CITY OF DETROIT
OFFICE OF THE CHIEF FINANCIAL OFFICER

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March 31, 2022

The Honorable Detroit City Council
Coleman A. Young Municipal Center
2 Woodward Avenue
Detroit, MI 48226

Re: FY 2022 – 2031 Long-Term Forecast Report for Legacy Pension Plans and Debt Obligations

Dear Honorable City Council Members:

The Office of the Chief Financial Officer (OCFO) respectfully submits its annual Long-Term Forecast Report for Legacy Pension Plans and Debt Obligations. The OCFO also publishes this report on the City's website.

This report is provided in accordance with the requirements included in Detroit Financial Review Commission (FRC) Resolution 2021-02, which granted the City its waiver of active FRC oversight through June 30, 2022. It includes long-term forecasts for the City's legacy pension plans, debt obligations, revenues and expenditures, and the assumptions used for the analysis.

Best regards,

Jay B. Rising
CFO

Att: FY 2022 – 2031 Long-Term Forecast Report for Legacy Pension Plans and Debt Obligations

Cc: Mayor Michael E. Duggan, City of Detroit
Hakim Berry, Chief Operating Officer
Tanya Stoudemire, Chief Deputy CFO/Policy & Administration Director
John Naglick, Jr., Chief Deputy CFO/Finance Director
Justin Bahri, Deputy CFO/Interim Treasurer
Steve Watson, Deputy CFO/Budget Director
Gail Fulton, City Council Liaison

# Long-Term Forecast Report

## FY 2022–2031

Office of the Chief Financial Officer
Office of Budget

March 31, 2022

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# Executive Summary

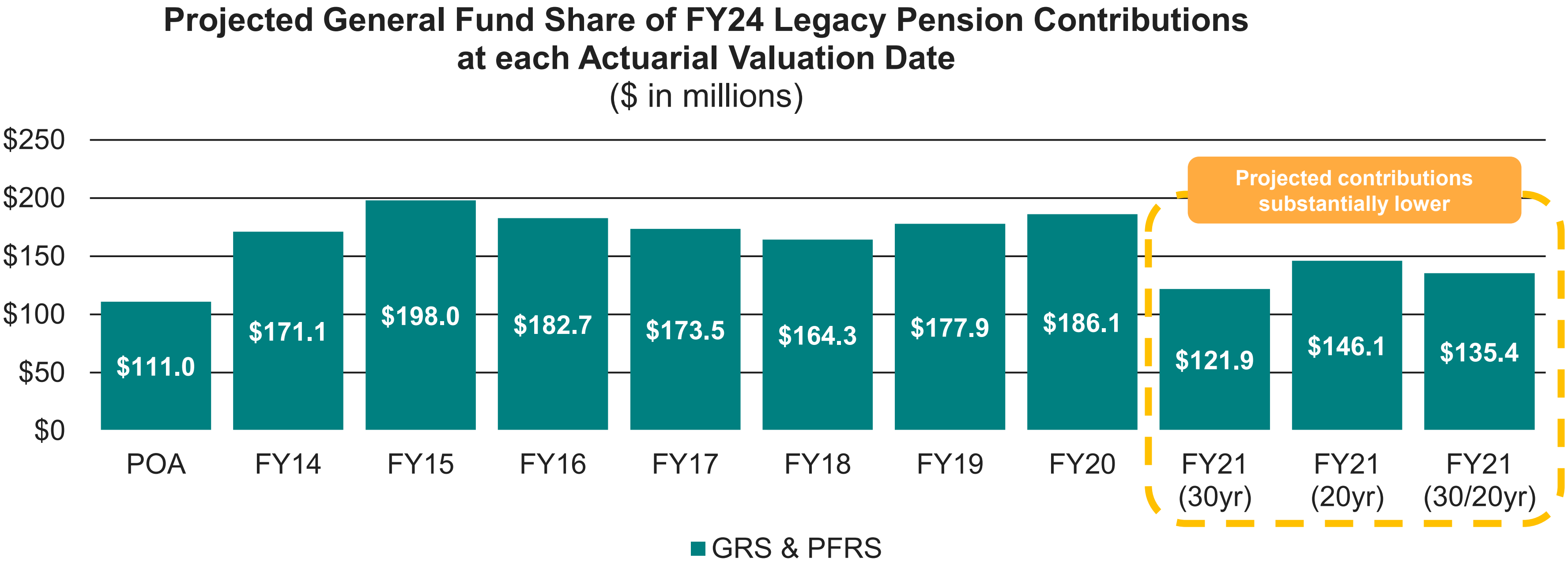
**Our revenue recovery and updated actuarial valuations have provided additional fiscal stability, but risks remain.**

- Our economy continues to recover from the pandemic, with **Opportunities Rising** for good-paying jobs for Detroiters.
- Recurring revenues are forecasted to exceed pre-pandemic levels due to stronger income tax collections and the implementation of internet gaming and sports betting last year. The upside from those new gaming taxes is now fully baked into our budget.
- However, risks remain from continued remote work, ongoing pandemic effects, and legacy pension liabilities.
- This annual Long-Term Forecast Report provides information on the City's legacy pension obligations, debt obligations, and forecast scenarios over a ten-year period.
- Even under the baseline scenario, expenditure growth outpaces revenue growth beginning in FY27. The City will need to take remedial action to maintain fiscal balance in future years, such as reducing recurring spending through new efficiencies and innovations and continuing to grow and diversify revenue sources.
- The upside and downside scenarios presented are not intended as an exhaustive set of potential scenarios or as the likeliest of scenarios. However, they illustrate how even moderate risks can materially impact the City's budget and necessitate additional action to maintain fiscal balance.
- The downside risks reinforce the need for continued contributions to reserves, spending restraint, and efficiencies.

