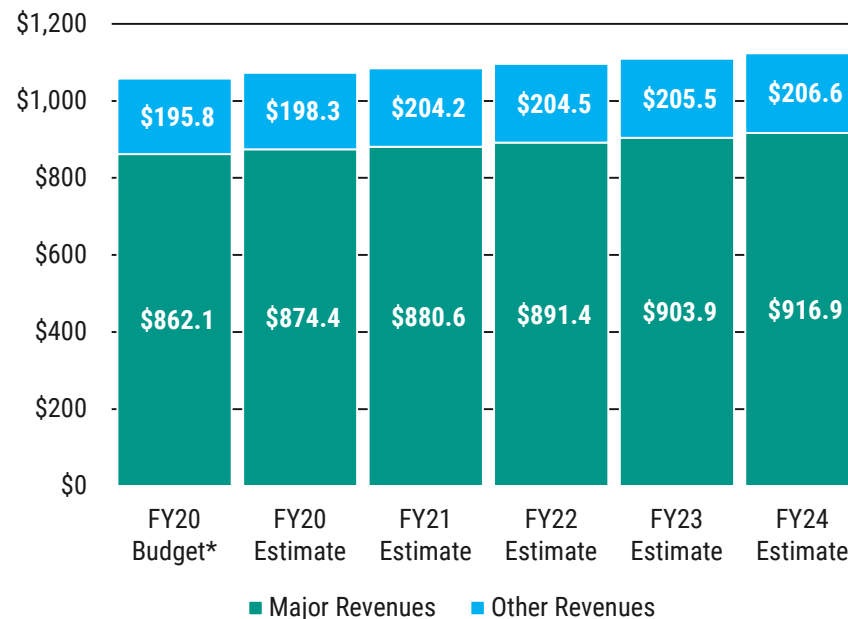


Revenue Estimating Conference Forecasts

1% Revenue Growth

- Revenue Conference approved estimates on February 19, 2020
- FY 2021 All Funds revenue totals \$2.2 billion (excluding use of prior year fund balance)
- FY 2021 General Fund revenue totals \$1.085 billion
 - \$12 million (1.1%) over FY 2020 Projection
 - \$27 million (2.6%) over FY 2020 Budget*
- Major Revenues are 80% of General Fund revenue, growth driven by Income Tax

General Fund Recurring Revenues
(\$ in millions)



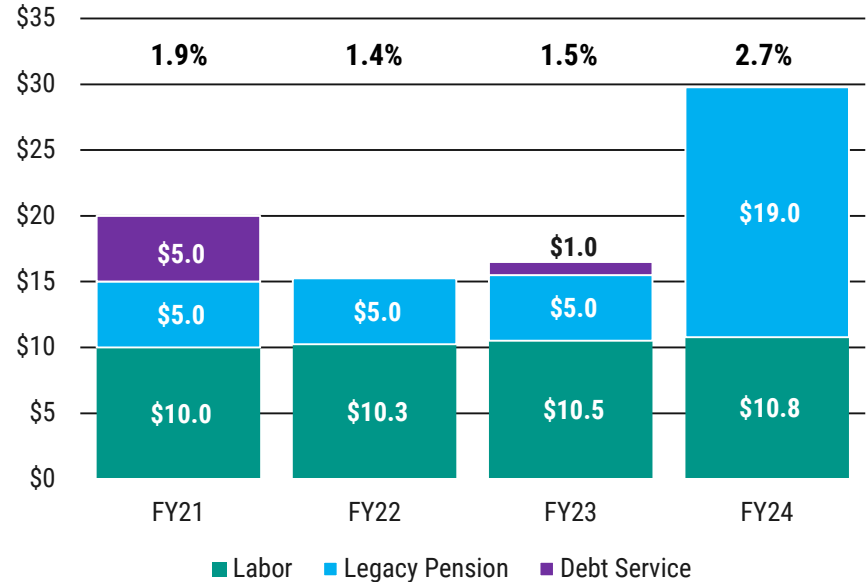
* FY20 Adopted Budget adjusted to exclude \$27M of pass-through revenues no longer counted as General Fund beginning in FY21.



