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TO: Detroit City Council

FROM: David Whitaker, Director 
Legislative Policy Division Staff

DATE: March 2, 2022

RE: Review of the 2021 Annual Comprehensive Financial Report (ACFR) for the City of Detroit

Executive Summary

The Legislative Policy Division (LPD) in this memorandum provides the City Council a report on the Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2021 (2021 ACFR). A copy of the 2021 ACFR has been presented to the members of the Budget, Finance and Audit Committee for review.

We acknowledge and commend the efforts of the Office of the Chief Financial Officer (OCFO) staff for completing the 2021 ACFR on December 20, 2021 ahead of the deadline of December 31, 2021.

Plante & Moran, PLLC, the City's independent auditor, issued an unqualified ("clean") opinion for the 2021 ACFR, 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 2021 ACFR is fairly presented in all material aspects. As a result, investors, creditors, rating agencies and other interested parties reading the City's 2021 ACFR can rely on the audited financial statements and the information contained therein.

We should also note that we are referring this report as the **Annual Comprehensive Financial Report (ACFR)** instead of its previous name of the Comprehensive Annual Financial Report (CAFR). The acronym "CAFR" generally pronounced as KAFF-ur sounds like a profoundly offensive term directed at Black South Africans. The Governmental Accounting Standards Board

(GASB) recognized how harmful this acronym is; and on October 19, 2021 issued GASB Statement No. 98 which renamed this report to the Annual Comprehensive Financial Report (ACFR). The adoption of the name change is effective for fiscal years ending December 15, 2021 and after. However, GASB encouraged earlier adoption; and the City of Detroit adopted GASB Statement No. 98 as of its fiscal year ending June 30, 2021.

LPD's review of the 2021 ACFR 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 2021 ACFR focuses on City's financial position as of June 30, 2021 and how it addresses preceding questions. However, to gain a broader "high level" understanding of the 2021 ACFR from a financial perspective, LPD encourages the reader of this report to also read the "Introductory Section & Transmittal Letter" (pages i-viii of the 2021 ACFR) and the "Management Discussion and Analysis" section (pages 4-18) in the 2021 ACFR.

Highlights from the City's General Fund Financial Statements in the 2021 ACFR (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 2021 ACFR 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 resources¹ less liabilities and deferred inflows of resources²) 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 operating surplus of \$107.9 million for FY 2021, primarily due to increases in Municipal Income Tax and State Revenue Sharing revenues; and savings from reduction in expenditures and employees expenses charged to Federal CARES Act grants.

¹ 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.

² 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.

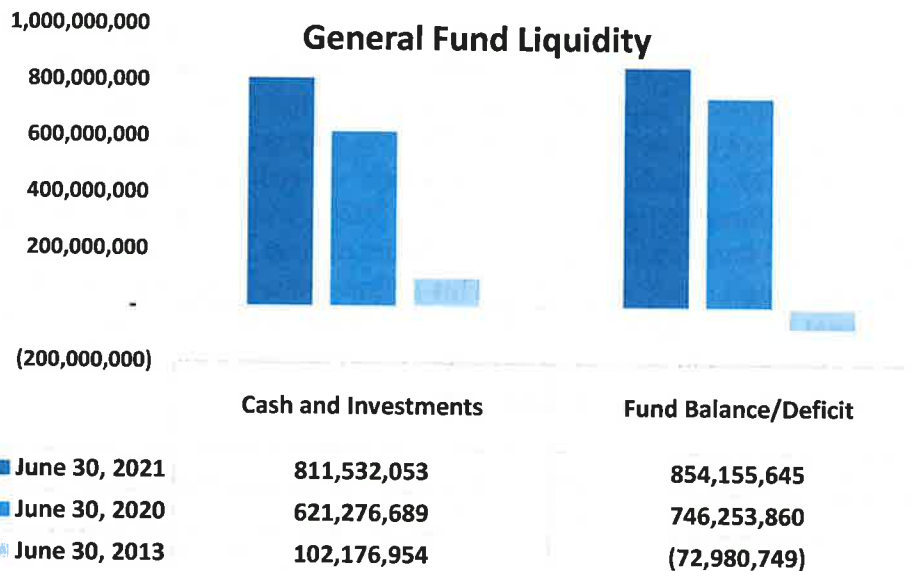
- The General Fund had an accumulated unassigned fund balance (surplus) of \$179.1 million³ at June 30, 2021, an increase of \$70.0 million from the \$109.1 million accumulated unassigned surplus at June 30, 2020. This means the City's General Fund had sufficient assets to pay its obligations at June 30, 2021. In response to the Covid-19 Pandemic during fiscal year 2020, the City took quick action⁴ to reduce employee expenses. The City initiated workforce actions on April 20, 2020, which included laying off over 200 employees and temporarily reducing the hours of over 2,000 employees. These reductions continued, in part, until April 2021. This action reduced Salaries and Wages expenses in the General Fund by approximately \$37.9 million during fiscal year 2021. The City also documented over \$34 million in expenses responsive to Covid-19 that were charged to its federal CARES Act Relief Fund grant.
- The City's General Fund assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$854.2 million. As a result, the General Fund had a total fund balance at June 30, 2021 of \$854.2 million⁵, an increase of \$107.9 million from the \$746.3 million total fund balance at June 30, 2020.
- Most of the General Fund total fund balance of \$854.2 million at June 30, 2021 is assigned for reinvestment, future liabilities, and potential risks: a) \$107.3 million for Budget Reserve; b) \$57.6 million for Risk Management Fund; and c) \$185.2 million for continuing and subsequent appropriations. In addition, a total of \$235.4 million of the fund balance is set-aside and restricted for future pension contributions (Retiree Protection Fund).
- The General Fund's cash, investments and restricted cash and investments at June 30, 2021 totaled \$811.5 million⁶. This is an increase of \$190.3 million from the \$621.3 million cash and investments balance at June 30, 2020. The graph below shows the General Fund's liquidity per cash and investments and total fund balance for fiscal years 2021, 2020, and 2013.

³ Page 24 of the 2021 ACFR. Council should be reminded that of the \$179.1 M surplus, Council previously approved the appropriation of \$57.5 M of this surplus for: \$5 M for flood response due to June 2021 rain event; \$50 M additional contribution to the Retiree Protection Fund; \$2 M for capital improvements for the Detroit Public Main Library's HVAC system; and an additional \$500,000 operating subsidy for the Detroit Historical Museum due to the impact of the COVID-19 pandemic on the museum's operations.

⁴ Page 15 of the 2021 ACFR.

⁵ Page 24 of the 2021 ACFR.

⁶ Page 23 of the 2021 ACFR.



- 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 \$811.5 million in General Fund cash and investments is sizable, the lion share of it is either obligated, restricted or assigned to a specific purpose. As a result, available cash for discretionary spending is minimal.

Highlights from the City’s Governmental-Wide Financial Statements in the 2021 ACFR (Long-term perspective):

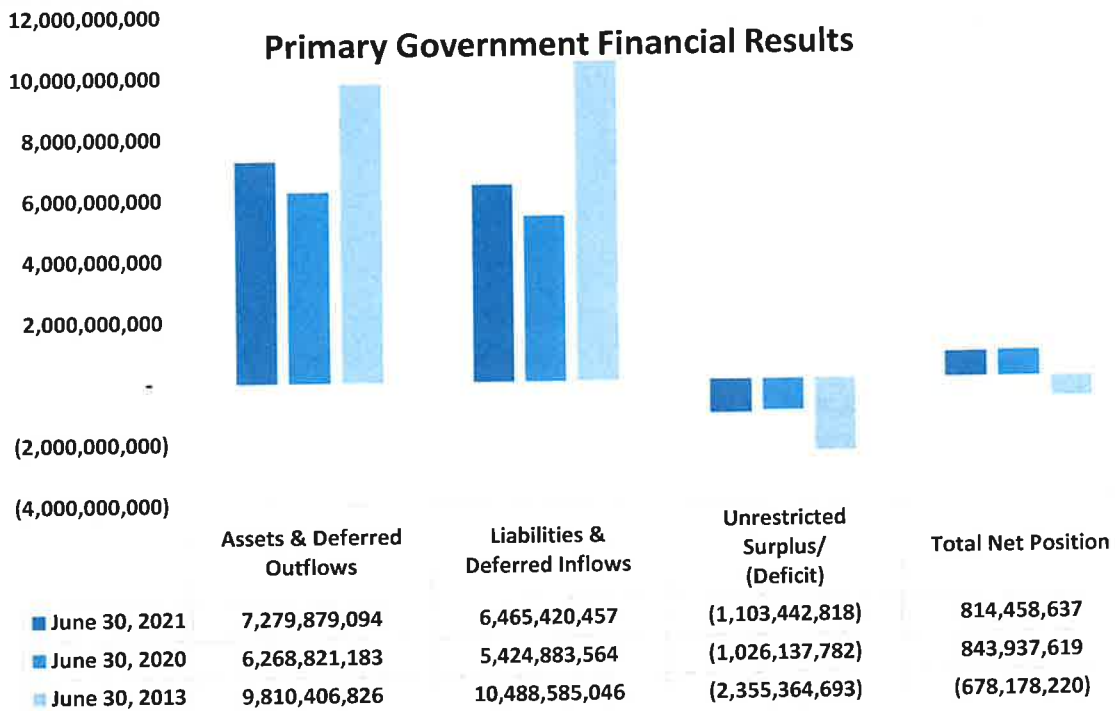
- Note: the government-wide financial statements are designed to provide readers with a broad overview of the City’s finances, in a manner similar to a private sector business. The government-wide financial statements are used to best assess the City’s citywide financial condition since their measurement 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 \$814.5 million⁷, meaning total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$814.5 million at June 30, 2021, a decrease of \$29.5 million from the \$843.9 million net position at June 30, 2020. The net position decrease was mainly due to increases in long-term obligations such as net pension liability.

⁷ Page 20 of the 2021 ACFR.

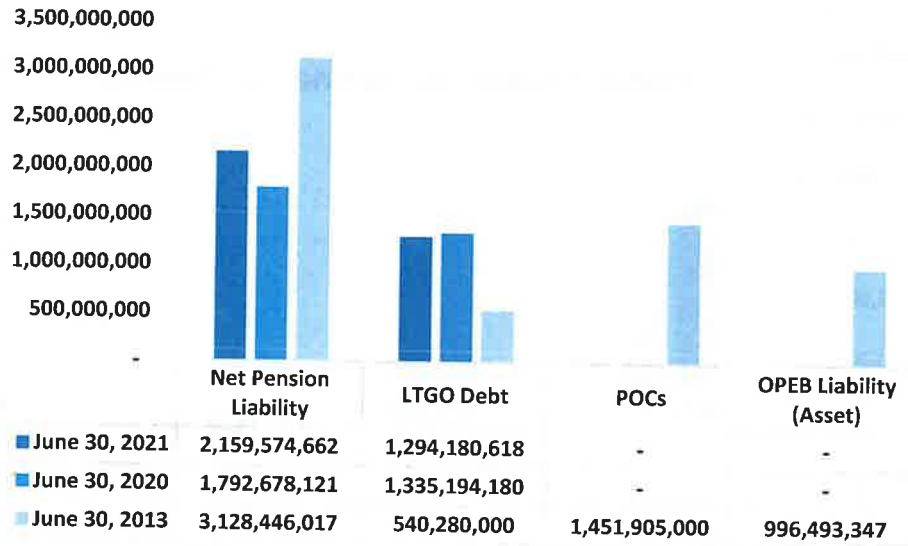
- The graph below shows the primary government's financial results for fiscal years 2021, 2020 and 2013.



- 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 the Great Lakes Water Authority (GLWA), which included \$5.1 billion of revenue bonds.⁸
- As the above graph shows, the primary government's unrestricted net position deficit was \$1.1 billion, 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, 2021. This was mainly due to the City's large legacy pension and debt obligations which are detailed below for fiscal years 2021, 2020, and 2013.

⁸ Page 122 of the 2016 CAFR.

Primary Government Legacy Debt Burden



- The City’s net pension liability of \$2.159 billion and \$1.294 billion of LTGO (Limited Tax General Obligation) debt⁹ are 34% and 20%, respectively, of the primary government’s total liabilities of \$6.418 billion¹⁰ on June 30, 2021. 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 Liability¹¹) 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 OCFO projections, the General Fund annual anticipated legacy pension contributions starting in FY2024 are projected to be \$140 million¹² based on 30-year amortization period. However, we should note that the Investment Committee for the Police and Fire Retirement System (PFRS) adopted 20-year amortization period in November 2021 and if the General Retirement System’s (GRS) Investment Committee adopts 20-year amortization period, then OCFO’s latest projected General Fund annual legacy pension contributions would be \$170 million¹³. Fortunately, OCFO has taken action to mitigate the required pension contributions in 2024 by setting aside \$235.4 million from General Fund surpluses in the Retirement Protection Trust Fund as of June 30, 2021.