# Legacy Pension Obligations

# Legacy Pension Obligations

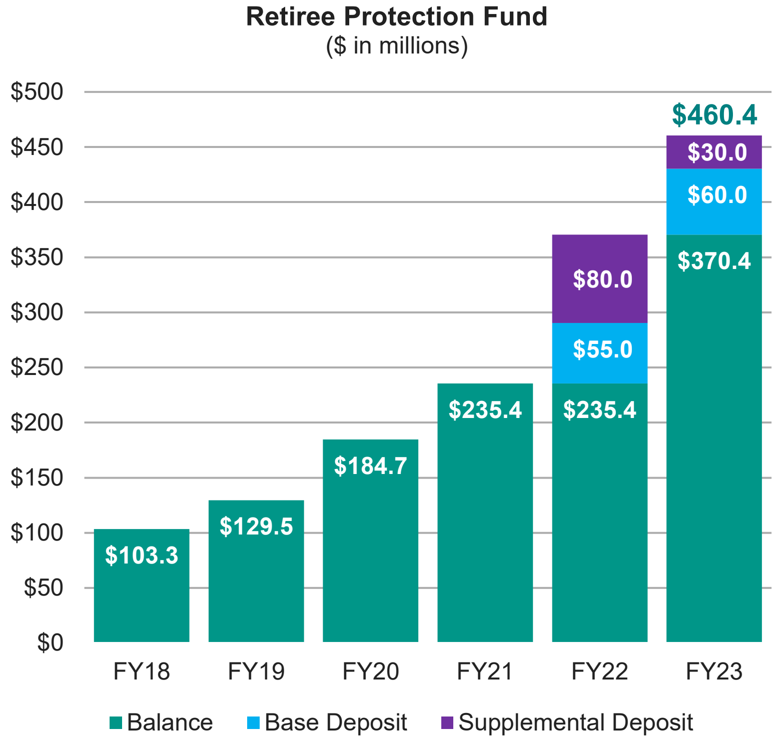
**Annual Required Contributions can vary significantly due to investment returns and actuarial assumptions.**




- Data from Plan of Adjustment (POA) projections and subsequent annual Actuarial Valuation reports from Retirement Systems. No asset smoothing, except PFRS starting FY21.
- POA through FY15 used a 30-year level principal amortization. FY16 through FY20 use 30-year level dollar. FY21 uses level dollar and shows multiple amortization lengths.
- FY14 and FY21 results both followed actuarial assumption changes based on experience studies and funding policy changes for PFRS in FY21.

# Retiree Protection Fund ("RPF") Background

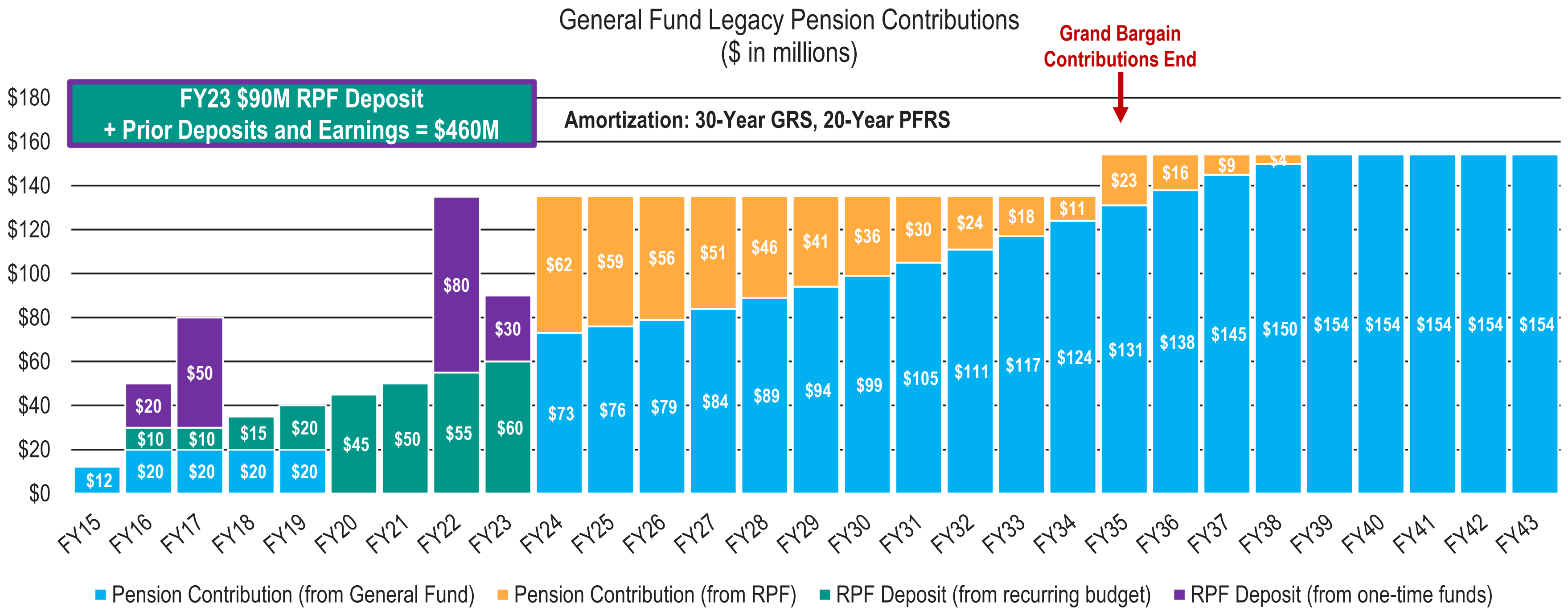
**Despite revenue losses during the pandemic, the City increased RPF deposits above the original plan.**