Pension, Debt, and Labor Costs are Growing Faster

- Pension, debt, and labor costs are driving budget growth faster than revenues
 - FY 2024 pension growth is only \$19M due to the Retiree Protection Fund and is partly offset by \$13M in debt restructuring savings
- The outlook is worse if a national recession impacts Detroit's revenue
- To be ready for FY 2024, we need to continue to focus on fiscal sustainability
 - New investments can only be funded and sustained with new efficiencies and savings
 - One-time fund balance can only be used for one-time needs

General Fund Pension, Debt, and Labor Cost Growth as % of Budget (\$ in millions)



Use of Prior Year Fund Balance

- One-Time Needs exceed available prior year fund balance:
 - Rainy Day Fund increases to 12.7%, but goal is to reach 15%
 - Blight funding is \$23M less than FY 2020
 - Cash Capital is \$27.5M less than FY 2020
 - Retiree Protection Fund increase needed to meet future pension contribution increases
 - Remaining prior year fund balance balance is only 1% of the budget

General Fund Proposed One-Time Spending From Prior Year Fund Balance	
Rainy Day Fund (Budget Reserve)	\$30M
Blight	\$50M
Cash Capital (not covered by bonds)	\$5M
Affordable Housing Fund (per ordinance)	\$5M
Retiree Protection Fund	\$20M
Balance for unanticipated needs	\$13M
Total	\$123M



Budget Savings

- New investments can only be funded and sustained with new savings
- Departments prepared Efficiency Savings Plans, totaling **\$5.6M in savings** in this budget
 - Airport: Conversion to LEDs for Airfield Lighting
 - Fire: Overtime savings from restructuring training scheduling and LEAN projects
 - DoIT: Reductions in IT contractors
 - Police: Reduction in phone lines and lease consolidation
 - GSD: Utility savings from Green Storm Water Initiatives
- This budget eliminates 154 long-standing vacant positions for a General Fund **savings of \$7.4M**
- We also identified **\$6.6M savings** from projected staff turnover
- Our Outcome Budgeting Pilot project identified **\$1M of savings** in GSD

New Investments



Affordable Housing and Neighborhood Improvement Funds

- Nearly \$13M for Affordable Housing and Neighborhood Improvement programs
- Affordable Housing Fund established by ordinance in FY 2018
 - \$5.4M available from actual sale of real property proceeds since FY 2018
- Neighborhood Improvement Fund included in 2017 City Council Resolution
 - Recommends funding from estimated \$1M in revenue from Detroit Pistons return downtown

FY 2021 Proposed	CDBG	AHF	NIF	Total
Home Repair Grants	\$3.0M	\$2.5M	\$0.5M	\$6.0M
0% Home Repair Loans	\$2.5M	-	-	\$2.5M
Lead Fund	\$1.0M	-	-	\$1.0M
Housing Affordability	-	\$2.9M	-	\$2.9M
Neighborhood Improvement Grants			\$0.5M	\$0.5M
Total	\$6.5M	\$5.4M	\$1.0M	\$12.9M

Home Repair Grant funding totals \$6M

- \$3M for Traditional Home Repair grants
- \$3M for new Home Repair pilot program partnering with Community Development Organizations (CDOs)
 - CDOs have capacity to deliver smaller \$5,000-\$7,500 grants to reach more homeowners
 - City will issue an RFP for participants, qualified CDOs will bid on funds to administer grants
 - City will partner with CDOs on next round of neighborhood planning studies



Neighborhood Improvement Grants

- \$500K for mini-grants to neighborhood-based community groups
 - Applicants must be registered with Department of Neighborhoods
 - Project must demonstrate neighborhood involvement, provide a public benefit to the neighborhood, and meet shovel-ready criteria



Eviction Right-to-Counsel Pilot Program

- The proposed pilot will provide eligible tenants with legal representation in eviction proceedings. Eligible tenants are those who live in households at or below 125% of the federal poverty level¹, renting properties without a certificate of compliance.