⁹ Limited Tax General Obligation (LTGO) debt is typically paid from General Fund revenues. Unlimited Tax General Obligor (UTGO) debt is typically paid from a property tax debt millage that was approved by the voters.

¹⁰ Page 20 of the 2021 ACFR.

¹¹ The Unfunded Actuarial Accrued Liability (UAAL) represents the amount of actuarially accrued liabilities greater than the actuarially value of assets of a pension plan.

¹² Slide 13 of Detroit City Council Orientation presentation on December 3, 2021.

¹³ Slide 14 of Detroit City Council Orientation presentation on December 3, 2021.

- Of the primary government's \$2.160 billion net pension liability at June 30, 2021, \$959.0 million was attributable to the General Retirement System (GRS), and \$1.201 billion was attributable to the Police and Fire Retirement System (PFRS)¹⁴. The primary government's net pension liability significantly increased by \$366.9 million from the \$1.793 billion balance on June 30, 2020 mainly due to low return on pension investments. We should note that the Retirement Systems returns on investment improved significantly in fiscal year 2021. However, the actuary reports lag the annual financial statements and these improvements will not be reflected in the estimated pension liability until 2021 reports are issued. This report is always one year behind.
- Of the GRS primary government net pension liability of \$959.0 million, \$943.4 million was attributable to the GRS legacy Component II pension plan, and \$15.6 million to the new Component I (per the bankruptcy) pension plan. The GRS legacy Component II pension plan was 59.2% funded as of June 30, 2020.¹⁵
- Of the PFRS net pension liability of \$1.201 billion, all of it was attributable to the PFRS legacy Component II pension plan. The new PFRS Component I (per the bankruptcy) pension plan had \$28.0 million net pension asset, meaning pension system's fiduciary net position exceeds pension system's total pension liability. The PFRS legacy Component II pension plan was 66.8% funded as of June 30, 2020.¹⁶
- The General Retirement System (GRS) Legacy Pension Fund (Component II) had total expenditures of \$240.8 million for the year ended June 30, 2021¹⁷. The total Net Position of the fund was \$1.833 billion at June 30, 2021, an increase of \$225.0 million from the prior year¹⁸. The GRS Legacy Pension Fund has a high payout ratio (1:7.6) compared to its net position, meaning if GRS pension expenditures continue at this rate, total GRS pension net position would be depleted in approximately 7 years and 7 months. As of June 30, 2021, the Net Pension Liability for the GRS Legacy Pension Fund was \$1.102 billion¹⁹ (including portions allocated to the Library and GLWA).
- The Police and Fire Retirement (PFRS) Legacy Pension Fund had total expenditures of \$302.9 million for the year ended June 30, 2021²⁰. The total Net Position of the fund was \$2.755 billion at June 30, 2021, an increase of \$333.0 million from the prior year²¹. The PFRS Legacy Pension Fund has a lower payout ratio (1:9.0), meaning the total PFRS pension net position would be depleted in approximately nine years at this rate of PFRS pension expenditures than the GRS Legacy Pension Fund, but it is still of concern. The Net

¹⁴ Pages 103-104 of the 2021 ACFR.

¹⁵ Pages 129-132 of the 2021 ACFR, Schedule of Changes in Net Pension Liability

¹⁶ Ibid.

¹⁷ FY2021 GRS (Component II) Statement of Changes in Fiduciary Net Position, line Total Deductions on page 10 (Defined Benefit Fund and Income Stabilization).

¹⁸ Ibid

¹⁹ Page 129 of the 2021ACFR. Per page 96 of the 2021 ACFR, as permitted by GASB No. 68, the City has chosen to use June 30, 2020 as its measurement date for the net pension liability (asset) for its fiscal year 2021 financial statements.

²⁰ FY2021 PFRS (Component II) Statement of Changes in Fiduciary Net Position, line Total Deductions on page 10 (Defined Benefit Fund and Income Stabilization).

²¹ Ibid

Pension Liability for the PFRS Legacy Pension Fund was \$1.201 billion as of June 30, 2020.²²

- The City's pension obligations are a burden that have to be closely monitored by the Administration and the City Council.
- The primary government (citywide) had \$2.283 billion in total revenue for the year ended June 30, 2021, an increase of \$127.8 million from the prior fiscal year. The primary government had \$2.312 billion in total expenses for the year ended June 30, 2021, an increase of \$129.9 million from the prior fiscal year. As a result, total primary government expenses exceeded total revenues by \$29.5 million. In the prior fiscal year 2020, total primary government revenues exceeded total expenses by \$27.4 million.

Highlights from the City's Enterprise Fund Financial Statements in the 2021 ACFR (Long-term perspective):

- The City's enterprise funds²³ had a net position of \$1.262 billion at June 30, 2021, a decrease of \$21.0 million from the \$1.283 billion net position at June 30, 2020. The enterprise fund cumulative unrestricted net position totaling \$705.9 million in FY 2021, a decrease of \$53.8 million from the \$759.7 million in FY 2020.
- In FY 2021 Water and the Sewage Disposal Funds had unrestricted net positions of \$444.5 million and \$553.7 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 decreased \$12.5 million for Water and \$167,900 for Sewage in FY 2021 from the prior year.
- While the Water and Sewage Disposal Funds have large unrestricted net positions at June 30, 2021, 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 lease payment from GLWA, will provide a significant amount of the funding for both Funds' capital, infrastructure, and debt obligation needs.
- In FY 2021, the Water Fund had negative (Deficit) change in net position of \$3.3 million²⁴ and the Sewage Disposal Funds had positive net income (Change in Net Position) of \$12.8 million.²⁵
- As we reported in prior fiscal years, the lease receivable from GLWA on DWSD's financial statements does not agree with the lease payable on GLWA's audited financial statements. GLWA shows the lease to be \$23.4 million less than DWSD's for the Water Fund and

²² Page 130 of the 2021ACFR. Per page 96 of the 2021 ACFR, as permitted by GASB No. 68, the City has chosen to use June 30, 2020 as its measurement date for the net pension liability (asset) for its fiscal year 2021 financial statements.

²³ The 2021 ACFR classifies "enterprise funds" as "business-type activities" in the City's government-wide financial statements.

²⁴ Page 31 of the 2021 ACR.

²⁵ Ibid.

\$28.6 million less for the Sewage Disposal Fund.²⁶ GLWA and DWSD use different discount rates which causes the difference in the reported amounts. LPD raised this issue with DWSD in prior fiscal years reports and as stated in attachment V from our FY2020 review questions and department's answer, the department neither plans using GLWA's discount rate nor adjusting down the lease receivable balances. Detailed below is the difference.

	in Millions					
	Water			Sewer		
	DWSD	GLWA	Difference	DWSD	GLWA	Difference
Receivable From GLWA	\$ 434.7	411.2	23.4	\$ 531.3	502.6	28.6

- As of June 30, 2021, the Sewage Disposal Fund shows a balance of \$8.3 million in a liability account entitled "shortfall loan payable to Great Lakes Water Authority".²⁷ The balance in this liability as of June 30, 2021 decreases by \$18.2 million from the balance as of June 30, 2020. 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.²⁸
- **The City needs to closely monitor 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, 2021²⁹ of \$307.8 million, a \$19.7 million increase from the \$288.1 million deficit on June 30, 2020, mainly due to an increase of \$34.6 million in net pension liability. The General Fund contributed \$31.7 million in subsidies to the Transportation Fund in FY 2021³⁰, which is \$14.2 million less than the General Fund contribution of \$45.9 million made in FY 2020.
- The Public Lighting Authority of Detroit (the "PLA") had a \$39.0 million net position at June 30, 2021³¹, a decrease of \$576,171 from the \$39.5 million on June 30, 2020. In addition, the City provided a subsidy of \$10.4 million to the PLA³². The PLA had an unrestricted net position of \$19.7 million in the FY 2021 ACFR. The PLA also receives \$12.5 million annually in utility users' tax transfers from the City to pay future debt

²⁶ Page 17 of DWSD FY 2021 audited financial statements, Note 4 and page 71 of GLWA's FY 2021 audited financial statements, Note 14.

²⁷ Page 29 of the 2021 ACFR

²⁸ Note 20. Subsequent Events on page 76 of the 2018 GLWA CAFR.

²⁹ Page 29 of the 2021 ACFR.

³⁰ Page 66 of the 2021 ACFR, Note 5, Interfund Receivables, Payables and Transfers.

³¹ Page 30 of the 2021 ACFR.

³² Page 66 of the 2021 ACFR, Note 5, Interfund Receivables, Payables and Transfers.

obligations. The PLA has \$24.1 million³³ set aside for future debt obligations and this amount is shown as restricted for debt service.

- Nonmajor Enterprise Funds represent the Airport Fund. The Airport Fund had a \$4.3 million unrestricted deficit net position at June 30, 2021³⁴, an increase deficit of \$2.0 million from the \$2.3 million unrestricted deficit net position on June 30, 2020. The General Fund subsidy to the Airport decreased approximately \$3.4 million to \$1.8 million for FY 2021 from the \$5.3 million in FY 2020.
- The 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 2021 ACFR. The Employee Benefit Plan Fund had a \$2.5 million net position at June 30, 2021. The Disability Income Protection Plan Fund had a \$1.1 million net position at June 30, 2021. 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 strengthened³⁵. However, the COVID-19 pandemic has brought serious challenges that the Administration and City Council have diligently worked together; and will have to keep monitoring and react to quickly if necessary:

- *The City now has achieved a balanced budget for the seventh consecutive year.* While the Finance Review Commission (FRC) has no active role any longer, it will continue to exist for some time. Michigan Act 181 of 2014, provides for the oversight of the City for no less than 13 years.³⁶ However, the nature of the oversight is scaled back. 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 meets other basic fiscal requirements, the FRC will stay inactive for the rest of its existence.
- We should note, however, even though the City has achieved operating surpluses in every fiscal since FY 2015, the level of surplus has been diminishing (except FY 2019 and FY 2021). Detailed below are the General Fund surpluses for FY 2015-2021:

³³ Page 29 of the 2021 ACFR.

³⁴ Page 30 of the 2021 ACFR.

³⁵ Most of the information in this section is from pages iv and viii of the 2021 ACFR.

³⁶ 2021 ACFR, Note 13, pages 119-120

○ General Fund surplus for FY 2015	\$384.3 million ³⁷
○ 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
○ General Fund surplus for FY 2020	\$ 54.2 million
○ General Fund surplus for FY 2021	\$ 107.9 million

- Over the past few 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 25% over seven years (\$316.0 million in FY 2021 compared to \$253.8 million in FY 2014). This 25% increase would have been much higher without the COVID-19 pandemic impact on non-resident remote work income tax revenue loss.
- The Property tax collection rate has increased to 85% in FY 2021³⁸ compared to 69% in FY 2014.
- In February 2018³⁹, the Office of the Chief Financial Officer (OCFO) established an Administrative Issuance System, which includes key policies, process flows, standard operating procedures, and detailed work instructions for all operations within OCFO.

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 2021 ACFR:

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 ACFR⁴⁰ and the statistical section⁴¹ of the ACFR. LPD highly recommends readers of this report review both of above-mentioned sections of the fiscal year 2021 Annual Comprehensive Financial Report (ACFR).

³⁷ 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.

³⁸ Page 206 of the FY 2021 ACFR, Schedule 8 Revenue Capacity – Property tax Levies and Collections.

³⁹ Current listing of all policies is available at: <https://detroitmi.gov/departments/office-chief-financial-officer/administrative-issuance-system>

⁴⁰ Pages i to viii of the 2021 ACFR.

⁴¹ Pages 189 to 220 of the FY2021 ACFR (Statistical section).

- History of total primary government net position:⁴²
 - FY 2021 \$ 814.5 million
 - FY 2020 \$ 843.9 million
 - 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:⁴³
 - FY 2021 \$179 million unassigned surplus; \$854 million total general fund balance
 - FY 2020 \$109 million unassigned surplus; \$746 million total general fund balance
 - 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 continue to improve post COVID-19.⁴⁴

The following represent economic and fiscal risks that should be considered:

- Slower casino revenue than expected due to COVID-19 closures.
- Larger than anticipated nonresident income tax revenue loss due to remote work.
- Longer lasting changes in economic activity due to workplace and behavior changes post COVID-19 pandemic.
- Future state and federal budget pressures causing reductions in local funding.

⁴² Pages 191 to 192 of the 2021 ACFR.

