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CHIEF FINANCIAL OFFICER

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MEMORANDUM

TO: David Whitaker, Director, Legislative Policy Division
FROM: John Naglick, Jr. Chief Deputy CFO/ Finance Director
DATE: May 5, 2021
RE: Response to Review of Fiscal Year 2020 Comprehensive Annual Financial Report

1. We noted a Fund Balance discrepancy issue on page 27 of the FY 2020 CAFR. The FY 2020 General Fund beginning Fund Balance in the Oracle system was different than the FY 2019 published CAFR ending fund balance by $1,746,331 (See Attachment VII). How was the General Fund FY 2020 CAFR beginning fund balanced calculated? Was the ending FY 2019 CAFR General Fund ending fund balance wrong?

Response: It appears that LPD did not include all the Comprehensive Annual Financial Report General Fund(s) in their analysis. They are missing the following Funds:

- 2492 - Fire Recovery Fund
- 3709 - ARRA - DOJ - COPS Hiring 2009 Police
- 6010 - Motor Vehicle Fund

Accounts excluded by LPD:
2492-000000-362100Fund BalanceO2492GF (123,601)
3709-000000-362100Fund BalanceO3709GF (307,588)
6010-000000-362100Fund BalanceO6010GF (1,315,147)
Total (1,746,336)

2. The Solid Waste and Street Funds had fund balances of $43.5 million and $117.4 million, respectively at June 30, 2020. 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. After LPD's review of FY 2019 CAFR, we asked OCFO to provide the methodology that will be explored to ensure these Special Revenue Funds are reimbursing the General Fund for reimbursable costs and response was that OCFO was in the process of updating the cost allocation plan that will be used to properly allocate costs. What is the status of updating the cost allocation plan?

Response: The cost allocation plan is in the process of being completed. This should be completed before June 30, 2021.

3. The lease receivable from GLWA on DWSD's FY 2020 audited financial statements does not agree with the lease payable on GLWA's FY 2020 audited financial statements. GLWA shows the lease to be $24.5 million less than DWSD for the Water Fund and $29.9 million

less for the sewage Disposal Fund. The difference is due to GLWA using a different discount rate, which is higher than DWSD's but produces a lower obligation. Detailed below is the difference:

	in Millions					
	Water			Sewer		
	DWSD	GLWA	Difference	DWSD	GLWA	Difference
Receivable From GLWA	$ 440.9	416.5	24.5	$ 538.9	509.0	29.9

LPD understands DWSD's response for FY 2019 CAFR question that the department consulted with Plante Moran concerning the appropriated accounting treatment. However, LPD believes it is prudent DWSD uses GLWA's discount rate instead of carrying overstated lease receivable on DWSD's books. Is DWSD considering using GLWA's discount rate and adjust the lease receivable balances for Water and Sewage Disposal Funds?

DWSD Response: DWSD believes that the discount rate used in the DWSD Statement of Net Position is correct. Each entity is responsible for determining their own discount rate. DWSD is not considering using GLWA's discount rate and does not plan to adjust the lease receivable balances for the Water and Sewage Disposal Funds.

4. After review of the 2019 CAFR, LPD asked if OCFO was amendable establishing the Risk Management Fund as Internal Service Fund; and OCFO indicated that it will review the applicable GASB pronouncements and consult with external auditors to determine if the Risk Management Fund meets the requirements of a GASB Internal Service Fund. What is the status of OCFO's review?

Response: Because of the possible implications associated with the anticipated release of GASB-84 (Fiduciary Activities), rather than perform the analysis twice, OCFO plans to review its risk management reclassification to internal service in conjunction with the planned implementation of GASB-84 requirements. GASB-84 which was originally scheduled for implementation in FY 20, was postponed by GASB due to the COVID-19 pandemic. We plan to implement GASB-84 in the FY 21 Comprehensive Annual Financial Report. Note, the postponement is referenced in "GASB-95 Postponement of Effective Dates of Certain Authoritative Guidance".

5. Attachment VI shows LPD's calculation of the $22.8 million in excess utility users tax payments to the Public Lighting Authority (PLA) through FY 2020. Utility users tax payments are used strictly for the use of making debt service (principal and interest) payments. On page 30, the 2020 CAFR shows a $39.2 million unrestricted surplus figure for the PLA, which appears to be misleading. After review of FY 2019 CAFR, LPD requested that OCFO team work with PLA's CFO to show excess utility users tax payments to PLA as restricted for debt service in future PLA financial statements that are eventually incorporated into the City's CAFR. Response LPD received was that PLA agreed to work with their auditors to classify the excess utility users tax amount as restricted for debt service in their future audited financial statements. However, FY 2020 again does not show the excess utility users tax amount as restricted for debt service. Has OCFO

brought this to the attention of PLA's CFO? Attachment IX represents PLA's FY 2019 calculation of the excess utility users tax payments. Does the amount of excess UUT allocated to PLA can be used for operating or is it restricted for future PLA debt service payments? Please update this schedule to include FY 2020 activity.