- Beginning in FY24, the City will resume annual pension contributions, totaling between $130M and $200M every year for its closed and frozen legacy pension plans per the bankruptcy Plan of Adjustment
- The City has prepared for a return to actuarially based funding of its pension obligations by analyzing the projected future contribution requirements and setting aside funds into the RPF, an irrevocable IRC Section 115 Trust
- The proposed FY23 Budget includes our scheduled $60M deposit into the RPF, plus another $30M in supplemental deposits, for a **total of $90M in FY23**
- All in, RPF assets will total at least **$460M by the end of FY23** in advance of annual pension contributions resuming in FY24

# RPF – FY 2023 Budget Plan

## FY 2021 actuarial gains and RPF deposits provide a sustainable path, but downside investment risk remains.



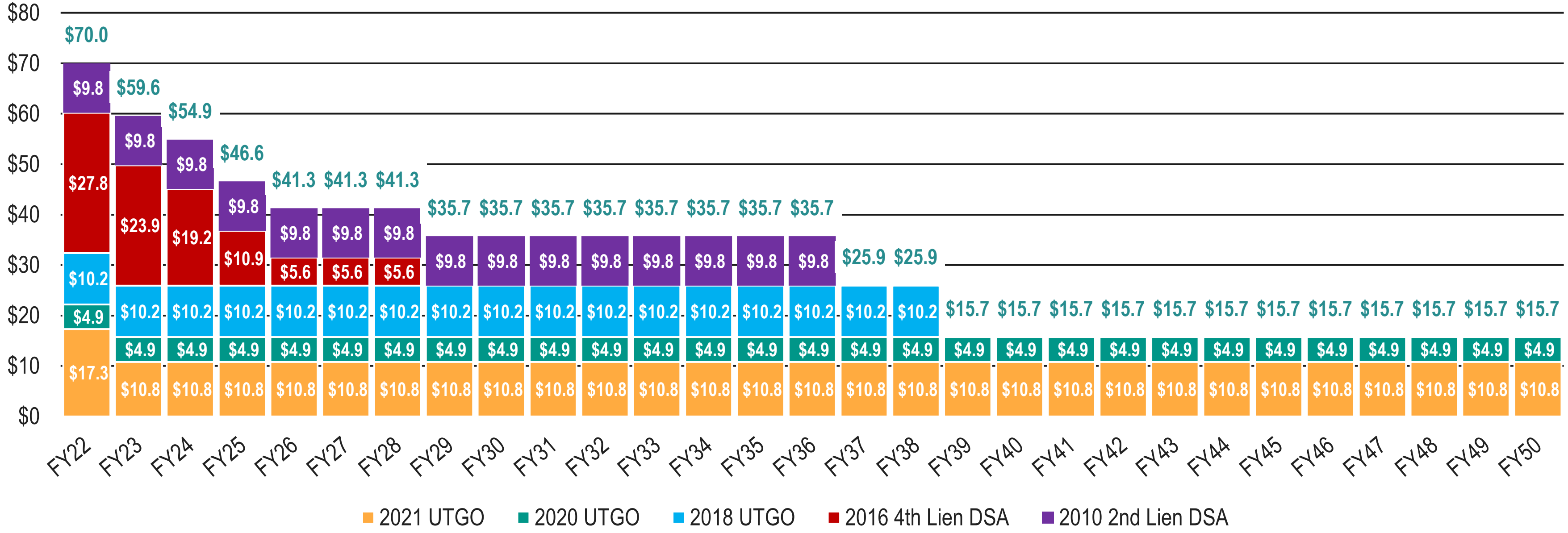

- Projections of annual legacy pension contributions based on FY 2021 Actuarial Valuation Reports, using a 30-year level dollar amortization for GRS and 20-year level dollar amortization for PFRS.
- Excludes "Grand Bargain" contributions from State of Michigan, Foundation for Detroit's Future (FDF), and Detroit Institute of Arts (DIA). DWSD and Library liabilities and contributions are separate.