Highlights

Pilot's not to exceed cost – \$750,000²

Zip codes 48215, 48224, 48223, 48219, 48209³

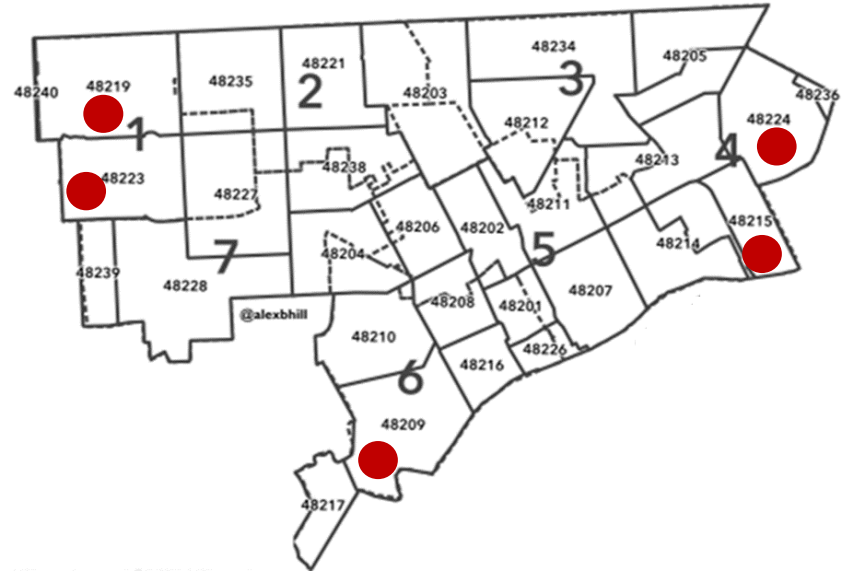
Forecast 3,866 eviction filings⁴

Forecast eviction default rate of 46%⁵

Services to be delivered by outside organizations

Organizations to be selected via competitive RFP

1. Correlates to federal Legal Services Corporation funding income eligibility
2. Funded from BSEED's construction fund
3. Zip codes track BSEED property maintenance compliance schedule
4. Forecast based on 2016 actuals, excluding current certificate of compliance participation rates
5. Estimate provided by Stout Risius Ross, based on standard default rates in cities with universal access to counsel programs



Solid Waste Fee Reduction

- Through the budget submission, we are proposing to lower the Solid Waste Fee from \$240 to \$210.
 - Because of a 7% increase in customer count and an improving collection rate, the City can afford to reduce the fee without reducing service.
 - Reducing this regressive flat fee will assist low-income homeowners who struggle to afford their taxes.
- This budget also funds an enhanced residential solid waste pickup program citywide

Blight

- \$50M FY 2021 Proposed Budget is \$23M less than FY 2020 Adopted Budget
- Prior year fund balance remains the primary funding source for continued Blight Removal
- New Demolition Department established
 - Consolidates all demolition functions, including compliance and environmental
 - Brings demolition under full City control
 - Will submit separate FY 2020 budget amendment to begin department effective April 20

Department	FY 2021 Proposed
Office of the Chief Financial Officer	\$0.9M
Demolition Department	\$45.0M
Residential Demolition	\$30.0M
Commercial Demolition	\$9.6M
Compliance Unit	\$2.8M
Staff	\$2.1M
Supplies	\$0.5M
General Services Department	\$4.1M
Board Up Program	\$0.8M
Mural Program – City Walls	\$0.1M
Corridor Trades Unit	\$1.1M
Land Bank Property Maintenance	\$1.1M
Corridor Clean Up	\$0.6M
Graffiti Removal	\$0.4M
Total	\$50.0M