Response Provided by the PLA: The PLA will discuss the matter with its external auditor and may be able to insert a separate line item in the year-end financial statements to identify the amount of cash that is restricted.

6. The City's total bonded debt at June 30, 2020 was $2.10 billion, an increase of $55 million from the June 30, 2019 balance (page 6 of 2020 CAFR). Please explain the increase.

Response: As stated on Page 18 of the FY20 Comprehensive Annual Financial Report, total primary government general obligation bonded debt decreased by $64.7 million during FY20, but revenue bonds and other indebtedness increased by $119.8 which resulted in the net increase in total bonded debt of $55.1 million. The decrease in general obligation bonded debt resulted from the payment of principal during the fiscal year offset by an increase of $4.2 million in new capital improvement bonds. The increase in revenue bonds and other indebtedness of $119.8 million during FY20 resulted from the drawdown of $38.5 million from the 2017 Michigan Transportation Fund Bonds, Water Revenue Bonds with a par value of $85.6 million were sold to address Water infrastructure maintenance and repair, offset by the payment of approximately $5 million in principal on HUD Notes.

7. The Water Fund had a net position of $564.9 million at June 30, 2020, an increase of $21.7 million from the prior year net position of $543.3 million. The change in the Water Fund's net position was primarily due to changes from the pension actuarial report which had an increase in pension recovery of $17 million. The Water Fund also receive principal forgiveness from their State Revolving Fund Loans equal to $4.7 million (page 13 of 2020 CAFR). Please explain the Water Fund's "pension recovery". Also, please explain how Water Fund was able to achieve "principal forgiveness" from the State Revolving Fund.

DWSD Response: Pension recovery is the credit received due to reduction in pension liability based on change in the assumed long-term expected rate of return in the GRS Actuarial Report. The change reduced the pension expense to credit balances in FY 2019 for both Water and Sewer operations.

The State of Michigan – EGLE provided principal forgiveness based on a mandate by Congress. Congress mandated that a subsidy be provided to disadvantaged communities. EGLE opted to provide the subsidy as principal forgiveness to borrowers.

8. What is driving the huge $288.1 million deficit in the Transportation Fund (DDOT) (pages 29 and 56 of 2020 CAFR)? Are there any plans to reduce this deficit?

Response: DDOT has operated within the budgeted subsidy (transfer In) from the City of Detroit's general fund. The transportation fund accumulated deficit is caused by the recording of the portion of the net pension liability that applies to DDOT in this fund. That liability will be paid down as part of the City's overall pension funding requirements to the retirement systems. In addition, local operating assistance (City's Contribution) is gross of a $19.3 million reduction in outstanding inter-agency receivable balances.

9. During FY 2020, the nonmajor governmental funds transferred $21.2 million to other funds. Included in this is a transfer from the Solid Waste Fund to the General Fund to repay an operating loan (page 72 of 2020 CAFR). What was the amount of the loan to the Solid Waste Fund and why was this loan needed? Why did not this loan come to City Council for approval?

Response: The $20.1 million transaction related to an old historical (Due To/Due From) between Solid Waste and the General Fund that was cleaned-up during the fiscal year. This was a non-cash book entry.

10. Please explain “Continuing appropriations” and “Subsequent year budget” terminology used under “Assigned Fund Balance” on page 24 of 2020 CAFR. Eliminated from 2020 CAFR is the category “Blight and Capital”. Please explain.

Response: These changes were made to make the categories clearer. "Continuing appropriations" refers to the balances that carry forward to the new fiscal year (e.g., blight and capital balances). It takes the place of the "Subsequent appropriations" category from FY19. "Subsequent year budget" refers to fund balance appropriated in the FY21 budget. It takes the place of "blight and capital" because the use of fund balance in the FY21 budget is not limited to blight and capital.

11. 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. Are the non-major special revenue funds that resulted in a projected deficit reflected in the Other Supplemental Information-Budgetary Comparison Schedules component of the 2020 CAFR?