⁴³ Pages 197 to 198 of the 2021 ACFR.

⁴⁴ Fiscal risks and potential opportunities are from the September 2021 Detroit Revenue Estimating Conference Report, which can be accessed at: https://detroitmi.gov/sites/detroitmi.localhost/files/migrated_docs/financial-reports/Sept2021RevenueEstimatingConferenceReportFINAL.pdf

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

- Residential, commercial, and industrial development activity throughout the City.
- Workforce development and labor force participation gains.
- Ongoing improvements in income tax audit and enforcement.
- Additional state and federal fiscal relief, economic stimulus, and infrastructure investment.

Other highlights/observations from the Review of the 2021 ACFR:

Below are additional observations from LPD’s review of the 2021 ACFR.

- In Note 14 of the 2021 ACFR, the City disclosed the programs and the estimated amount of taxes abated during FY 2021, which was \$38.8 million, a decrease of \$351,146 from the \$39.1 million on June 30, 2020. Listed below is a comparison of the taxes abated in fiscal years 2021 and 2020.

Program	Legislation	Abatement Amount			Comment
		2021	2020	Difference	
		Total Taxes	Total Taxes	Total Taxes	
Brownfield Redevelopment Act (BRA)	PA 381 1996	\$ 1,766,515	\$ 1,402,168	\$ 364,347	Cleanup of Environmental Issues
Industrial Facilities Act (IFT)	PA 198 1974	495,522	646,351	(150,829.00)	Redevelopment of Facility
Commercial Rehabilitation Act (CRA)	PA 210 2005	3,088,124	2,644,724	443,400.00	Rehabilitation of Qualified Facility
Commercial Redevelopment Act (CFT)	PA 255 1978	272,794	249,457	23,337.00	Redevelopment of Commercial Property
Renaissance Zone Act (RZ)	PA 376 1996	5,503,761	8,454,372	(2,950,611.00)	Economic Development in Designated Area
Obsolete Property Rehab Act (OPRA)	PA 146 2000	2,174,442	2,864,604	(690,162.00)	Redevelopment of Obsolete and Blighted Buildings
Neighborhood Enterprise Zone (NEZ)	PA 147 1992	8,026,299	7,112,526	913,773.00	Financial Investment in Property
Land Bank Fast Track Act (LB)	PA 258-263 2003	1,100,819	1,071,669	29,150.00	Improvement of Property
Eligible Manf. Personal Property (EMPP)	PA 328 1998	8,975,210	8,576,108	399,102.00	Exempts Personal Property from Tax
Sr. Citizen/Disabled Fam. Hous. Exempt.	PA 78 2016	160,674	126,052	34,622.00	Provide & manage Sr. Citizen & Disabled Family Hou
MSHDA	PA 346 1966	7,230,649	5,997,924	1,232,725.00	Provide & Manage Low-Income Housing
Totals		\$ 38,794,809	\$ 39,145,955	\$ (351,146)	

- The Solid Waste Fund had a \$35.1 million Fund Balance at June 30, 2021 compared to a \$43.5 million fund balance on June 30, 2020. In addition, the Street Fund had a \$94.7 million fund balance at June 30, 2021. As LPD report in prior fiscal years, 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 of our FY2021 ACFR report, we asked OCFO what methodology will be explored to ensure these Special Revenue Funds are reimbursing the General Fund for reimbursable costs. OCFO stated that a cost allocation process was being worked on and should be completed before June 30, 2021; and we will follow up with OCFO in our questions section.
- As of June 30, 2021, the City lacked proper controls to ensure compliance with laws and regulations⁴⁵. The City was not in compliance with the State of Michigan Public Act 2 of 1968, Uniform Budgeting and Accounting Act, Section 141.438(3), which requires the City not to incur expenditures against an appropriation account in excess of the amount appropriated by the City Council. In addition, the City was not in compliance with the distribution of taxes, as stated in MCL 211.43 (Section 43(3) of the General Property Tax Act, 1893 PA 206, as amended). Section 211.43 (3)(a) of the tax act states that property taxes must be remitted within 10 business days after the 1st and 15th day of each month.

⁴⁵ Page 57 of the 2021 ACFR, note 2.

- As LPD noted in prior fiscal years, the Management’s Discussion and Analysis (MD&A) in the 2021 ACFR was not sufficiently detailed to explain major variances and other relevant financial information. As a result, we have unanswered questions concerning major changes to the City’s assets, liabilities, revenues and expenses for the year ended June 30, 2021. In the questions section of our report we are asking the OCFO to explain the significant changes in FY 2021 so we can gain better knowledge of the City’s financial condition on June 30, 2021.

Introduction:

The Budget, Finance and Audit standing committee is in the process of reviewing and analyzing the 2021 ACFR; and the Legislative Police Division (LPD) provides this report to facilitate the committee’s review of the 2021 ACFR.

The 2021 ACFR was issued on December 20, 2021 before the deadline of December 31, 2021. LPD acknowledges and commends the efforts of the OCFO (Office of the Chief Financial Officer) staff to complete the 2021 ACFR before the deadline for third consequent year.

Independent Auditor’s Report on the City’s 2021 ACFR:

The City’s independent auditor, Plante & Moran PLLC gave the City’s 2021 audited financial statements and related notes to the financial statements included in the 2021 ACFR 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, 2021 in accordance with U.S. generally accepted accounting principles. As a result, investors, creditors, rating agencies and other interested parties reading the City’s 2021 ACFR 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 2021 ACFR:

The table below represents LPD’s focus while reviewing the City’s 2021 ACFR.

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?

Highlights from the City’s General Fund Financial Statements in the 2021 ACFR (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?”

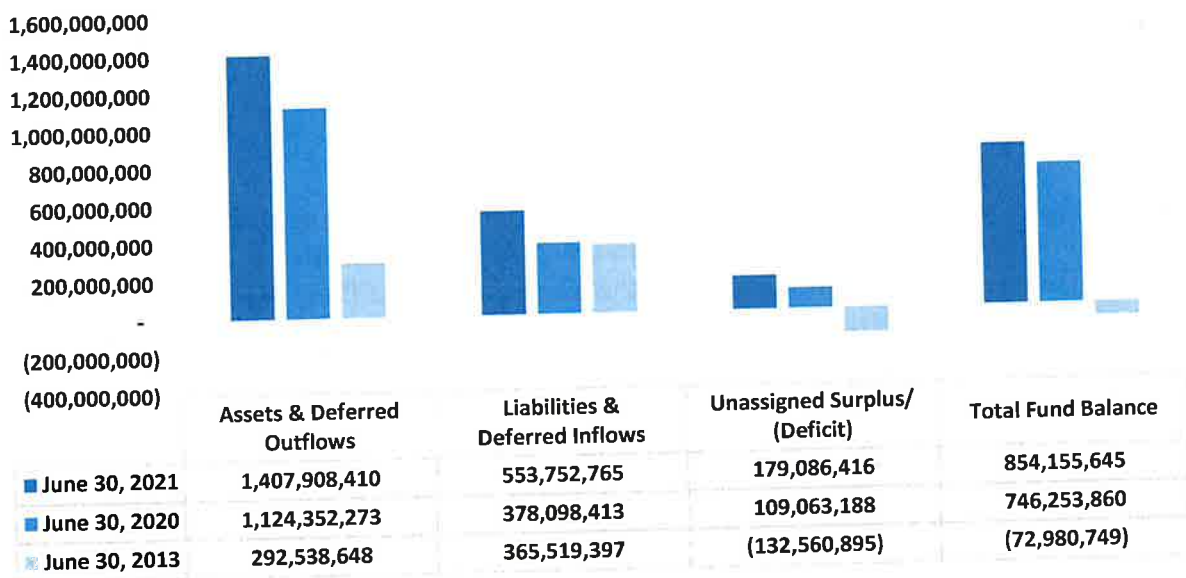
The chief governmental fund is the general fund. The general fund financial statement is based on modified accrual accounting, which means that the general fund also represents the City’s check book of receipts and disbursements for the day to day operations to provide the City’s most basic services (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 2021 Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances compared to FY 2020 and FY 2013. These statements show the City’s General Fund’s financial condition: pre-bankruptcy (FY 2013); and post-bankruptcy (FY 2021 and FY 2020). The following analysis of Attachments I and II provides details on the major issues and variances for the General Fund in the FY 2021 ACFR when compared to FY 2020 and FY 2013.

General Fund Bankruptcy Impact as of June 30, 2021. 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 and its financial health is improving. The future outlook for the City’s financial health is relatively good as of June 30, 2021. However, there are still many issues such as the COVID-19 pandemic impact, legacy pension and debt obligations, population loss, 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 \$854.2 million in FY 2021, an increase of \$927.1 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 \$854.2 million at June 30, 2021, an increase of \$107.9 million from the \$746.3 million balance at June 30, 2020⁴⁶. The following chart reflects the change in fund balance.

General Fund Balance Summary			
(in millions)			
	2021	2020	2013
Nonspendable:			
Prepays and long-term Advances	\$ 62,179,558	77,939,197	4,050,006
Restricted for:			
Capital Acquisitions	-	-	979,826
Retiree Protection Trust	235,354,491	184,724,028	
QOL Program	-	2,727,880	
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	107,280,192	107,280,192	
Continuing Appropriations	-	85,678,097	
Subsequent Appropriations	71,877,818	77,381,658	
Blight and Capital	113,274,123	-	
Risk Management Operations	37,603,047	53,959,620	
Unassigned:			
General Fund Surplus	179,086,416	109,063,188	(132,560,895)
Total Fund Balances (Deficit)	\$ 854,155,645	746,253,860	(72,980,749)

The \$107.9 million increase in the fund balance in FY 2021 to \$854.2 million was mainly due to use of federal CARES Act grant to soften the General Fund burden regarding the COVID-19 pandemic. The General Fund non-spendable, restricted and assigned fund balances increased \$37.9 million in FY 2021 from the prior year. This was due to: (1) \$15.8 million decrease in non-spendable for pre-pays and long-term advances; (2) \$50.6 million increase in restricted for retiree protection trust due to the City's contribution to the Retiree Protection Trust Fund and interest earned on the fund's assets; (3) \$2.7 million decrease in Quality of Life bankruptcy exit financing proceeds used for capital projects; (4) \$22.1 increase in continuing and subsequent appropriations; and (5) \$16.4 decrease in Risk Management reserve.

The fund balance committed for the Risk Management operations was \$20.0 million in FY 2021 in accordance with the City ordinance that requires a minimum \$20.0 million fund balance for that fund. An additional \$37.6 million fund balance is assigned for Risk Management operations' projected future payments.

The fund balance assigned for Continuing and Subsequent Appropriations was \$185.2 million and will fund additional approved appropriations in FY 2022. The fund balance assigned for Retiree Protection Trust was \$235.4 million and is set aside in the Retiree Protection Trust Fund to help stabilize City pension contributions beginning in FY 2024 when per the Plan of Adjustment (POA)⁴⁷ the City must begin to fund the legacy pension systems (Component II).

⁴⁶ Page 24 of the 2021 ACFR and page 24 of the 2020 CAFR.

⁴⁷ On November 7, 2014, the Honorable Judge Steven W. Rhodes of the U.S. Bankruptcy Court of Eastern District of Michigan Southern Division confirmed the Eight Amended Plan for the Adjustment of Debts of the City of Detroit, a/k/a the "Plan of Adjustment" or "POA". Through this plan, approximately \$7 billion of the City's outstanding \$18 billion in liabilities were eliminated; and through financial reforms contained in the plan, the City is able to invest approximately \$1.7 billion in several reinvestment and restructuring initiatives ("RRIs") over ten years to help improve

The total increase in fund balance of \$107.9 (revenues less expenditures and other financing sources and uses) was offset by the \$37.9 million increase in the General Fund non-spendable, restricted and assigned fund balances, as described above.⁴⁸

General Fund Surplus. The General Fund had an accumulated unassigned fund balance (surplus) of \$179.1 million at June 30, 2021 an increase of \$70.0 million from the \$109.1 million accumulated surplus on June 30, 2020; and an increase of \$311.7 million from the \$132.6 million accumulated deficit on June 30, 2013.