Capital Improvements

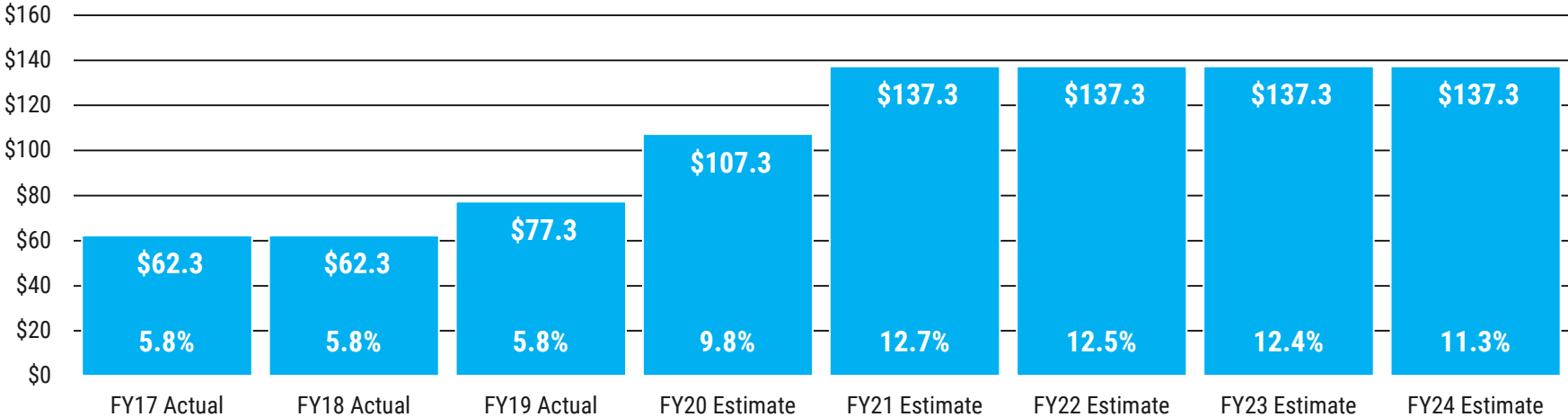
- \$5M in cash capital from prior year fund balance
 - \$4.5M for continued General Fund non-public safety fleet replacement
 - \$0.5M for neighborhood planning studies
- \$32M remains from first series of 2018 UTGO Bonds; programmed to be spent this calendar year
- Planned \$80M bond issuance from second series of approved 2018 UTGO bonds to invest in:
 - Firehouses and police precincts
 - Public safety vehicles
 - Parks and recreation centers
 - First segment of the Joe Louis Greenway
 - Charles H. Wright Museum of African American History
 - Detroit Historical Museum



Rainy Day Fund increased by \$30M

- City must be prepared to weather the next recession
- Proposed budget provides \$30M more from prior year fund balance to reach 12.7% of budget
- Goal is to reach 15% of budget over the next two years (GFOA best practice)

Rainy Day Fund (Budget Reserve)
(\$ in millions)



Retiree Protection Fund (RPF)

- In 2017, the Mayor and City Council created the RPF by ordinance as a long-term strategy for legacy pension funding
- Each year, OCFO models latest actuarial valuation, pension plan returns, and RPF returns
- FY 2024 net contribution from General Fund increases \$3.5M vs. last year's review
 - Increase driven by pension plan returns below 6.75% target
- FY 2021 Budget recommendation adds \$20M in one-time funds to RPF to help meet future contribution increases

Pension Model Updates and Assumptions	
Actuarial Valuation ⁽¹⁾	FY 2018 valuation
Latest Pension Plan Returns	3.4% GRS, 5.1% PFRS FY 2019 actual return
Future Pension Plan Returns	6.75% projected
Amortization / Funding Policy ⁽²⁾	30-year level dollar
FY 2024 Projected Contribution	\$192M gross <u>(\$26M)</u> FDF/DIA/DWSD/DPL ⁽³⁾ \$166M net from General Fund
Latest RPF Returns	4.4% FY 2019 actual return
Future RPF Returns	3% projected

(1) Actuarial valuations for FY 2019 may be completed by spring 2020.