# Debt Obligations

# Unlimited Tax General Obligation Debt Service

**UTGO bonds are authorized by voters and repaid from the City's debt millage, not the General Fund. They support capital improvement projects throughout Detroit.**

Debt Service Fund
($ in millions)



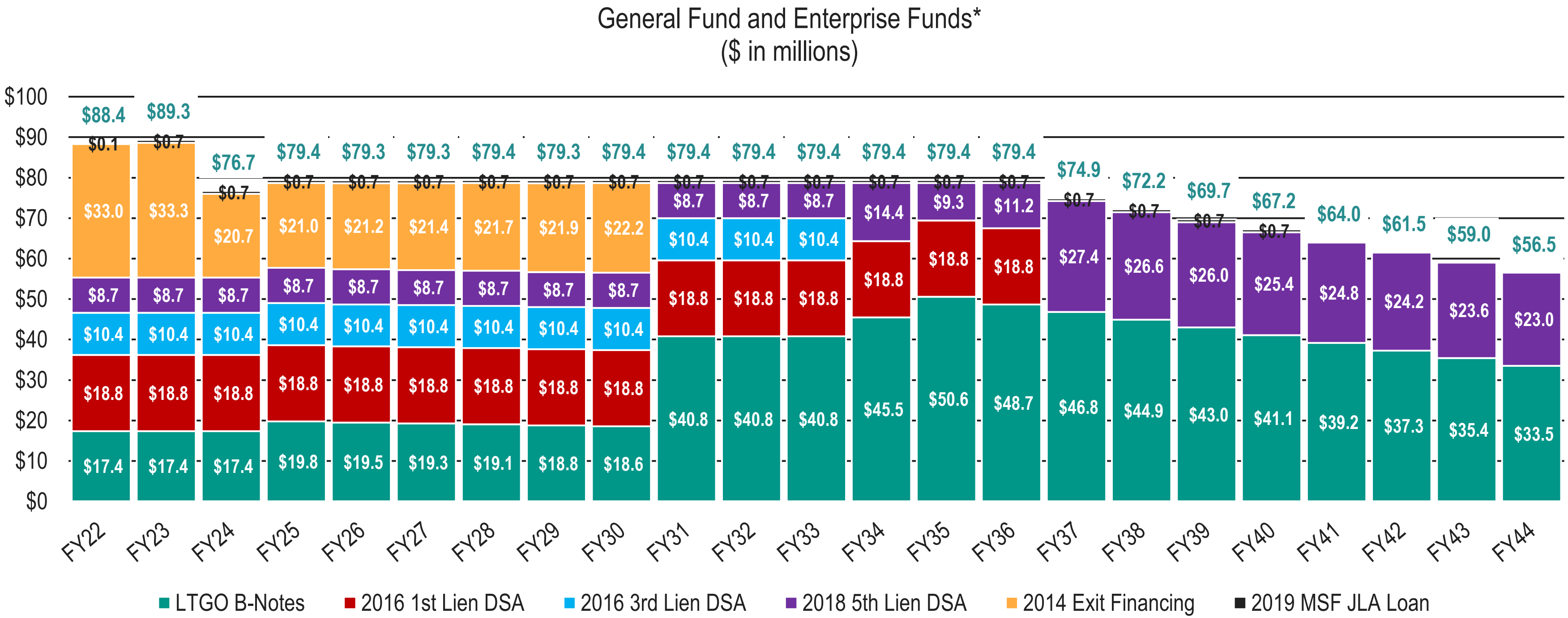

| | FY22 | FY23 | FY24 | FY25 | FY26 | FY27 | FY28 | FY29–FY36 (each) | FY37 | FY38 | FY39–FY50 (each) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2010 2nd Lien DSA | $9.8 | $9.8 | $9.8 | $9.8 | $9.8 | $9.8 | $9.8 | $9.8 | | | |
| 2016 4th Lien DSA | $27.8 | $23.9 | $19.2 | $10.9 | $5.6 | $5.6 | $5.6 | | | | |
| 2018 UTGO | $10.2 | $10.2 | $10.2 | $10.2 | $10.2 | $10.2 | $10.2 | $10.2 | $10.2 | $10.2 | |
| 2020 UTGO | $4.9 | $4.9 | $4.9 | $4.9 | $4.9 | $4.9 | $4.9 | $4.9 | $4.9 | $4.9 | $4.9 |
| 2021 UTGO | $17.3 | $10.8 | $10.8 | $10.8 | $10.8 | $10.8 | $10.8 | $10.8 | $10.8 | $10.8 | $10.8 |
| Total | $70.0 | $59.6 | $54.9 | $46.6 | $41.3 | $41.3 | $41.3 | $35.7 | $25.9 | $25.9 | $15.7 |

* Does not include projected debt service for remaining authorizations for unissued $40M in Capital Improvement UTGO bonds and $75M in Neighborhood Improvement Plan UTGO bonds.

Source: OCFO – Office of the Treasury

# Limited Tax General Obligation Debt Service

**LTGO bonds are primarily repaid from the City's General Fund revenues. They supported settlements with creditors and reinvestment projects after the City's bankruptcy.**