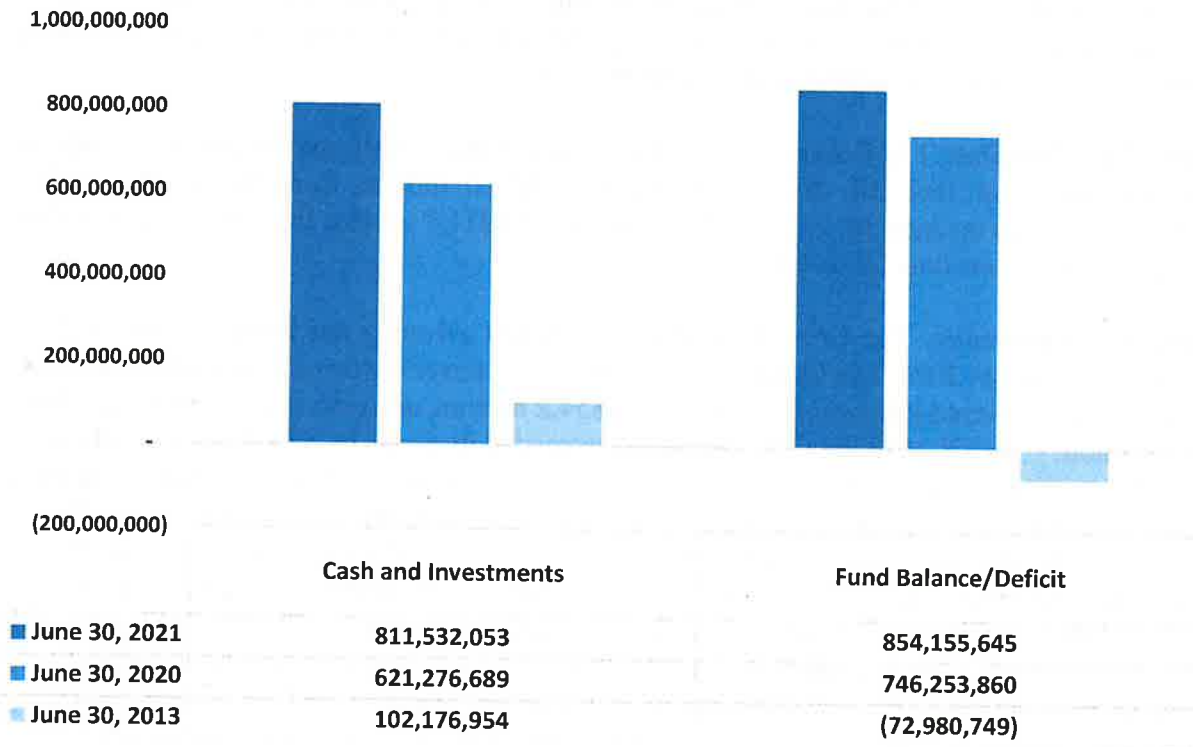
General Fund Solvency. The General Fund's liquidity and solvency was better at June 30, 2021 than it was on June 30, 2020. The General Fund assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$854.2 million, and cash and investments totaled \$811.5 million.⁴⁹ 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 by 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 safety 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.

the City government's infrastructure and the provision of services. These RRI's are designed to "substantially improve and provide adequate levels of services, as well as enhance revenue and reduce costs". Source on the impact of the plan: Supplemental Opinion Regarding Plan Confirmation, Approving Settlements, and Approving Exit Financing, filed by Judge Rhodes on December 31, 2014.

⁴⁸ Pages 23, 24, 26 and 27 of the 2021 ACFR, Attachment I and Attachment II.

⁴⁹ Page 23 of the 2021 ACFR.

General Fund Liquidity



An additional cautionary note regarding General Fund liquidity is warranted. Although \$811.5 million in General Fund cash and investments as of June 30, 2021 is sizable, the lion share of it is either obligated (there is \$219.3 million General Fund liabilities as of June 30, 2021⁵⁰), restricted (for instance there was \$27.5 million in unspent exit financing bond proceeds restricted for debt services as of June 30, 2021 that at some point will be spent) or assigned (for instance \$107.3 million represents the budget reserve and another \$235.4 million represents the City's contributions to the Retiree Protection Trust Fund as of June 30, 2021) to a specific purpose. As a result, available cash for discretionary spending is minimal.

General Fund Cash. A total of \$318.2 million⁵¹ of restricted cash was included on the General Fund's balance sheet on June 30, 2021 compared to \$280.4 million on June 30, 2020. The General Fund had \$811.5 million of cash on June 30, 2021, which included \$318.3 million of restricted cash compared to \$621.3 million of cash on June 30, 2020 including the \$280.4 million of restricted cash.

General Fund Advances to Other Funds. Advances to other funds were \$45.1 million on June 30, 2021 a decrease of \$1.4 million from the \$46.4 million on June 30, 2020. 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 \$13.2 million on June 30, 2021, a decrease of \$10.1 million from the \$23.3 million on June 30, 2020, due primarily to a decrease in the City's advance to the Detroit Land Bank Authority.

⁵⁰ Page 23 of the 2021 ACFR.

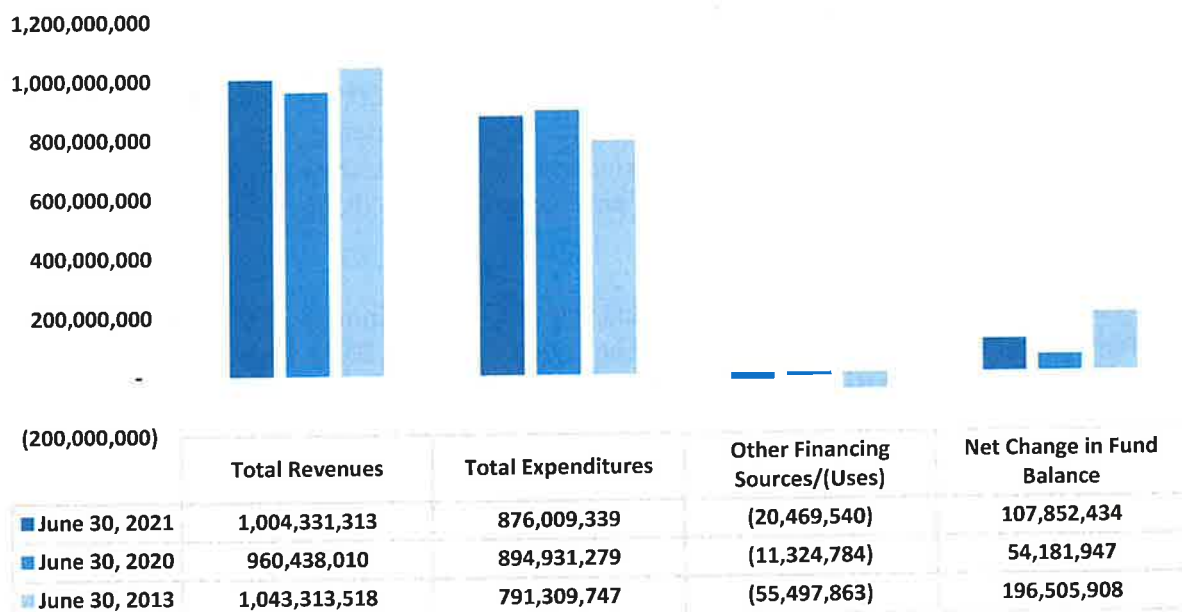
⁵¹ Ibid.

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. Total amount of delinquent property tax to Wayne County was not disclosed in the FY 2021 ACFR. The City disclosed this information for fiscal years FY 2019 and prior; LPD inquired about this omission and OCFO stated that there is no GASB and State requirement to disclose it.

General Fund Deferred Inflows of Resources. The deferred inflows of resources was \$334.4 million on June 30, 2021, an increase of \$121.7 million from the \$212.7 million on June 30, 2020.⁵² It includes various revenues that cannot be recognized, 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.⁵³ This amount includes \$158.3 million due from the DIA and Foundations per the “Grand Bargain” in the Plan of Adjustment which cannot be recognized as revenue. 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 2021, 2020, and 2013.

General Fund Net Change in Fund Balance



The General Fund’s total revenues increased \$43.9 million in FY 2021 mainly due to increases in: (1) Municipal income tax revenue (\$26.0 million); (2) Wagering tax revenues (\$4.3 million); and (3) State shared revenue (\$32.3 million). The \$107.9 million net change in fund balance for the

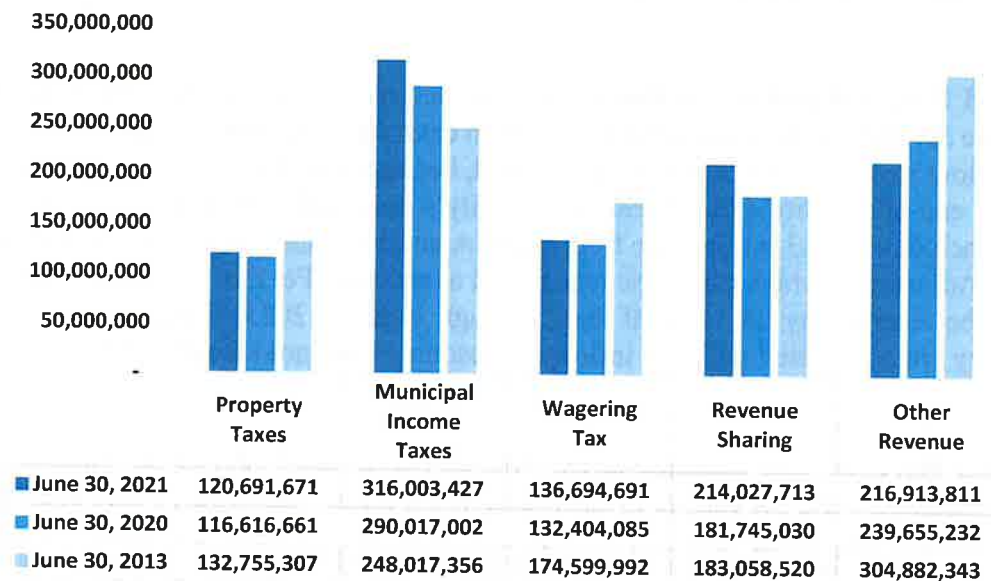
⁵² Page 23 of the 2021 ACFR and Page 23 of the 2020 CAFR.

⁵³ Pages 49 and 50 of the 2021 ACFR, Measurement Focus and Basis of Accounting, Note 1.

year ended June 30, 2021 was the seventh straight year since the exit from bankruptcy that the General Fund had an operating surplus.

The table below details the major sources of General Fund revenue for fiscal years 2021, 2020, and 2013.

Major Sources of General Fund Revenues



General Fund Municipal Income Tax. Municipal income tax revenue was \$316.0 million for the year ended June 30, 2021, an increase of \$26.0 million from the \$290.0 million for the year ended June 30, 2020. This increase was mainly due to improved collection and enforcement efforts⁵⁴ by OCFO and it would have even been higher without the nonresident remote work income tax revenue loss due to the COVID-19 pandemic. In the questions section we are asking the OCFO to provide any other factors that may have contributed to the increase in the municipal income tax revenue in FY 2021.

General Fund Wagering Tax. The wagering tax was \$136.7 million for FY 2021, an increase \$4.3 million from the \$132.4 million for the year ended June 30, 2020. Due to the COVID-19 pandemic, the three Detroit casinos closed from March 16, 2020 to August 5, 2020 and again from November 18, 2020 to December 23, 2020, suspending all activities that generate wagering tax revenue during those periods. When the casinos re-opened, it was at various degrees of reduced capacity until June 22, 2021. The impact of the closures was partially mitigated through the approval of internet gaming and sports betting in late January 2021. Internet gaming is taxed at a graduated rate from 20% to 28% on adjusted gross receipts, with the City receiving 30% of tax revenue.⁵⁵

General Fund State Local Community Stabilization Authority. In FY 2019 and after, the State Local Community Stabilization Authority revenue is classified as an intergovernmental revenue by the City and the City reported \$9.9 million in FY 2021. This was for the State's reimbursement

⁵⁴ Page 15 of the 2021 ACFR, Management's Discussion and Analysis.