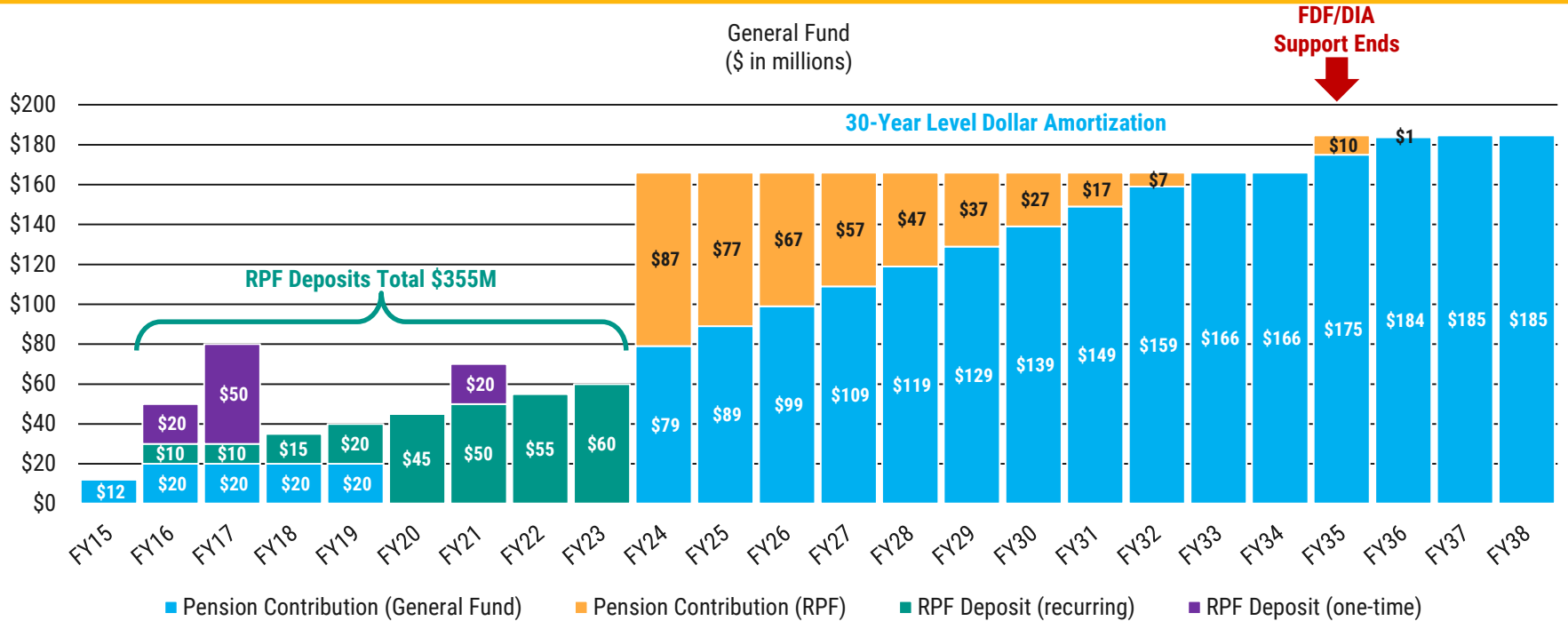
(2) The Retirement Systems have not yet established funding policies

(3) Foundation for Detroit's Future and Detroit Institute of Arts are the "Grand Bargain" outside sources through FY 2034. Detroit Water and Sewerage Department and Detroit Public Library pension liabilities do not impact the General Fund.