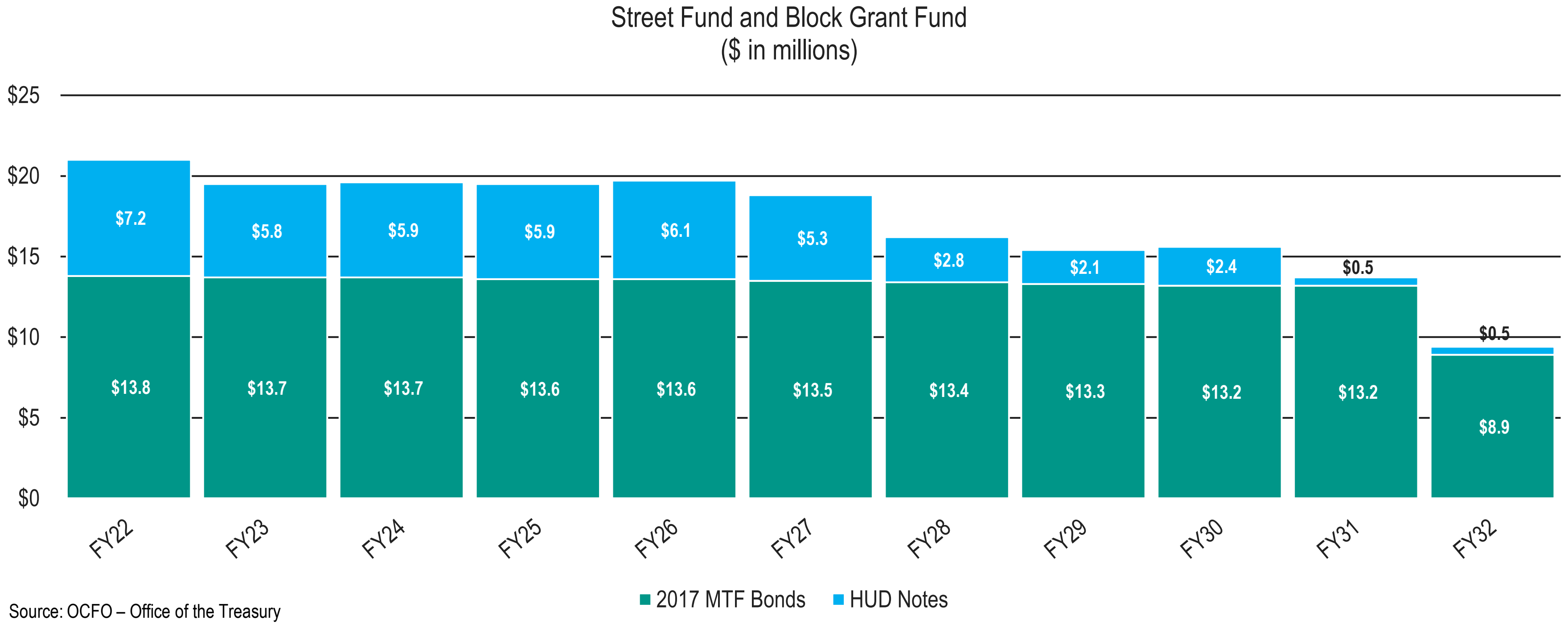



* 2014 B-Notes are split approximately 80% General Fund and 20% Enterprise Funds.

Source: OCFO – Office of the Treasury

# MTF Bonds and HUD Notes Debt Service

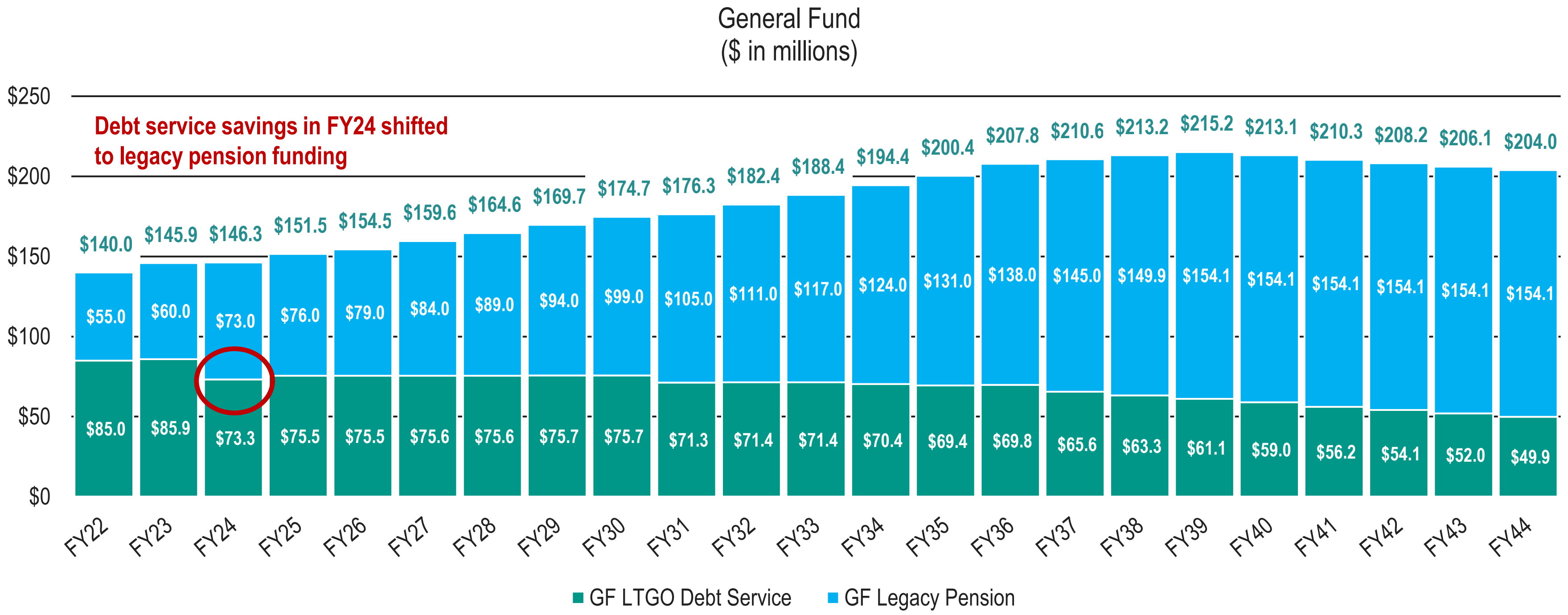
**MTF Bonds support streetscape improvement projects and are repaid from gas and weight taxes distributed to Detroit under Public Act 51 of 1951. HUD Notes financed local development projects under the federal Section 108 Loan Guarantee Program and are secured by the City's annual Community Development Block Grant.**