⁵⁵ Ibid

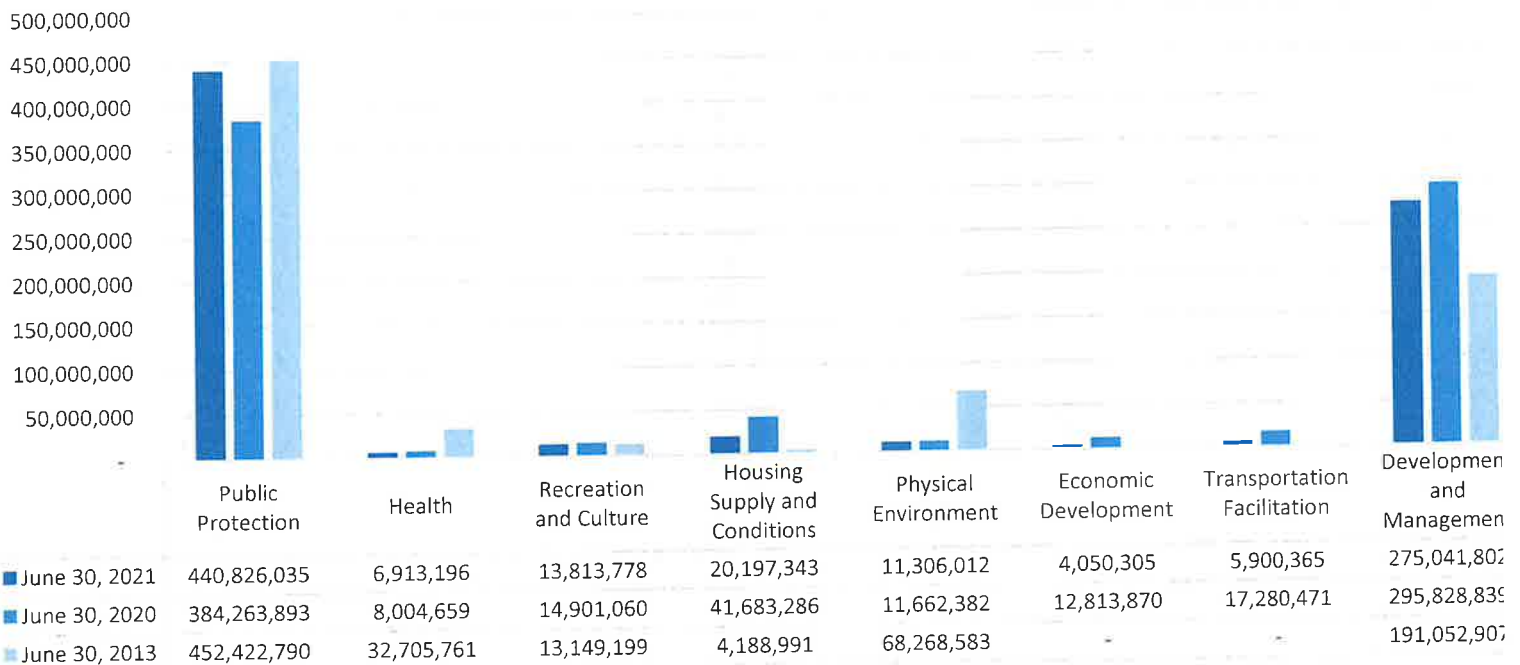
of the City's share of personal property taxes that were phased out by the State law passed in 2014. The City had reported these revenues as property tax revenue in fiscal years FY 2018 and prior.

General Fund DIA and Foundation Revenue. The DIA and Foundation revenue was \$18.7 million for the year ended June 30, 2021 and no change from previous fiscal year.

General Fund Expenditures. General Fund expenditures totaled \$876.0 million in FY 2021, a decrease of \$18.9 million from the \$894.9 million total in FY 2020. The largest changes in expenditures for FY 2021 were: (1) increase of \$56.6 million in public protection; (2) decrease of \$8.8 million in economic development; (3) decrease of \$11.4 million in transportation facilitation; (4) decrease of \$21.5 million in Housing Supply and Conditions; (5) decrease of \$20.8 million in development and management; (6) increase of \$6.7 million in debt service (interest and principal); and (7) decrease of \$15.6 million in capital outlay.

The table below details the major sources of General Fund expenditures for fiscal years 2021, 2020, and 2013.

General Fund Expenditure Detail



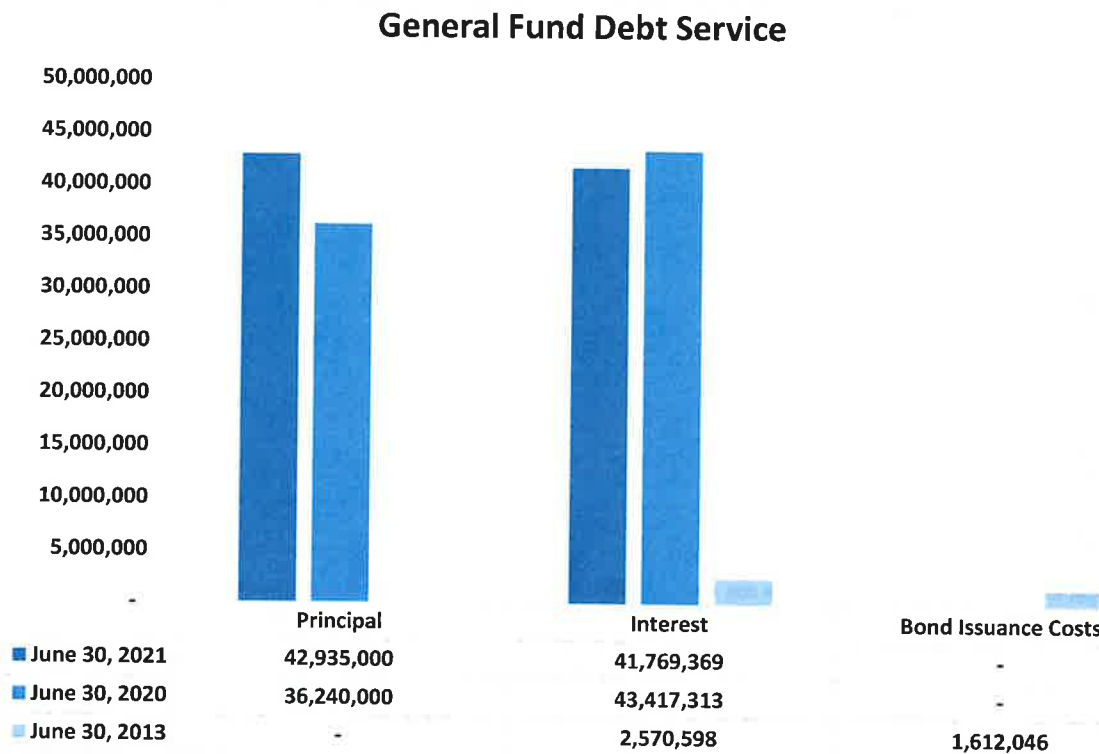
General Fund Public Protection Expenditures. Public protection expenditures were \$440.8 million in FY 2021, an increase of \$56.6 million from the \$384.3 million in FY 2020. In the questions section we ask the OCFO to explain the decrease in public protection expenses.

General Fund Development and Management Expenditures. Development and management expenditures were \$275.0 million in FY 2021, a \$20.8 million decrease from the \$295.8 million in FY 2020. In the questions section we ask the OCFO to explain the decrease in development and management expenses.

General Fund Housing Supply and Conditions Expenditures. Housing supply and conditions expenditures were \$20.2 million in FY 2021, a decrease of \$21.5 million from the \$41.7 million in FY 2020. This appears to be due to decrease in blight and demolition costs paid by the General Fund in FY 2021. In the questions section we ask the OCFO to explain the decrease in housing supply and conditions expenses.

General Fund Transportation Facilitation Expenditures. Transportation facilitation expenditures were \$5.9 million in FY 2021, a decrease of \$11.4 million from the \$17.3 million in FY 2020. In the questions section we ask the OCFO to explain the decrease in transportation facilitation expenses.

General Fund Debt Service. The following chart details the General Fund debt service for fiscal years 2021, 2020, and 2013.



General Fund Principal Expense. Principal expense was \$42.9 million in FY 2021, an increase of \$6.7 million from the \$36.2 million in FY 2020. The increase appears to be due to \$10.6 million increase in principal repayment for 2016 B and C Limited Tax General Obligation Bonds (LTGO).⁵⁶

General Fund Proceeds. General Fund proceeds from bonds and notes were \$5.8 million in FY 2021. This was project borrowing financing for Joe Louis Arena (JLA) demolition.

⁵⁶ Based on LPD’s review of the Oracle General Ledger activity.

General Fund Subsidies Included in Transfers Out. In FY 2021, the General Fund transferred \$45.9 million to other funds. The largest transfer from the General Fund was made to the Transportation Fund for \$31.7 million, follow by \$10.4 million to the Public Lighting Authority.⁵⁷

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. The FRC voted unanimously to end active oversight after the City delivered its third consecutive audited balanced budget⁵⁸.

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.

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 fourth annual waiver on June 28, 2021, which extends through June 30, 2022.⁵⁹

Highlights from the City’s Government-Wide Financial Statements in the 2021 ACFR (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.,

⁵⁷ Page 66 of the 2021 ACFR.

⁵⁸ Pages 119-120 of the 2021 ACFR

⁵⁹ Page 120 of the 2021 ACFR (Note 13)

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.

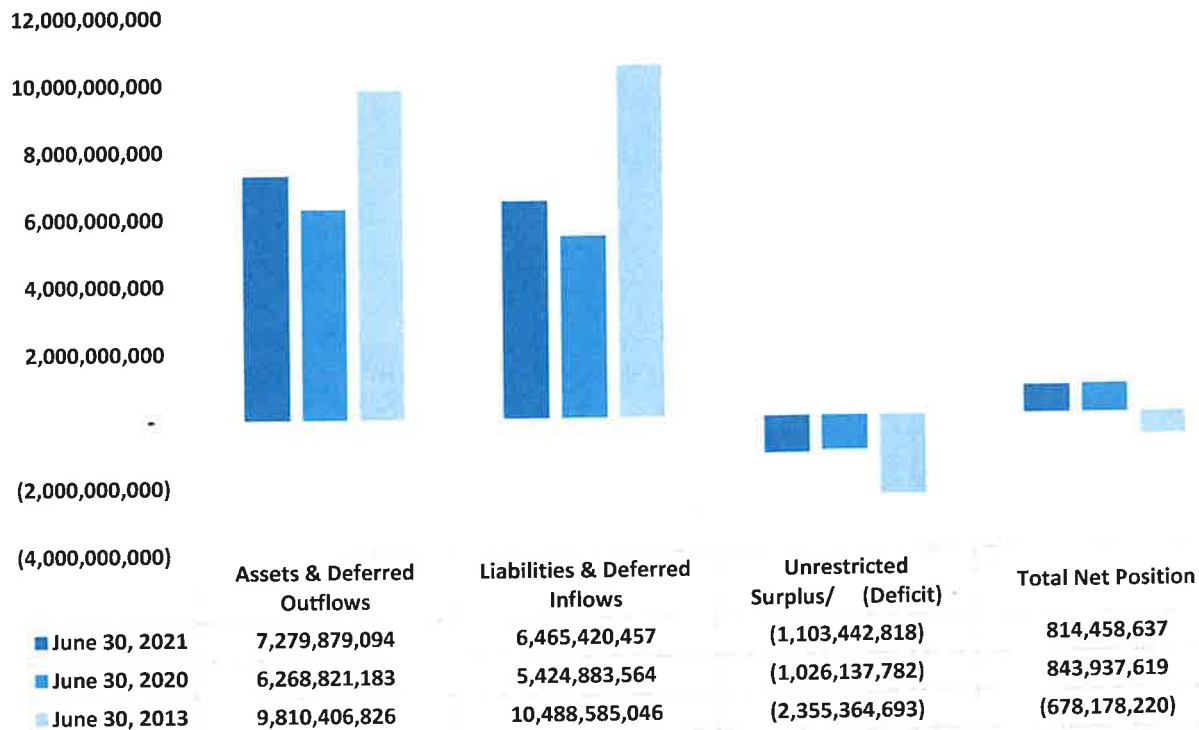
The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues 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 2021 Statement of Net Position and Statement of Activities (Changes in Net Position) compared to FY 2020 and FY 2013. These statements show the City's Primary Government's financial condition: (1) pre-bankruptcy (FY 2013); and (2) post-bankruptcy (FY 2020 and FY 2021). The following analysis of Attachments III and IV provides details on the major issues and variances for the Primary Government's Government-Wide financial statements in the FY 2021 ACFR when compared to FY 2020 and FY 2013.

Primary Government's Statement of Net Position. At June 30, 2021, the City's primary government had a Net Position of \$814.5 million, a decrease of \$29.5 million from the \$843.9 million Net Position on June 30, 2020⁶⁰.

⁶⁰ Page 20 of the 2021 ACFR and Page 20 of the 2020 ACFR.

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 bonds⁶¹.