Response: During fiscal year 2020, the OCFO recommended and the City Council approved a comprehensive budget amendment to recognize projected revenue shortfalls and to reduce appropriations and maintain a balanced budget in the General Fund. The OCFO also undertook a substantial effort to review and correct technical line-item appropriation deficits in the General Fund. While they must still be addressed, the instances detailed in this finding represent technical rather than substantive noncompliance. Specific examples include:

- The OCFO recorded one-time adjustments to its due to/due from balances across various funds after year-end, creating appropriation deficits and activity in funds with no budget.
- The OCFO is working on a process to better reconcile final fund balances for special revenue funds with their amended budgets that otherwise showed as

budgeted appropriation and/or fund deficits. No funds incurred an actual deficit per the Michigan Department of Treasury's guidelines.

- The City does not budget for its component units, but there is Detroit Building Authority and Greater Detroit Resource Recovery Authority activities showing as appropriation deficits in the Capital Projects Fund and Solid Waste Management Fund, respectively.

Nevertheless, the OCFO continues to identify and address root causes of this repeat finding, such as reviewing and addressing payroll expenditures linked to incorrect budget accounts, one-time year-end adjustments, and budget amendment and carry forward procedures. The OCFO continues to work on ensuring greater consistency between the budget presentation and the recording and presentation of actual activity. This work will continue through fiscal year 2021.

12. The City was not in compliance with the State of Michigan 2 of 1968, Uniform Budgeting and Accounting Act, Section 141.438(3) which requires the City to not incur expenditures against an appropriation account in excess of the amount appropriated by the City Council and the City incurred expenses against certain appropriations in excess of the amount appropriated by City Council and all funds must have a legally adopted budget. Please provide a schedule showing the appropriations that were exceeded by expenses. Were these appropriations with deficits closed out?

Response: The City did not have an adopted budget for the Targeted Business Development fund and Renewable Energy fund, while also recording activities in those funds. However, the activities were limited to one-time adjustments to outstanding due to/due from balances subsequent to year-end. There is no ordinary program activity in these funds. These funds are otherwise no longer in use. Please also note that the City has a process to adopt a budget for every active governmental fund.

13. In the Required Supplemental Information section (pages 130-133), why did the OCFO use a much more detailed format, rather than a summary format, for the Budget and Actual-General Fund schedules?

Response: This was updated to show the level at which the budget is adopted.

14. Attachment VIII represents a footnote entitled "Pension Settlements" that was a part of the Note 13-Bankruptcy footnote in the 2019 CAFR. This footnote provided the reader valuable information on the spike of the City's pension obligation starting in FY 2024, and the establishment of the Retiree Protection Fund to increase the City's capacity to meet this pension obligation spike that resumes in FY 2024. Why was this footnote omitted from the notes in the 2020 CAFR?

Response: We made a decision to reduce the bankruptcy footnote, since the City exited bankruptcy six years ago. We have recorded all required GASB pension entries and disclosures for all of the City's pension plans in the Comprehensive Annual Financial Report.

We do disclose the potential for increased pension contributions and the Retiree Protection Fund in the Official Statement for our bond issues and dedicate seven pages to this topic.

15. On page 23 of the FY 2020 CAFR, the General Fund had $621.3 million of cash at June 30, 2020 which included $280.4 million of restricted cash. What makes up the restricted cash amount besides amounts restricted for Retiree Protection, QOL Program, Debt Service and Budget Reserve? Please provide list of items that make up the total restricted cash.

Response: See the attached spreadsheet (attachment 1).

16. In previous fiscal years, the City disclosed the (See note 1 on page 51 of the FY 2020 CAFR) total amount of delinquent property tax transferred to Wayne County as well as the chargeback amount. Why was this omitted from the FY 2020 CAFR Property Tax disclosure?

Response: The OCFO performed a thorough review of all footnotes in conjunction with both GASB and State requirements. Footnotes were modified (information added or deleted) to comply with laws and regulations. This particular information is not a requirement.

17. General Fund Due from Other Funds increased $67.5 million in FY 2020 compared to FY 2019 Due from Other Funds balance. In addition, Due to Other Funds decreased $46.8 million in FY 2020 compared to FY 2019 Due to Other Funds balance. Why did the FY 2020 Due from Other Funds and Due to Other Funds balances fluctuate so much from FY 2019 levels?