Source: OCFO – Office of the Treasury

# General Fund Debt Service and Legacy Pension

**The graph below combines the General Fund shares of LTGO debt service and legacy pension contributions based on current debt service and the RPF funding plan ramp up.**

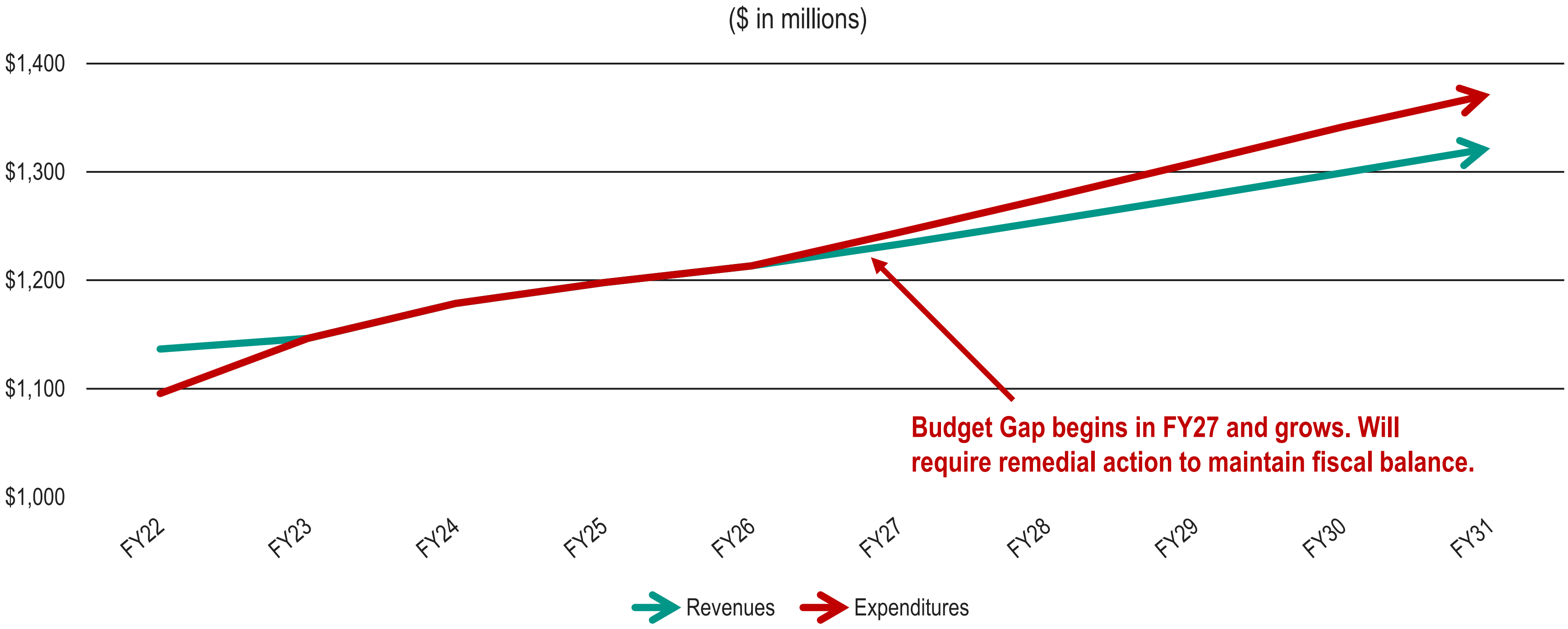



Note?

# Long-Term Forecast

# Forecast Baseline

**Under the baseline scenario, expenditure growth outpaces revenue growth beginning in FY27. Assumes February 2022 Revenue Estimating Conference and FY23-26 Four-Year Financial Plan trends continue.**