FY 2021 RPF Deposit increased to \$70M

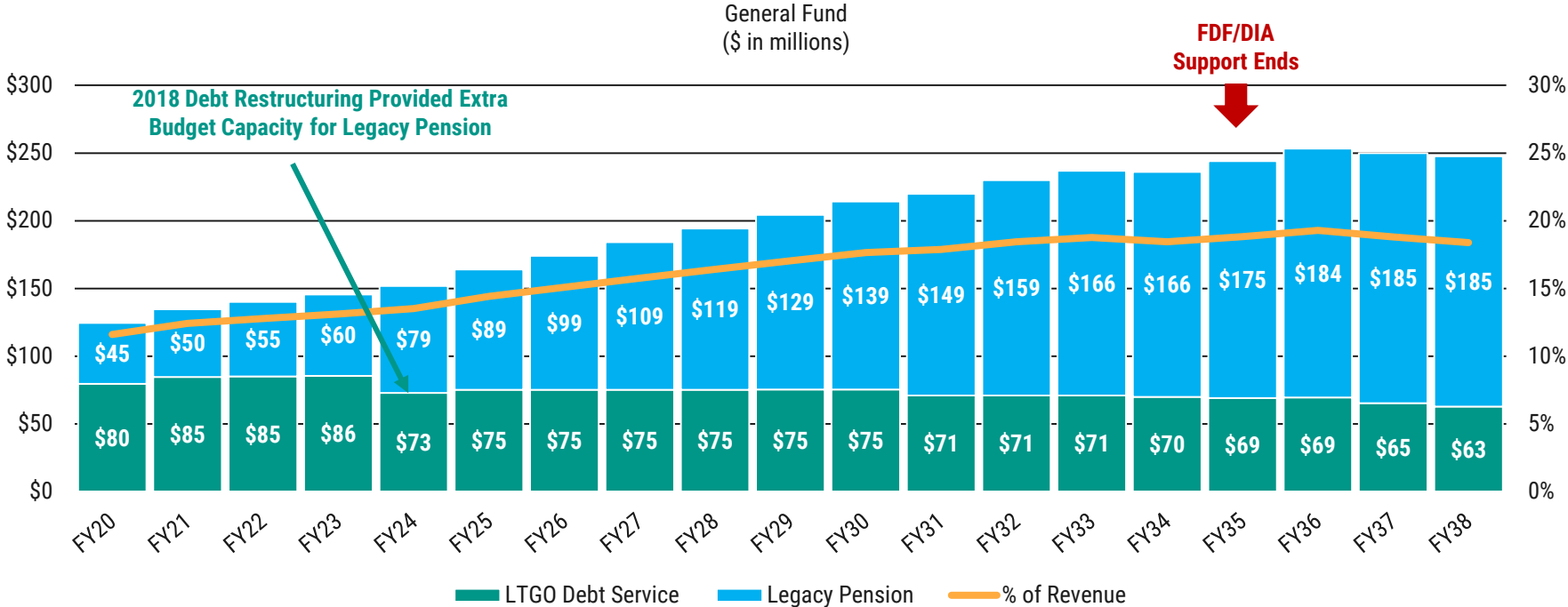
Must prepare for FY 2024 pension payment



* Excludes "Grand Bargain" contributions from State of Michigan, Foundation for Detroit's Future (FDF), and Detroit Institute of Arts (DIA). DWS and Library liabilities and contributions are separate.



Recurring Debt Service and Legacy Pension Costs Remain a long-term challenge



Excludes RPF Deposits from one-time fund balance in FY16 (\$20M), FY17 (\$50M), and FY21 (\$20M). Excludes "Grand Bargain" contributions, which provide \$18.7M per year through FY34. LTGO Debt Service excludes B-Note debt service allocated to enterprise funds.



Budget Tables



All Funds Budget Highlights

	FY20*	FY21	Change	FY22	Change	FY23	Change	FY24	Change
Recurring	\$2,140M	\$2,269M	+6.0%	\$2,266M	-0.1%	\$2,278M	+0.5%	\$2,377M	+4.3%
Non-Recurring	\$163M	\$110M	-32.5%						

- \$50M for blight removal, including \$45M for the new Demolition Department and \$5M for board-ups, beautification, and GSD and OCFO staffing
- Reducing the residential solid waste fee from \$240 to \$210
- Piloting \$6M for Home Repair Grants and \$500K for Neighborhood Improvement mini-grants
- Continuing Workforce Development programs with over \$9M
- Piloting an Eviction Right-to-Counsel program with \$750,000

* FY20 Adopted Budget adjusted to exclude \$27M of pass-through revenues no longer counted as General Fund beginning in FY21.

General Fund Budget Highlights

	FY20*	FY21	Change	FY22	Change	FY23	Change	FY24	Change
Recurring	\$1,058M	\$1,085M	+2.6%	\$1,096M	+1.0%	\$1,109M	+1.2%	\$1,210M	+9.1%
Non-Recurring	\$57M	\$55M	-3.5%						

- \$70M to the Retiree Protection Fund (\$25M more than FY20)
 - FY24 budget increase includes legacy pension contributions resuming at \$166M, but \$87M is supported by the RPF budgeted as a revenue offset, making the net budget growth only 1.3%
- \$30M more for the Rainy Day Fund, bringing us closer to our 15% goal
- \$2M to expand summer youth opportunities with Summer Recreation Host Sites
- \$1.8M increase to cut vacant lots five times this year
- Raising Police Officers' salaries by 2.5%, bringing starting pay to nearly \$42,000
- Funding up to 120 Police Cadets with nearly \$1M to prepare them for the Academy
- Continuing Animal Control expansion, now built into the ongoing budget at \$2.3M
- Making Project Clean Slate permanent with \$450,000
- Establishing the Office of Disability Services in CRIO at nearly \$120K

* FY20 Adopted Budget adjusted to exclude \$27M of pass-through revenues no longer counted as General Fund beginning in FY21.