Response: During the fiscal year, the Controller's Office performed a review of many interfund balances to validate them and make necessary payments to resolve or write off unsubstantiated items. During the year the amounts were liquidated and paid back to the fund recording the due from causing a decrease in General Fund Due to other funds. The increase in the General Fund Due from Other Funds of $67.5 million is primarily attributed to increase in receivables from the Covid-19 fund of $103.3 million and Capital Projects of $4.96 million interfunds, partially offset by decreases in various funds, the significant of which were DDOT -$10.2 million, Parking -$6.7 million, General grants -$6.4 million, and Debt Service -$4.6 million, and Sewer -$4.1 million. See attachment for additional breakdown (attachment 2).

18. General Fund municipal income tax revenue decreased $71.0 million in FY 2020 compared to FY 2019 level. We believe the COVID-19 pandemic economic impact and the $23.5 million additional potential income tax refunds liability (See page 15 of the FY 2020 CAFR - MD&A) are the main reasons. Were there other factors that impacted the FY 2020 municipal income tax?

Response: There were no additional factors. Income tax was impacted by a large increase in the unemployment rate (unemployment benefits are not taxable for City Income Tax purposes) as well as the liability for anticipated refunds due to remote work. Keep in mind that the 2019 numbers were higher than anticipated due to a one-time corporate tax payment of $23 million.

19. General Fund Revenue from Use of Assets (Sale of assets) was 18.0 million for the year ended June 30, 2020, an increase of $14.5 million from the $3.6 million for FY 2019. What assets were sold during FY 2020 to account for the $14.5 million increase?

Response: General Fund Revenue from use of assets increased $14.5 million primarily due to the revenue recognition of the ($13.9 million) COBO Lease that was previously being deferred and amortized (revenue) in MPD. This transaction was part of the MPD merger to the General Fund in Fiscal Year 2020.

20. General Fund Public Protection expenditures were $384.3 million in FY 2020, a $68.0 million decrease from the $452.3 million in FY 2019. Why did the public protection expenses decrease in FY 2020?

Response: The General Fund Public Protection expenditures $68 million decrease was due the additional CARES Act Funding allocated to salaries for the respective departments. In addition, miscellaneous expenses decreased by approximately $1.5 million and Rentals - Buildings expenses decreased by $1.3 million due to COVID-19 pandemic.

21. General Fund Development and Management Expenditures. Development and Management expenditures were $295.8 million in FY 2020, a $43.4 million decrease from the $339.2 million in FY 2019. Why did development and management expenses decrease in FY 2020?

Response: The year-over-year decrease of $43.4 million was primarily due to four major factors:
• $35.2 million decrease in payroll expenses due to work force reduction following the pandemic.
• $13 million reduction in litigation costs.
• Net decrease in consulting and contractual services of $2.2 million.
• The above decreases were partially offset by a net increase in operating services of approximately $7 million.

22. General Fund Transportation Facilitation expenditures increased by $17.3 million in FY 2020. Why did the transportation facilitation expenses increase so much in FY 2020?

Response: This increase is primarily related to the complete merger of the Automobile Parking Fund into the General Fund that was effective July 1, 2019.

23. General Fund Housing Supply and Conditions expenditures were $41.7 million in FY 2020, an increase of $10.0 million from the $31.7 million in FY 2019. Why did housing supply and conditions expenses increase in FY 2020?

Response: The General Fund Housing Supply and Conditions expenditures increased by $10 million due to blight activities completed in FY 20.

24. General Fund Capital Outlay expenditures were $28.8 million in FY 2020, a decrease of $14.6 million from the $43.4 million in FY 2019. Why did the Capital Outlay expenditures decrease in FY 2020?

Response: COVID-19 required the shutdown of construction for the entire second half of FY2020, which coincides with the peak of construction in the spring and early summer. Capital projects remained on hold until after the end of FY2020.

25. Primary government Unearned Revenue liability was $42.2 at June 30, 2020, an increase of $13.7 million from the $28.5 million on June 30, 2019. What caused the Unearned Revenue liability to increase in FY 2020?

Response: $13.1 million attributable to Government fund (Major $: Health Grants [Fund 2104] $1.8; MIDC Grants [Fund 2119] $3.5; COVID-19 [Fund 3922] $7.3). Note, unearned or deferred revenue is more of a timing concept for recognition. It generally implies receipt of cash or other assets for which asset recognition of asset criteria is met but for which recognition criteria for revenue is not met, and this is especially common with grant funds which are typically subject to compliance requirements.

26. On page 54 of the FY 2020 CAFR (Note 1), the City disclosed that it restated its FY 2020 beginning governmental activities net position reducing it by approximately $99.0 million to correct a misstatement resulting from land parcels that were not removed from the City's capital assets upon sale or transfer. Please explain what led to OCFO's internal controls not catching such a large error.