# Baseline Forecast Assumptions

Revenues

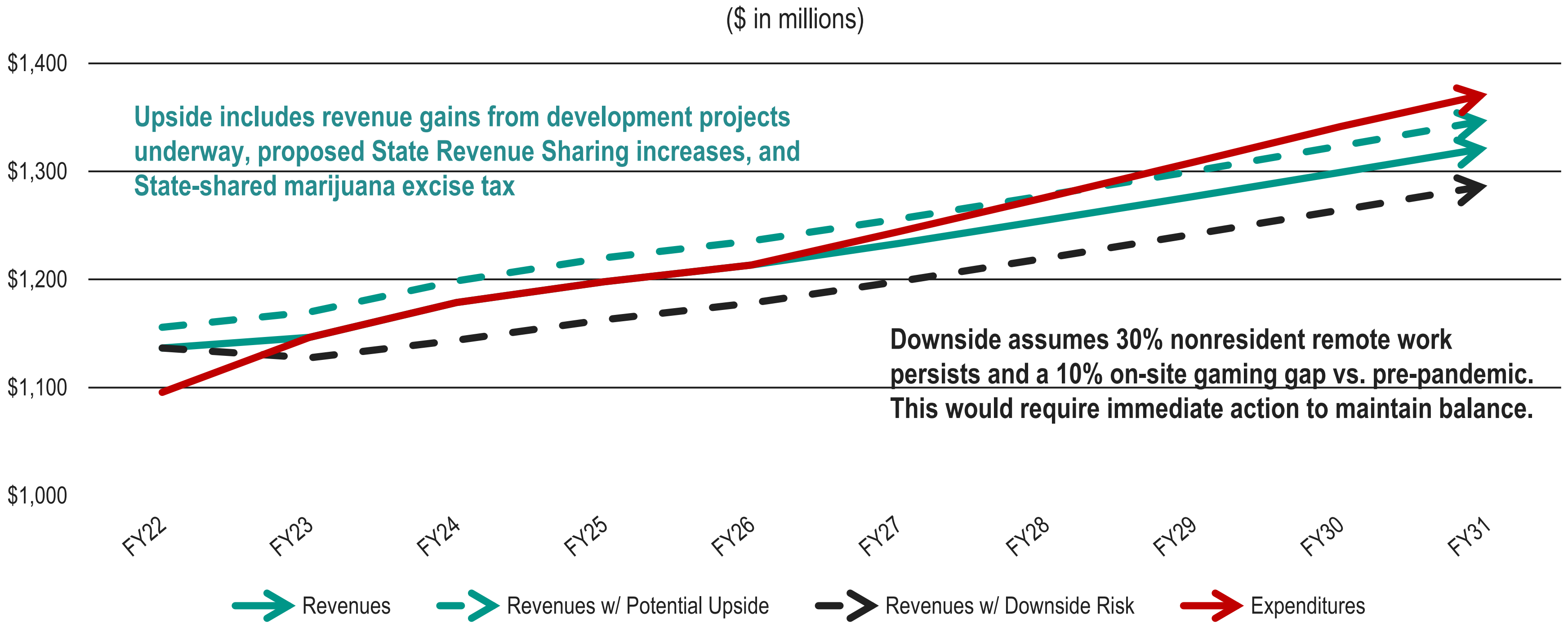
- Based on the approved February 2022 Revenue Estimating Conference results for FY 2022 – FY 2026
- Revenue growth generally continues along revenue conference trends after FY 2026
- Assumes remote work liability is 20% of non-resident withholding from FY24 through the FY31
- Assumes no material revenue loss from potential substitution effects on internet gaming vs. on-site gaming

Expenditures

- Based on Mayor's proposed FY 2023 – FY 2026 Four-Year Financial Plan with similar trends continuing going forward
- Legacy Pension cost based on FY 2021 Actuarial Valuation projections
  - GRS: 30-year level dollar amortization
  - PFRS: 20-year level dollar amortization (per adopted funding policy)
  - 6.75% investment rate of return
- Debt service based on existing debt service schedules
- Forecast does not include one-time spending from fund balance (e.g., blight, capital); it only includes recurring revenues and expenses

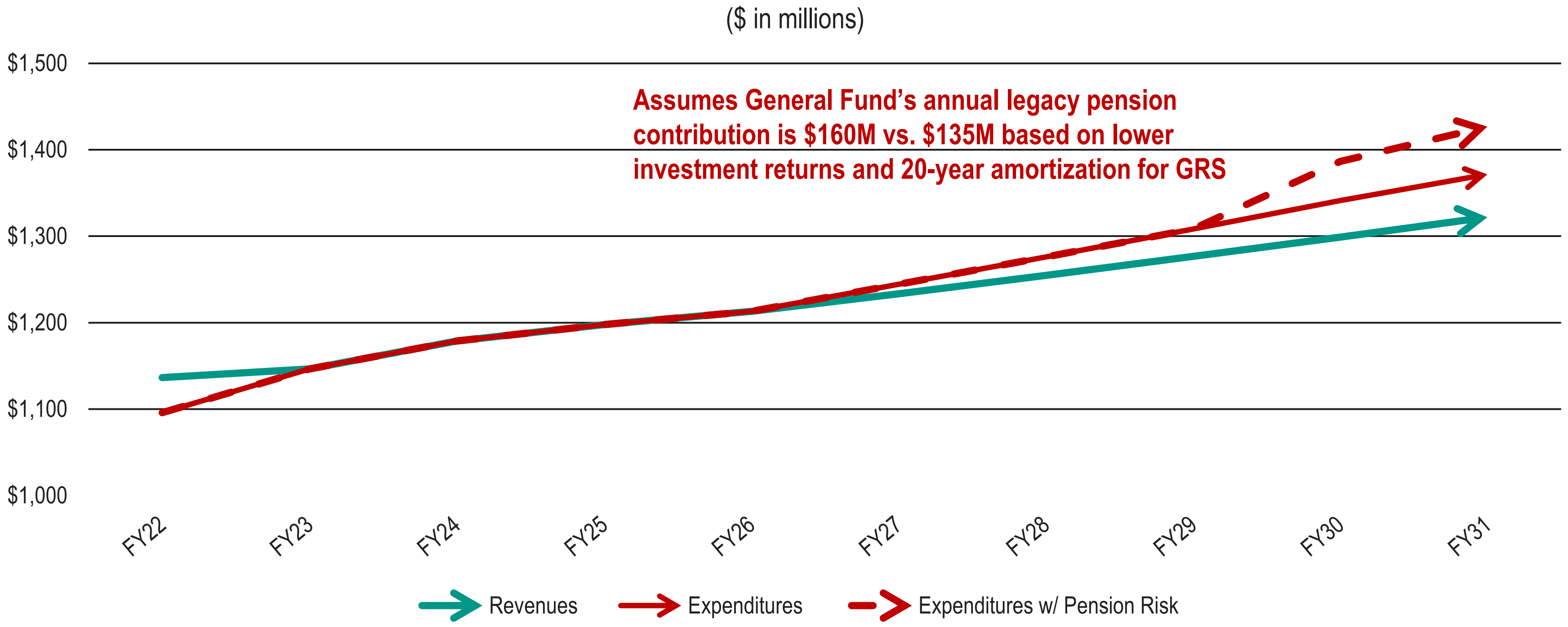
# Forecast w/ Revenue Upside and Downside