Budgeted Positions Highlights

	FY20	FY21	Change	FY22	Change	FY23	Change	FY24	Change
General Fund	7,295	7,173	-122	7,176	+3	7,176	0	7,176	0
Other Funds	2,964	3,181	+217	3,089	-92	3,089	0	3,089	0
Total	10,259	10,354	+95	10,265	-89	10,265	0	10,265	0

FY 2021 Major Changes:

- Reflects elimination of 154 long-standing vacant positions at a savings of \$7.4M
- Police: Adding \$2.6M for 44 Crime Analysts
- Health: 23 added for grant-funded public health programs and 23 added for Animal Care and Community Services offset by 23 transferred to GSD for Animal Control

FY 2022 Major Changes:

- Reflects elimination of one-time Blight fund positions: 35 from Demolition, 9 from OCFO, 48 from GSD
- Includes 3 non-temporary Demolition Department positions shifted to General Fund

Budget Reforms



Two-Year Budget Process

- We have a four-year financial plan, but it is still 1 year of appropriations plus 3 forecast years
- We are proposing a new budget process, where the Mayor and City Council approve a two-year budget and a comprehensive budget amendment during the off-year
- Departments would achieve cost savings and gain greater certainty by:
 - Planning more strategically
 - Contracting more efficiently
 - Executing program goals beyond a narrow one-year focus
- The budget would still be balanced at the end of each fiscal year
- All budget and policy decision would still need to be sustainable and balanced across four years

Cincinnati, Oakland, Seattle, Orange County, and Cuyahoga County use a **two-year budget** process

Outcome Budgeting Pilot

- Piloted outcome budgeting during the FY 2021 cycle with General Services, Innovation and Technology, and Fire
- Aligned their appropriations to citywide strategies, rather than to agency baselines
- Identified each service and associated it with results, eyeing industry benchmarks and key metrics
- For FY 2022, we plan to roll out outcome budgeting citywide, with public engagement, long-term planning tools, service catalogues, and multi-year targets
- Instead of an incremental line-by-line process, the budget will be driven by results

The **City of Baltimore** says of their decade-long experience:

“It addresses fiscal constraints, rewards innovation, measures performance, and increases transparency.”

The **City of Austin** has extensive detail of their outcomes and strategic direction online.

Outcome Budgeting Focuses on Strategies, Services, and Results

Old Way

In FY20, where would you find parks?

Approp No. 11830 GSD Facilities	FY20 \$21.2M
Property Management	\$0.8M
Facilities Management	\$11.1M
Landscape Design	\$1.5M
Park Development	\$2.5M
Building Services	\$3.3M
Security	\$1.5M
Hart Plaza Management	\$0.5M
Approp No. 13336 GSD Ground Maintenance	FY20 \$15.6M
Ground Maintenance	\$10.8M
Ground Maintenance Seasonal	\$2.6M
Floriculture	\$0.9M
Bus Shelter Clean up	\$1.3M

New Way

Parks Budget is more Transparent

Strategies	Services	Results
Vibrant and Beautiful City	Well-maintained parks accessible to all	<ul style="list-style-type: none"> Industry standard amenities Better cost recovery
Approp No. 26470 \$17.9M	Future Parks Cost Center \$12.7M*	

Only a portion is for parks

* FY21 recommended reflects \$700,000 savings over FY20 in seasonal staff not needed due to service-based analysis

Budget Transparency

- New budget transparency initiatives will provide ongoing public engagement
 - More budget information online and public outreach
 - Payroll data and open checkbook expansion will be online this summer
 - Implementing outcome budgeting focused on strategies, services, and results



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