Response: The $99 million prior year restatement is attributed to a write-off of land assets that the City did not own as of 6.30.2020 (Note, some of this land has not been owned by the City for over a decade). This includes land for Comerica Park (Detroit/Wayne Stadium Authority), land transferred to the EDC, etc. Over the last several years, the OCFO has hired a third-party vendor to perform City-wide physical inventories (in an effort to ensure validity, accuracy, and completeness of Capital Assets), however the lack of documents/systems being properly updated with historical sales and transfers of land, made their audit of land somewhat compromised.

Going forward, the OCFO has implemented new Capital Assets policies and procedures that include performing year-end physical inventories on a bi-annual basis and ensuring land transactions and ownership are reviewed and properly accounted for annually.

27. On page 21 of the FY 2020 CAFR, the primary government charges for services revenue was $783.2 million at June 30, 2020, an increase of $56.4 million from the $726.8 million at June 30, 2019. Detailed below is a comparison of the various charges for services for FY 2020 and FY 2019.

	FY 2020	FY 2019	Difference
Public Protection	79,340,103	85,794,552	(6,454,449)
Health	1,440,641	2,326,609	(885,968)
Recreation and Culture	1,442,388	4,162,855	(2,720,467)
Economic Development	19,386,799	21,974,750	(2,587,951)
Housing Supply and Conditions	864,612	817,929	46,683
Physical Environment	44,372,872	41,766,310	2,606,562
Transportation Facilitation	35,452,937	4,695,448	30,757,489
Development and Management	123,827,642	122,447,673	1,379,969
Water	114,814,401	101,609,566	13,204,835
Sewer	331,693,766	297,703,405	33,990,361
Transportation	15,116,575	20,190,340	(5,073,765)
Automobile Parking	-	10,149,706	(10,149,706)
Airport	451,812	571,913	(120,101)
Public Lighting Authority	15,026,574	12,636,841	2,389,733
Total	783,231,122	726,847,897	56,383,225

The following had significant changes for charges for services revenue: (1) public protection $6.5 million decrease; (2) transportation facilitation $30.8 million increase; (3) water $13.2 million increase; (4) sewer $34.0 million: (5) transportation (DDOT) $5.1 million decrease. Please explain the significant changes in the charges for services revenues for FY 2020.

Response:

(1) The $6.4 million decrease in Public Protection is primarily related to $10.7 million in parking fines and boot and tow revenue from fiscal 2019 that is now reported within the Transportation facilitation charge for services line in the financial statements in fiscal 2020 which was offset by an increase of $2.9 million in Medicare EMS Revenue and $1.4 million in Medicaid EMS Revenue due to new EMS Biller, Digitech and COVID-19 pandemic.

(2) Transportation facilitation increase of $30.8 million is primarily related to the complete merger of the Automobile Parking Fund into the General Fund that was effective July 1, 2019. The parking-related revenue consisted of approximately $10.5 million in parking fines and boot and tow, $6.2 million in garage and meter revenue, and $13.9 million in unearned revenue that was recognized for the Cobo Hall Lease during the fiscal year.

(3) **DWSD Response:** The increase in water revenue in FY 2020 is primarily due to the swing in Great Lakes Water Authority (GLWA)'s share of collective pension expense. In FY 2019, there was a debit balance of $9.9 million in revenue for GLWA's share of pension expense due to an adjustment to pension liability per the actuarial report. In FY 2020, GLWA's share was a credit balance of $7.3 million. There were other revenues that had differences, however, pension adjustment is the major difference.

(4) **DWSD Response:** The increase in sewage disposal revenue in FY 2020 is due to the swing in Great Lakes Water Authority (GLWA)'s share of collective pension expense. In FY 2019, there was a debit balance of $6.7 million in revenue for GLWA's share of pension expense due

to an adjustment to pension liability per the actuarial report. In FY 2020, GLWA's share was a credit balance of $13.0 million. Also, sewage disposal charges increased mainly due to $12.7 million increase in drainage revenue. There were other revenues that had differences, however, pension adjustment and drainage revenue are the major differences.

(5) The $5.1 million decrease in DDOT revenue is primarily related to the suspension of bus fare collection in March 2020 due to the pandemic.

28. Primary government operating grants revenue was $345.7 million for the year ended June 30, 2020, an increase of $96.0 million from the $249.7 million for the year ended June 30, 2019. Is this increase mainly due to the Federal CARES Act funds that the City received in April 2020?

Response: The increased grants revenue is primarily due to the City's receipt of $116.9 million in upfront revenue related to the CARES Act.