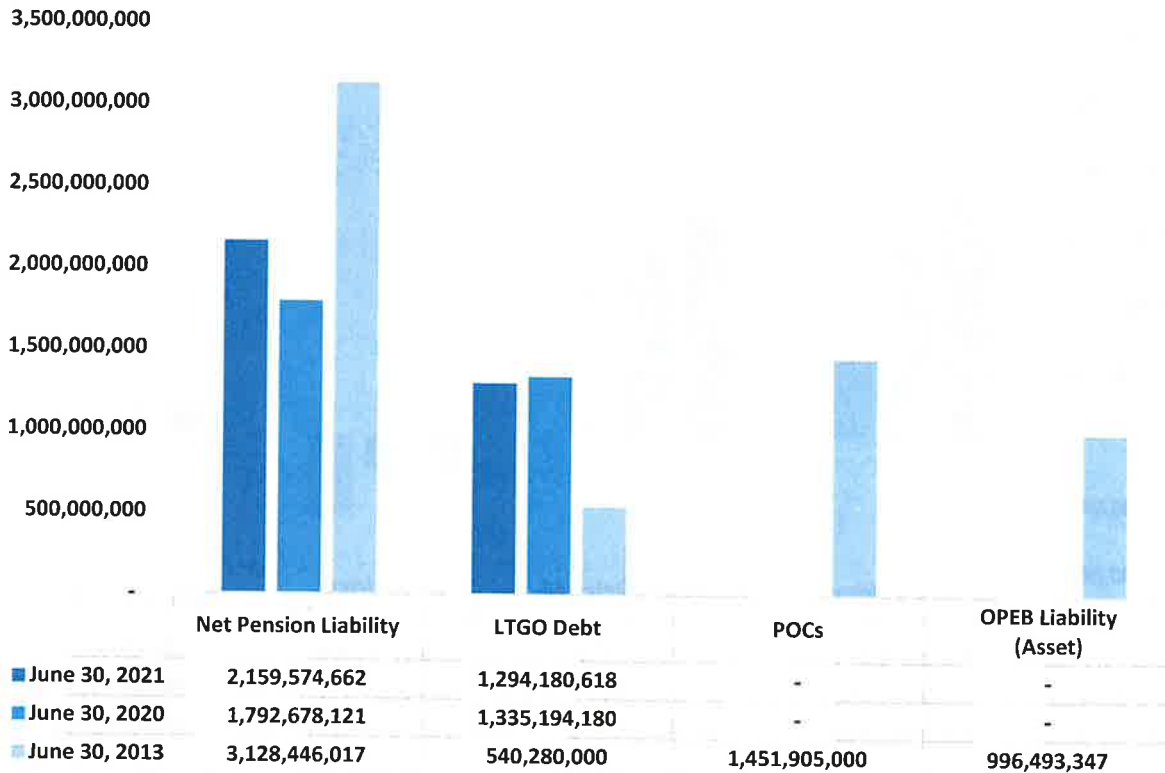
Bankruptcy Impact as of June 30, 2021. As shown in Attachments III and IV, the bankruptcy enabled the City to reduce its legacy pension and OPEB (retiree benefits) and debt costs. The net pension liability was \$2.866⁶² in FY 2015 and was based on the amount due as of June 30, 2014 pension actuary report, which was prior to the bankruptcy exit on December 10, 2014. The net pension liability post-bankruptcy on June 30, 2021 was \$2.160 billion or \$706.8 million 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 population loss, the education system, poverty levels, low property assessed values, low tax base and the COVID-19 economic impact that could impair the City's financial recovery if not satisfactorily addressed.

⁶¹ Page 122 of the 2016 CAFR.

⁶² Page 22 of the FY 2015 CAFR.

Primary Government Legacy Debt Burden

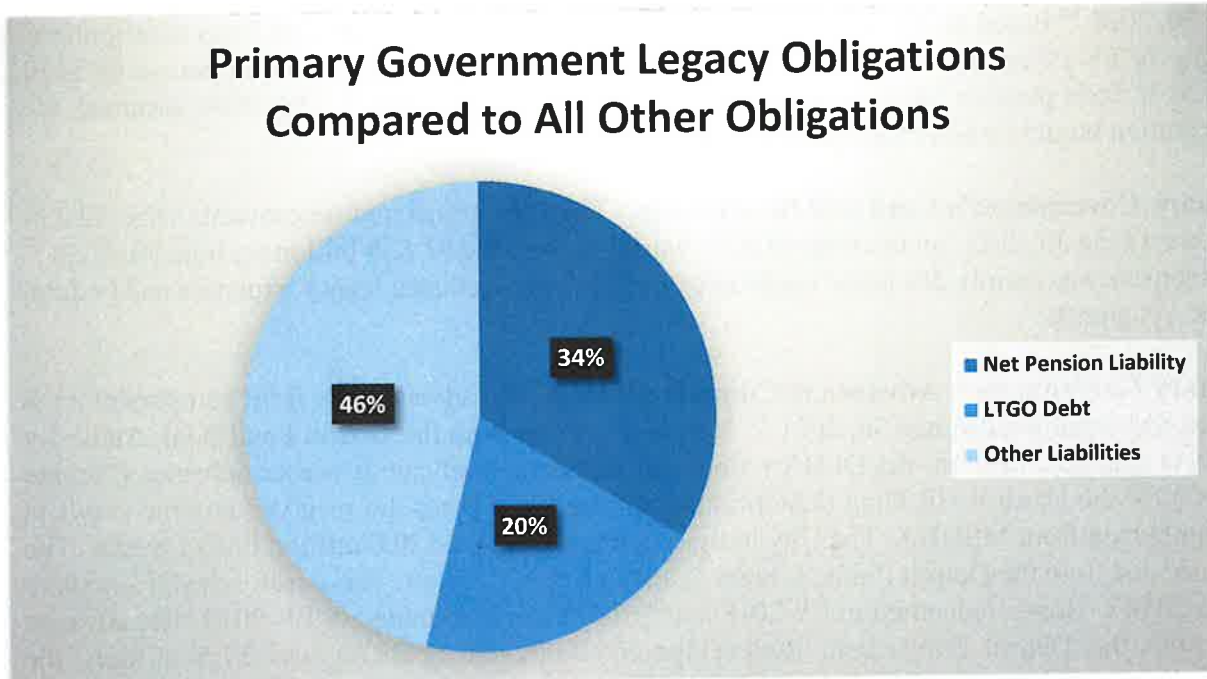


The large net pension liability and LTGO (Limited Tax General Obligation) debt is of concern. While the bankruptcy reduced or eliminated pension, retiree health care (OPEB), and POC (Pension Obligation Certificate) long-term debt, the City still has substantial obligations for the legacy pension and 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.

The chart below shows that the net pension liability and LTGO debt are 34% and 20% of the primary government's total liabilities of \$6.4 billion⁶³ on June 30, 2021. A financially healthy government would have no or very small percentages of total liabilities for such legacy costs.

⁶³ Page 20 of the 2021 ACFR.

Primary Government Legacy Obligations Compared to All Other Obligations



Primary Government's Unrestricted Net Position. The primary government's unrestricted net position was a deficit of \$1.103 billion as of June 30, 2021, an increase of \$77.3 million from the \$1.026 billion deficit at June 30, 2020⁶⁴ and \$1.251 billion decrease from the \$2.355 billion deficit on June 30, 2013.⁶⁵ 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, 2021. 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 will 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 2024⁶⁶. 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 Internal Revenue Code (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.⁶⁷ The City deposited \$220 million into the fund through June 30, 2021. With investment earnings the balance was \$235.4 million on

⁶⁴ Page 20 of the 2021 ACFR and Page 20 of the FY 2020 CAFR.

⁶⁵ Page 20 of the 2021 ACFR and Page 35 of the 2013 CAFR

⁶⁶ Page 118 of the 2019 CAFR, Note 13

⁶⁷ Page iv of the 2018 CAFR

June 30, 2021.⁶⁸ Based on the latest OCFO projections, the anticipated General Fund contributions starting in FY 2024 are projected to be \$140 million for 30-year amortization period or \$170 million if both pension systems adopt 20-year amortization period.⁶⁹ The POA assumed the contribution would be \$111 million in FY 2024.

Primary Government's Cash and Investments. The City's cash and investments were \$2.239 billion on June 30, 2021, an increase of \$699.9 million from the \$1.539 billion on June 30, 2020.⁷⁰ The increase was mainly due to the bankruptcy impact which reduced legacy expenses and Federal Cares Act grants.

Primary Government's Advance to Component Unit. The advance due from component units totaled \$13.2 million on June 30, 2021.⁷¹ The advance due from the Detroit Land Bank Authority (DLBA) was \$2.0 million, 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 due from the Detroit Public Library (DPL) was \$3.7 million. This was for the DPL's share of the 2014 C Bonds redeemed in FY 2018 and 2014 B bonds refunded in FY 2019. The advance due from the Detroit Brownfield Redevelopment Authority (DBRA) was \$7.5 million, the DBRA's financial statements indicate that the authority has a loan agreement with the City in order to assist with the redevelopment and improvement to the Mack Engine Plant on behalf of Fiat Chrysler Automobiles (FCA).

Primary Government's Receivable from GLWA. Receivables from Great Lakes Water Authority was \$1.049 billion on June 30, 2021.⁷² On January 1, 2016⁷³, the City entered into lease agreements and related service agreements with the Great Lakes Water Authority (GLWA) under which GLWA will operate the regional water and sewage system for the term of 40 years. The lease receivable from GLWA, which was the bulk of the receivables from GLWA mentioned previously, was \$966.0 million on June 30, 2021⁷⁴. The lease receivable mainly represents the present value of the \$50.0 million annual lease payment over the remainder of the lease term. The annual lease payment from GLWA to the Water Fund is \$22.5 million and the present value of the lease receivable from GLWA on June 30, 2020 was \$434.7 million. The annual lease payment from GLWA to the Sewage Disposal Fund is \$27.5 million and the present value of the lease receivable from GLWA on June 30, 2020 was \$531.3 million⁷⁵.

Primary Government's Capital Assets. Total primary government capital assets were \$2.933 billion⁷⁶ on June 30, 2021, an increase of \$35.0 million from the \$2.898 billion at June 30, 2020. Major capital assets acquired and projects completed or in progress during the year ended June 30, 2021 included the following:⁷⁷

⁶⁸ Page 24 of the 2021 ACFR.

⁶⁹ Page 13 and 14 of OCFO's presentation at City Council orientation on December 3, 2021.

⁷⁰ Page 19 of the 2021 ACFR and Page 19 of the FY 2020 CAFR.

⁷¹ Page 64 of the 2021 ACFR, Note 5.

⁷² Page 19 of the FY 2021 ACFR.

⁷³ Page 10 of the 2021 Water and Sewer audited financial statements, Note 1.

⁷⁴ Page 17 of the 2021 Water and Sewer audited financial statements, Note 4.

⁷⁵ Page 17 of the 2021 Water and Sewer audited financial statements, Note 4.

⁷⁶ Page 16 of the 2021 ACFR, Management's Discussion Analysis.

⁷⁷ Ibid.

- \$54.3 million for road construction and resurfacing
- \$17.0 million for Municipal Parking garage renovations in Grand Circus Park
- \$15.4 million for Fire Department Purchase of 21 ambulances, 15 firetrucks, 13 vehicles and communication equipment
- \$13.2 million for General Service and Public Works departments purchases of 40 vehicles, 25 salt trucks and equipment
- \$12.5 million for renovation of parks and recreation centers
- \$11.6 million for police purchases of 186 vehicles, two flatbeds and upgrades to security camera equipment
- \$4.8 million for Police precinct capital improvements and upgrades in the computer network
-
- \$2.1 million for Fire Department installation of generators and upgrades to computer network

Primary Government's Deferred Outflows of Resources. The deferred outflows of resources increased \$163.8 million in FY 2021 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 systems⁷⁸. 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, 2021 for the two pension funds were based on a measurement date of June 30, 2020 and the pension contributions received subsequent to the measurement date even though received in FY 2021 will be recognized as an expense and reduction of the net pension liability in the year ended June 30, 2022.⁷⁹

Primary Government's Net Pension Liability. The primary government's net pension liability on June 30, 2021 was \$2.160 billion (GRS - \$959.0 million and PFRS - \$1.201 billion⁸⁰), a significant increase of \$366.9 million from the \$1.793 billion (GRS - \$793.8 million and PFRS - \$998.9 million) on June 30, 2020. The primary government's \$2.160 billion net pension liability in the June 30, 2021 ACFR's Statement of Net Position is based on the actuarial report dated June 30, 2020⁸¹. GLWA and the Library respectively have \$144.3 million and \$14.8 million of the total net pension liability of \$1.118 billion for the City's GRS Component I and II pension plans. The GRS legacy Component II pension plan was 59.2% funded as of June 30, 2020⁸².

⁷⁸ Pages 19 and 99-100 (Note 8) of the 2021 ACFR; and 19, 105 and 106 (Note 8) of the FY 2020 CAFR.