**Budget gaps delayed 2 years with potential revenue upside but occur immediately with downside revenue risk.**



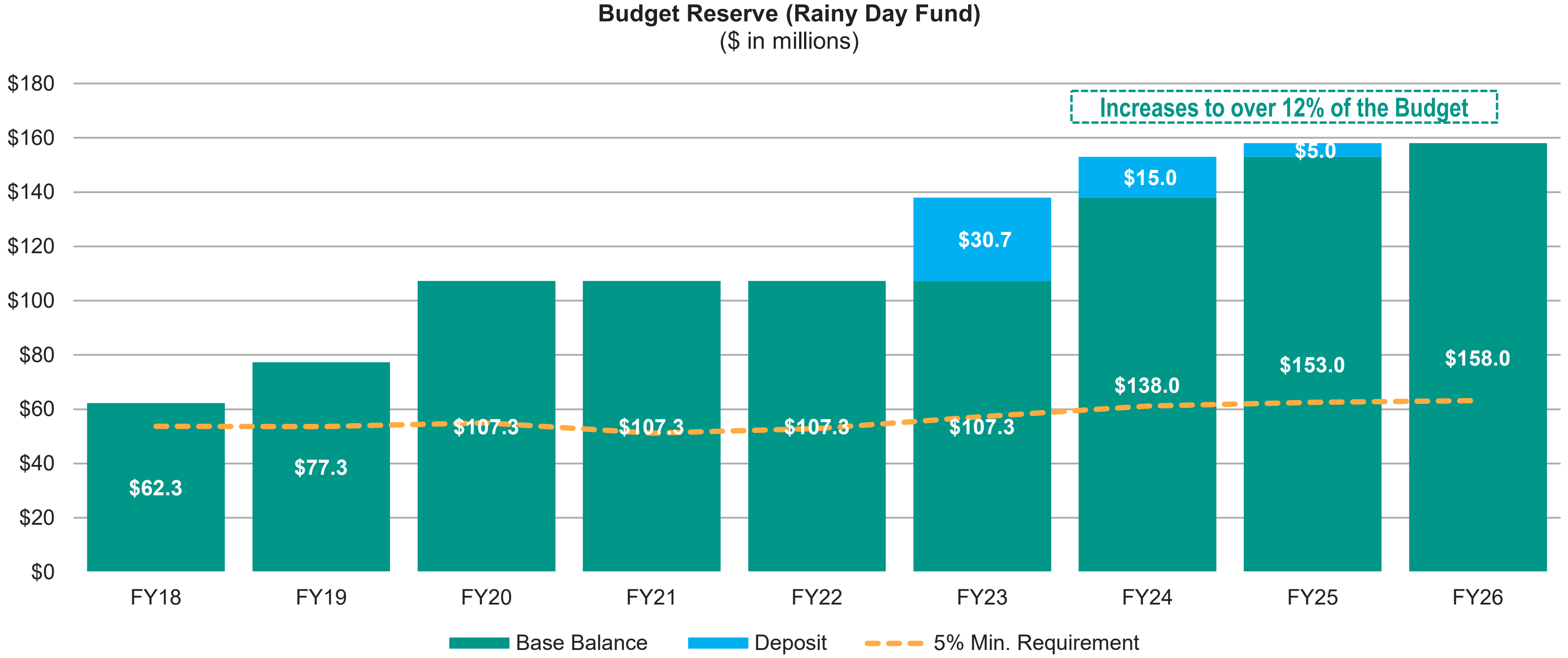
# Forecast w/ Pension Risk

**Future budget gaps grow larger with legacy pension risks based on higher annual required contributions and RPF balance being exhausted sooner.**



# Budget Reserve ("Rainy Day Fund")

**The downside risks reinforce the need for contributions to reserves, spending restraint, and efficiencies.**



# Long-Term Forecast Report