29. Primary government municipal income tax revenue was $304.3 million for the year ended June 30, 2020, a decrease of $72.4 million from the $376.7 million for the year ended June 30, 2019. Is the decrease mainly due to the COVID-19 pandemic economic impact and additional $23.5 million potential income tax refunds liability for non-residents working remotely during the pandemic? Are there any other factors that may have contributed to the municipal income tax revenue decrease in FY 2020?

Response: See the response to question #18 above.

30. Primary government miscellaneous revenue was $92.2 million for the year ended June 30, 2020, a decrease of $21.1 million from the $113.3 million for the year ended June 30, 2019. Please explain why the miscellaneous revenue decrease by $21.1 million in FY 2020.

Response: Government portion decreased primarily due to other financing revenue in FY19 of $25.8 million attributable to bond activity versus no such activity in FY20. This was partially offset by $6.2 million in revenue attributable to the MPD merger.

Note: In FY19 financing revenue increased $25,803,304 due to the City's General Fund issuing $175,985,000 of new debt to redeem a portion of the Series 2014 B-1 and B-2 bonds. With these proceeds, the City purchased and cancelled $192,227,454 of B-1 bonds at 87 cents on the dollar and $5,424,902 of B-2 bonds at 85 cents on the dollar. As such, the increase in FY19 financing revenue was attributed to bond repurchase discounts of the 13 cents on the B-1 bonds and 15 cents on the B-2 bonds.

31. Primary government public protection expenses were $618.9 million in FY 2020, an increase of $40.1 million from the $578.8 million amount in FY 2019. Why did public protection expenses increase so much in FY 2020?

Response: The $40 million increase in Public Protection was due to a $96.8 million increase in Police expenditures, of which $80 million were directly associated with COVID-19. These increased expenses were offset a reduction in $21 million Fire salary and benefit expenses and $5.9 million Municipal parking expense reduction.

32. Primary government health expenses were $63.9 million in FY 2020, an increase of $28.0 million from the $35.9 million in FY 2019. Was the increase in health expenses due to COVID-19 public health emergency response?

Response: The $28 million increase in Health Expenses was due to COVID-19 public health emergency response activity costs and operational savings in Health Department as regular operations and client service levels were reduced due to the pandemic.

33. Primary government recreation and culture expenses were $37.8 million, an increase of $8.4 million from the $29.4 million in FY 2019. Why did recreation and culture expenses increase in FY 2020?

Response: The $8.4 million increase in Recreation and Culture is primarily due to the following: $14.2 million increase in recreation center operations and programming costs reported in a other expenditure categories in FY 2019; $2.8 million increased spending in the Bridging Neighborhood Program as the program continues to ramp up services, $1.2 million of which was attributable to the beginning of the I-75 Environmental Mitigation project; $1.7 million increase in special revenue costs related to the public, educational, and governmental (PEG) access channel fees; offset by a $9.5 million decrease from FY 2019, representing city wide software costs purchased in the prior year.

34. Primary government economic development expenses were $78.8 million for the year ended June 30, 2020, a decrease of $21.1 million from the $99.9 million for the year ended June 30, 2019. Why did the economic development expenses increase in FY 2020?

Response: Primary government economic development expenses decrease of $21.1 million between fiscal years 2019 and 2020 was largely due to a decrease in capital spending of projects that were forced to stop because of the pandemic.

35. Primary government transportation facilitation expenses were $96.8 million for the year ended June 30, 2020, an increase of $33.0 million from the $63.8 million for the year ended June 30, 2019. Why did the transportation facilitation expenses increase so much in FY 2020?

Response: Approximately $45 million of expenses were coded to Physical Environment in the 2019 financials rather than Transportation for 2020. This was offset by an approximate $18 million reduction in DPW overall expenditures for slower repairs and improvements due to the pandemic. In addition, a portion of the increase is related to the complete merger of the Automobile Parking Fund into the General Fund that was effective July 1, 2019.

36. Primary government physical environment expenses were $83.2 million in FY 2020, a decrease of $85.5 million from the $168.7 million in FY 2019. Why did physical environment expenses decrease so much in FY 2020?

Response: The $85.5 million decrease in Physical Environment expenses were due to a $2 million increase in Blight costs for DLBA properties offset by a $87.2 million decrease in DPW costs related to expenses that were coded to offsetting capital outlay or transportation in the 2020 financials and they had previously been reported as physical environment in 2019.