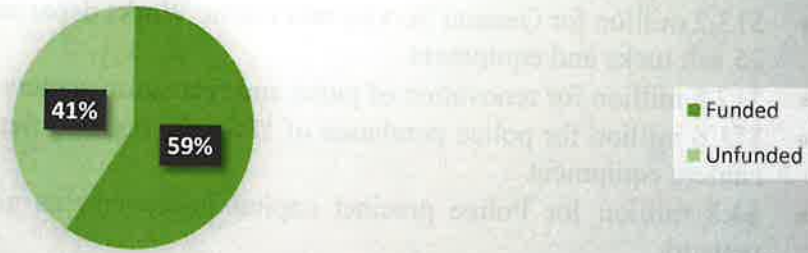
⁷⁹ Pages 99 and 100 of the 2021 ACFR, Note 8

⁸⁰ Pages 103-105 of the 2021 ACFR.

⁸¹ Page 96 of the 2021 ACFR.

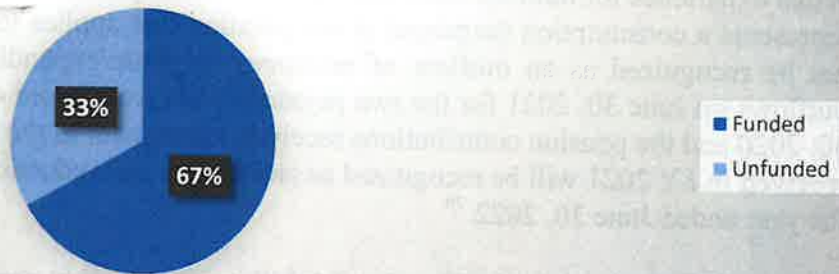
⁸² Page 129 of the 2021 ACFR.

GRS Component II Legacy Pension Plan Funding As of June 30, 2020



The PFRS legacy Component II pension plan was 66.8% funded as of June 30, 2020.⁸³

PFRS Component II Legacy Pension Plan Funding As of June 30, 2020



We should note that the PFRS Component I (The new hybrid system) is over funded at 118% and has \$28.0⁸⁴ million net pension asset.

The net pension liability is summarized below by retirement system plan and by City reporting category, including portions allocated the Detroit Public Library (DPL) and Great Lakes Water Authority (GLWA).

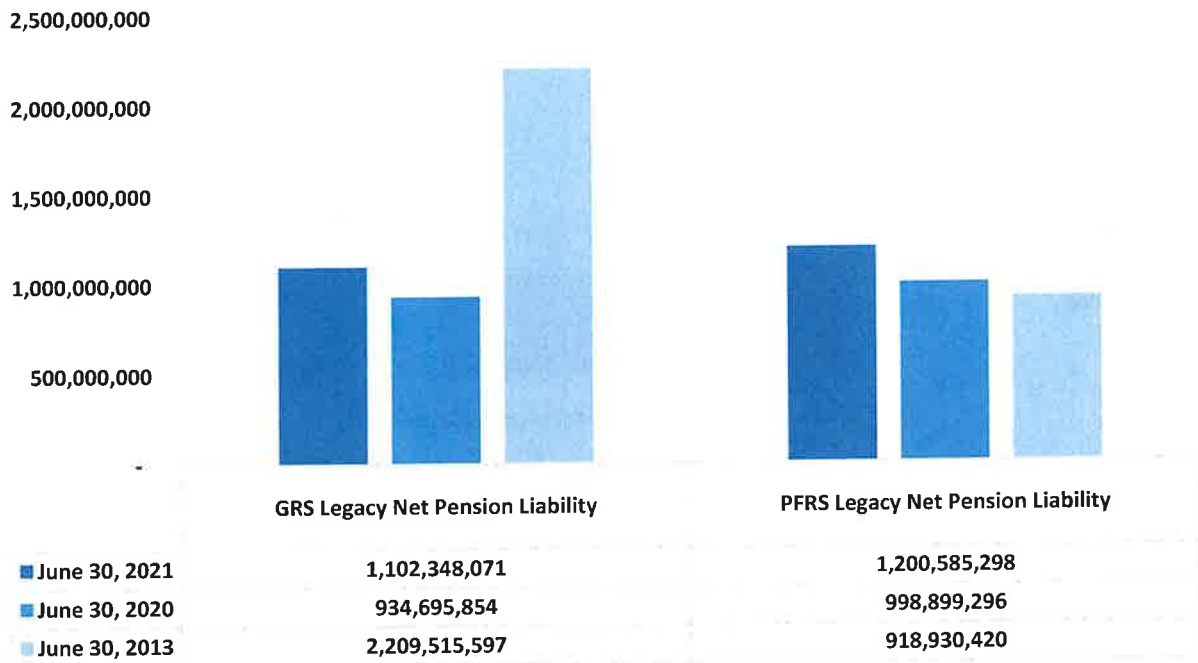
⁸³ Page 130 of the 2021 ACFR.

⁸⁴ Page 132 of the 2021 ACFR.

	GRS Comp II	GRS Comp I	PFRS Comp II	PFRS Comp I	Total
Governmental Activities	\$ 601,201,245	9,939,638	1,200,585,298	(28,023,926)	1,783,702,255
DDOT	279,927,234	2,946,422			282,873,656
Water	36,538,158	1,102,700			37,640,858
Sewer	24,427,196	1,567,276			25,994,472
Airport	1,325,559	13,935			1,339,494
Total Primary Government Net Pension Liability	943,419,392	15,569,971	1,200,585,298	(28,023,926)	2,131,550,735
Library	14,623,480	223,728			14,847,208
GLWA	144,305,199	-			144,305,199
Total Net Pension Liability All City Retirement Systems	\$ 1,102,348,071	15,793,699	1,200,585,298	(28,023,926)	2,290,703,142

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 safety. The graph below shows the net pension liability for both the GRS and PFRS legacy (Component II) pension systems for fiscal years 2021, 2020, and 2013.⁸⁵

Legacy Pension Plan Net Pension Liability

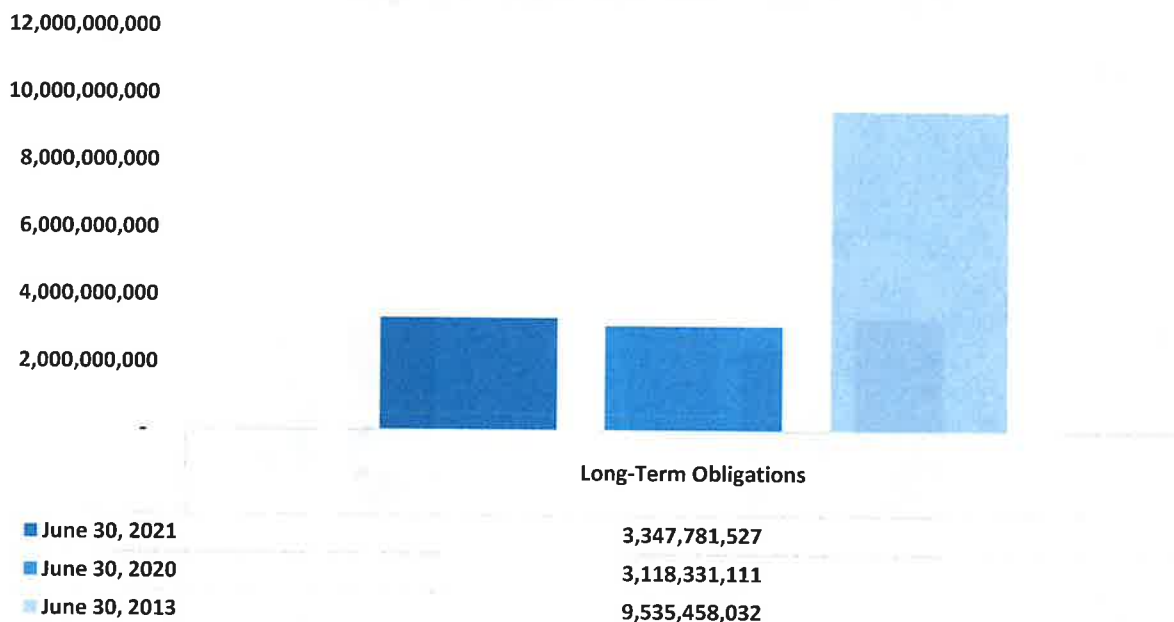


⁸⁵ The FY 2013 net pension liability of \$3,128,446,017 (GRS - \$2,209,515,597 and PFRS - \$918,930,420) billion is from the FY 2015 CAFR, page 99 of Note VII (f). In FY 2013, GASB 68 net pension liability reporting was not required. However, we are including it here for comparison purposes to show the 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 revised calculations increased 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, 2021 the balance of the RPF was \$235.4 million. Based on the latest OCFO projections, the anticipated General Fund annual contributions starting in FY 2024 are projected to be between \$140 million and \$170 million⁸⁶ depending on amortization level (30-year vs. 20-year).

Primary Government’s Long-Term Obligations. Total primary government long-term obligations were \$3.347 billion at June 30, 2021, an increase of \$229.5 million from the \$3.118 billion at June 30, 2020.⁸⁷ The long-term obligations increase is mainly due to the issuance of \$255 million Unlimited Tax General Obligations (UTGO) Bonds; and increases in estimated liabilities for workers’ compensation and claims and lawsuits.

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 bonds⁸⁸. Also, the reductions in retiree health care (OPEB) and POCs resulting from the bankruptcy contributed to the decrease in long-term obligations from 2013.

⁸⁶ The OCFO’s City Council orientation presentation on December 3, 2021, slides 13 and 14.

⁸⁷ Page 20 of the 2021 ACFR and page 20 of the 2020 CAFR.

⁸⁸ Page 122 of the 2016 CAFR

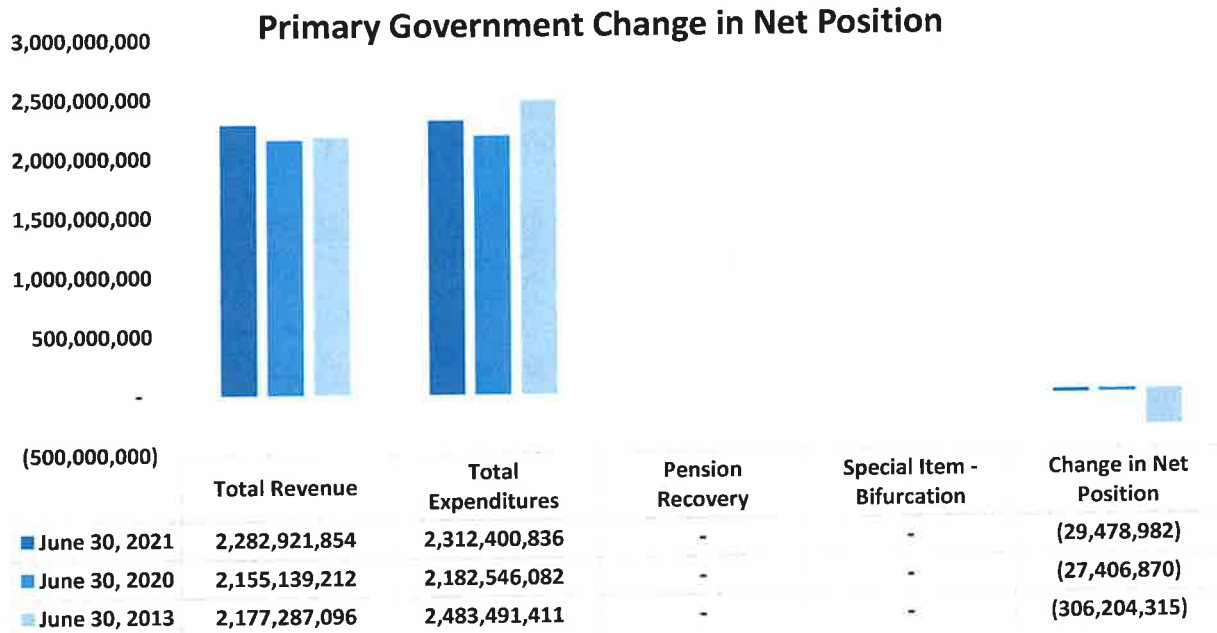
City Debt Ratings. City’s credit ratings on uninsured general obligation bonds as of June 30, 2021⁸⁹ were:

Moody’s Investor Service, Inc.	Ba3
Standard & Poor’s Corporation	BB-

City’s credit ratings were below investment grade, primarily due to weakness in its economic base relative to its peers. Impact of the City’s credit ratings below investment grade status comes in the form of higher borrowing costs.⁹⁰

Primary Government’s Deferred Inflows of Resources. Deferred inflows of resources were \$47.1 million on June 30, 2021, a decrease of \$688,146 from the \$47.8 million on June 30, 2020.⁹¹ 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.