37. Primary government development and management expenses were $472.2 million in FY 2020, an increase of $76.5 million from the $395.7 million in FY 2019. Why did development and management expenses increase so much by $76.5 million in FY 2020?

Response: The year-over-year $76.5 million increase was primarily due to the following factors:
• Approximately $82.5 million net increase in capital outlay relating to software maintenance ($10.9 million), Acquisitions ($93.1 million), and major repairs ($21.9 million); these were partially offset by decreases related to Solid Waste, Quality of Life Project, and GASB34 adjustments ($43.4 million).
• $61.1 million net increase in employee costs from increase in employee benefits ($71.3 million), partially offset by $10.2 million decrease in salary and wages due primarily to work force reduction due to the pandemic.
• $6.4 million reduction in operating supplies due to remote work environment as a result of the pandemic.
• Damage claims decreased approximately by $44 million, as did litigation costs by $11.8 million.
• General obligation bonds transfers to component units for capital projects decreased by $17.7 million.

38. Primary government interest on long-term debt was $63.6 million in FY 2020, an increase of $29.6 million from the $34.0 million in FY 2019. Why did the interest on long-term debt increase so much in FY 2020?

Response: The FY19 Comprehensive Annual Financial Report included a reduction of $25.8 million for deferred charges related to the gain on the December 2018 B-Note refunding that was misclassified as interest expense on the 2019 government-wide statements. This adjustment was not necessary in FY20 and represents the majority of the variance. The additional $3.8 million reflects the expected increase in the City's debt service interest.

39. Primary government sewage disposal expenses were $323.5 million in FY 2020, an increase of $26.5 million from the $297.1 million in FY 2019. Why did the Sewage Disposal expenses increase in FY 2020?

DWSD Response: In FY 2019, pension expense had a credit balance of $10.1 million due to an adjustment to pension liability per the actuarial report. In FY 2020, pension expense had a debit balance of $15.9 million resulting in a year over year increase of $26 million. There were other expenses that had differences, however, the pension adjustment was the major difference.

40. Primary government water expenses were $115.8 million in FY 2020, an increase of $11.3 million from the $104.5 million in FY 2019. Why did the water expenses increase in FY 2020?

DWSD Response: In FY 2019, pension expense had a credit balance of $13.4 million due to an adjustment to pension liability per the actuarial report. In FY 2020, pension expense had a debit balance of $12.2 million resulting in a year over year increase of $25.6 million. This increase is offset by decreases in bad debt expense of $9.7 million and shared services expense of $5.5 million. There were other expenses that had differences, however, pension adjustment, bad debt and shared services expenses were the major differences.

41. Primary government transportation expenses were $162.1 million in FY 2020, a decrease of $16.8 million from the $178.9 million in FY 2019. Why did the transportation expense decrease FY 2020?

Response: The $16.8 million is primarily related to decreases in salary and wages ($2.7 million), pension and fringe GASB 68 adjustment of ($12.3 million), repairs and maintenance of ($4 million), and supplies of ($2.4 million). This was offset by increases in deprecation and central staff services.

42. On page 191 of the FY 2020, the Airport Fund shows $2.5 million claims recovery as a reduction to expenses. In addition, the Airport Fund's expenses in FY 2020 were $4.0 million less than FY 2019 expenses. Is the claims recovery from a lawsuit settlement? Please also explain why Airport Fund's expenses decrease by $4.0 million compared to FY 2019 level.

Response: This decrease is primarily related to a FY20 $5 million reduction/true-up of the legal reserve based upon pending airport litigation estimates.

Attachment 1 – Restricted Cash

FY20 General Fund Restricted Cash

Fund	Account Number	Balance	Fund Description	Object	Object Description	Restricted/Unrestricted
7516	7516-000000-103100	184,724,028.00	Retiree Protection Trust Fund	103100	Cash on Deposit With Trustee	Restricted
1000	1000-000000-102100	207,419.00	General Fund	102100	Cash-Restricted	Restricted
1000	1000-000000-102102	3,104,352.00	General Fund	102102	Cash-Restricted-Detroit Waterfront Petro Escrow	Restricted
1000	1000-000000-104101	20,761,538.00	General Fund	104101	UMB Trust #142504.1 LTGO 2014F Bond Fund	Restricted
1000	1000-000000-104132	963,336.00	General Fund	104132	US Bank #136558006 DSA 2010A Escrow Fund	Restricted
1000	1000-000000-104172	12,240,482.00	General Fund	104172	DETROIT 2016B1 ESCROW FUND DSA 1st	Restricted
1000	1000-000000-104174	6,987,431.00	General Fund	104174	DETROIT 2016B2 ESCROW FUND DSA 3rd	Restricted
1000	1000-000000-104190	2,915,031.00	General Fund	104190	DSA FIfth Lien Series 2018 Escrow Fund	Restricted
3100	3100-000000-104105	1,840,526.00	Quality of Life - Special Revenue	104105	UMB Trust #142504.5 LTGO 2014A Bd Pcds	Restricted
1001	1001-000000-102100	10,000.00	Risk Management Fund	102100	Cash-Restricted	Restricted
1001	1001-000000-104160	19,122,421.00	Risk Management Fund	104160	COD DIFS Depositary Agreement Account	Restricted
1000	1000-000000-104103	27,500,000.00	General Fund	104103	UMB Trust #142504.3 LTGO 2014F Debt Reserve	Restricted

Total 280,376,564.00

Attachment 2 – General Fund Due from Other Funds

NATURAL_ACCT_SEGMENT_VALUE	119500

Row Labels	Sum of FY 2020	Sum of FY 2019	
1000	**151,755,392.99**	**85,339,540.11**	66,415,852.88
#N/A	**-**	**-**	-
Agency Funds	**1,946,894.01**	**846,672.19**	1,100,221.82
Component Units	**585,729.58**	**1,683,496.72**	(1,097,767.14)
General Fund	**8,056,169.92**	**20,269,877.32**	(12,213,707.40)
Blight Reinvestment Projects Fund	130,642.98	4,695,996.90	(4,565,353.92)
General Fund	7,287,107.80	14,933,645.28	(7,646,537.48)
PLD Decommissioning Reserve Fund	305,311.64	307,557.64	(2,246.00)
Quality of Life Fund	332,677.50	332,677.50	-
Risk Management Fund	430.00	-	430.00
Internal Service	**2,720,217.26**	**3,544,674.81**	(824,457.55)
Major Enterprise	**4,256,392.95**	**20,054,121.08**	(15,797,728.13)
Non-Major Enterprise	**39,250.48**	**6,726,881.07**	(6,687,630.59)
Non-major other Governmental funds	**848,600.00**	**5,426,718.52**	(4,578,118.52)
Special Revenue funds	**133,302,138.79**	**26,787,098.40**	106,515,040.39
Comm Dev Block Grant	3,005,551.04	5,744,788.54	(2,739,237.50)
Construction Code Fund	4,990,767.42	3,938,799.37	1,051,968.05
Drug Law Enforcement	102,646.29	660,299.30	(557,653.01)
General Grants Fund	8,090,673.15	5,924,785.19	2,165,887.96
Local Streets	2,797,064.78	1,753,273.89	1,043,790.89
Major Streets	5,618,248.87	3,746,512.55	1,871,736.32
Neighborhood Briding Fund	403,026.86	888,058.39	(485,031.53)
Noncompliance Fees Fund	1,064.57	38,168.66	(37,104.09)
Other Special Revenue Fund	103,263,020.85	-	103,263,020.85
Solid Waste Management	4,625,781.58	3,953,475.48	672,306.10
Urban Development	404,293.38	138,937.03	265,356.35
4533	**18,992,223.39**	**14,028,392.49**	4,963,830.90
General Fund	**17,731,611.55**	**13,994,949.92**	3,736,661.63
General Fund	17,731,611.55	13,994,949.92	3,736,661.63
Special Revenue funds	**1,260,611.84**	**33,442.57**	1,227,169.27
General Grants Fund	1,257,308.43	33,442.57	1,223,865.86
Other Special Revenue Fund	3,303.41	-	3,303.41
Grand Total	**170,747,616.38**	**99,367,932.60**	71,379,683.78

Due From Fund	**Increase (Decrease)**
Covid-19 Fund	103,263,020.85
Capital Projects	4,963,830.90
Major Streets	1,871,736.32
Agency Fund	1,100,221.82
Construction Code Fund	1,051,968.05
Local Streets	1,043,790.89
Solid Waste Management	672,306.10
Urban Development	265,356.35
Internal Service Fund	(824,457.55)
Detroit Public Library	(1,097,767.14)
Water	(1,399,004.71)
Airport	(3,002,155.00)
Other Special Revenue Fund	(3,819,026.13)
Sewage Disposal	(4,152,740.64)
Blight Reinvestment	(4,565,353.92)
Debt Service	(4,578,118.52)
General Grants Fund	(6,378,038.52)
Parking	(6,687,630.59)
Transportation	(10,245,982.78)

Total Change	67,481,955.78