Primary Government Change in Net Position. The chart below details the primary government’s change in net position for fiscal years 2021, 2020, and 2013 (Attachment IV).



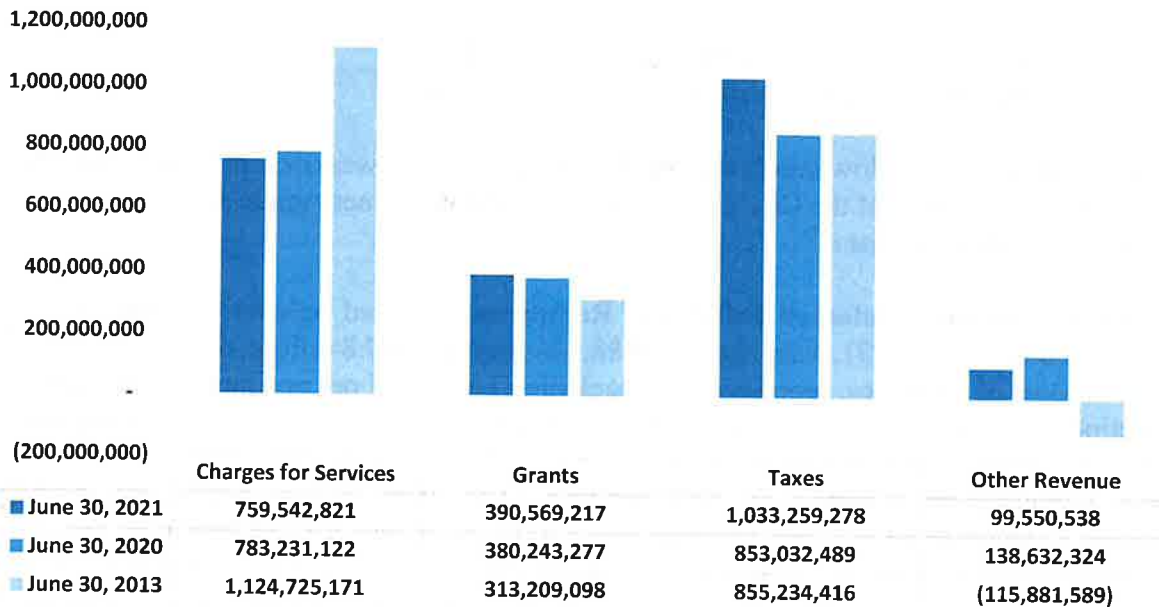
Primary Government’s Revenues. The chart below details the primary government’s major revenues for fiscal years 2021, 2020, and 2013 and shows the sources of some of the City’s main revenues.

⁸⁹ Page 18 of the 2021 ACFR, Management’s Analysis and Discussion

⁹⁰ Ibid

⁹¹ Page 20 of the 2021 ACFR and Page 20 of the 2020 CAFR.

Primary Government Revenues



Primary Government's Charges for Services. The charges for services revenue was \$759.5 million on June 30, 2021, a decrease of \$23.7 million from the \$783.2 million at June 30, 2020.⁹² Detailed below is a comparison of the various charges for services for FY 2021 and FY 2020.

	FY 2021	FY 2020	Difference
Public Protection	80,462,520	79,340,103	1,122,417
Health	1,654,975	1,440,641	214,334
Recreation and Culture	1,846,738	1,442,388	404,350
Economic Development	8,216,676	19,386,799	(11,170,123)
Housing Supply and Conditions	1,707,531	864,612	842,919
Physical Environment	45,787,662	44,372,872	1,414,790
Transportation Facilitation	14,303,892	35,452,937	(21,149,045)
Development and Management	140,938,844	123,827,642	17,111,202
Water	111,783,623	114,814,401	(3,030,778)
Sewer	336,786,647	331,693,766	5,092,881
Transportation (DDOT)	2,739,015	15,116,575	(12,377,560)
Airport	369,861	451,812	(81,951)
Public Lighting Authority	12,944,837	15,026,574	(2,081,737)
Total	759,542,821	783,231,122	(23,688,301)

The following had significant changes in charges for services revenue: (1) economic development \$11.2 million decrease; (2) transportation facilitation \$21.1 million decrease; (3) development and management \$17.1 increase; (4) transportation (DDOT) \$12.4 million decrease. In the questions section we are asking the OCFO to explain these major changes in the charges for services revenues for FY 2021.

⁹² Pages 21-22 of the 2021 ACFR and pages 21-22 of the 2020 CAFR.

Primary Government's Property Tax Revenue. The property tax revenue was \$192.4 million for the year ended June 30, 2021, an increase of \$2.7 million from the \$189.6 million for the year ended June 30, 2020. Collections have continued to improve in FY 2021 which contributed to the increase in the property tax revenue.

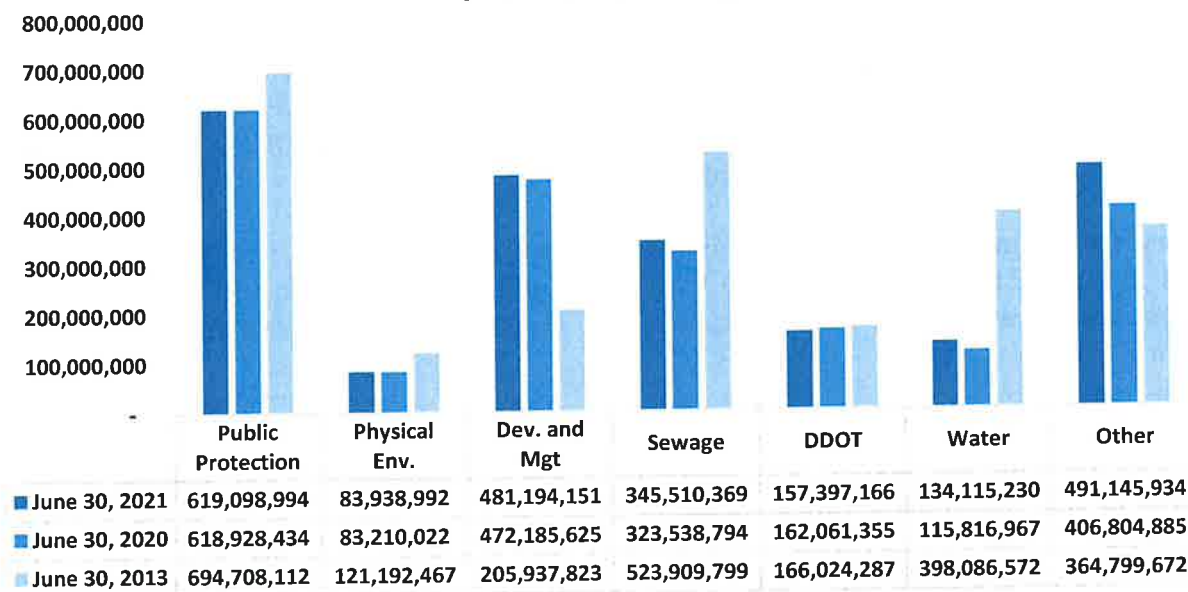
Primary Government's Municipal Income Tax Revenue. The municipal income tax revenue was \$396.1 million for the year ended June 30, 2021, an increase of \$91.2 million from the \$304.3 million for the year ended June 30, 2020. While the COVID-19 pandemic caused reduction in nonresident income tax revenue due to remote work, this reduction was offset by increased enforcement⁹³ efforts. Fiscal year 2021 municipal income tax revenue surpassed fiscal year 2019⁹⁴ level (pre-pandemic) of \$376.7 million and we commend OCFO's enforcement efforts which seem to be paying off.

Primary Government's Investment Earnings Revenue. The investment earnings were \$4.4 million for the year ended June 30, 2021, a decrease of \$24.7 million from the \$29.1 million for the year ended June 30, 2020. The decrease is likely due the current low interest rate environment.

Primary Government's Miscellaneous Revenue. Miscellaneous revenue was \$92.3 million for the year ended June 30, 2021, an increase of \$141,359 from the \$92.2 million for the year ended June 30, 2020.

Primary Government's Expenditures. The chart below details the primary government's major Expenditures for fiscal years 2021, 2020, and 2013 and shows the major programs that the City expends funds on.

Primary Government Expenses



Primary Government's Public Protection Expenses. Public protection expenses were \$619.1 million in FY 2021, an increase of \$170,560 from the \$618.9 million amount in FY 2020.

⁹³ Page 15 of the 2021 ACFR.

⁹⁴ Page 20 of the 2019 CAFR.

Primary Government's Health Expenses. Health expenses were \$125.5 million in FY 2021, an increase of \$61.6 million from the \$63.9 million in FY 2020. The increase is likely due to the COVID-19 public health emergency response. In the questions section we are asking the OCFO to explain the significant increase in the health expenses during FY 2021.

Primary Government's Recreation and Culture Expenses. Recreation and culture expenses were \$39.6 million, an increase of \$1.7 million from the \$37.8 million in FY 2020.

Primary Government's Economic Development Expenses. Economic development expenses were \$72.0 million for the year ended June 30, 2021, a decrease of \$6.8 million from the \$78.8 million for the year ended June 30, 2020. In the questions section we are asking the OCFO to explain why the economic development expenses decreased so much in FY 2021.

Primary Government's Transportation Facilitation Expenses. Transportation facilitation expenses were \$131.5 million for the year ended June 30, 2021, an increase of \$34.6 million from the \$96.8 million for the year ended June 30, 2020. The increase in FY 2021 expenses appears to be due to spending on the street maintenance projects. In the questions section we are asking OCFO to explain why the transportation facilitation expenses increased in FY 2021.

Primary Government's Housing Supply and Conditions Expenses. Housing and supply conditions expenses were \$20.6 million in FY 2021, a decrease of \$21.3 million from the \$41.9 million in FY 2020. The decrease in FY 2021 expenses appears to be partially due to blight and demolition activity. In the questions section we are asking OCFO to explain why the housing supply and conditions expenses decreased in FY 2021.

Primary Government's Physical Environment Expenses. Physical environment expenses were \$83.9 million in FY 2021, an increase of \$728,970 from the \$83.2 million amount in FY 2020.

Primary Government's Development and Management Expenses. Development and management expenses were \$481.2 million in FY 2021, an increase of \$9.0 million from the \$472.2 million in FY 2020. In the questions section we are asking the OCFO to explain why development and management expenses increased in 2021.

Primary Government's Interest on Long-term Debt. Interest on long-term debt was \$74.0 million in FY 2021, an increase of \$10.3 million from the \$63.6 million in FY 2020. In the questions section we ask the OCFO to explain why the interest on long-term debt increased so much in FY 2021.

Primary Government's Water Expense. Water expenses were \$134.1 million in FY 2021, an increase of \$18.3 million from the \$115.8 million in FY 2020. In the questions section we ask the OCFO to explain why water expenses increased in FY 2021.

Primary Government's Sewage Expense. Sewage expenses were \$345.5 million in FY 2021, an increase of \$22.0 million from the \$323.5 million in FY 2020. In the questions section we ask the OCFO to explain why Sewage expenses increased in FY 2021.

Primary Government's Transportation (DDOT) Expense. Transportation expenses were \$157.4 million in FY 2021, a decrease of \$4.7 million from the \$162.1 million in FY 2020.

Primary Government's Airport Expense. Airport expenses were \$4.1 million in FY 2021, an increase of \$3.1 million from the \$1.0 million in FY 2020. In the questions section we ask the OCFO why the Airport expense increased in FY 2021.

CITY'S LONG-TERM OBLIGATIONS (POST-BANKRUPTCY). The bankruptcy exit provided 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 \$1.826 billion of General Obligation bond debt at June 30, 2021⁹⁵, a total of \$1.294 billion⁹⁶ is LTGO debt which will ultimately have to be paid mainly 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.
- 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 OCFO projections, the anticipated General Fund annual contributions starting in FY 2024 are projected to be between \$140 million and \$170 million⁹⁷ depending on amortization level (30-year vs. 20-year).
- **Legacy GRS Pension System Payout Ratio.** The General Retirement System (GRS) Legacy Pension Fund (Component II) had total expenditures of \$240.8 million for the year ended June 30, 2021⁹⁸. The total Net Position of the fund was \$1.833 billion at June 30, 2021, an increase of \$225.0 million from the prior year⁹⁹. The GRS Legacy Pension Fund has a high payout ratio (1:7.6) compared to its net position, meaning if GRS pension expenditures continue at this rate, total GRS pension net position would be depleted in approximately 7 years and 7 months. The Net Pension Liability of the GRS Legacy Pension

⁹⁵ Pages 83-84 of the 2021 ACFR, Note 7. Includes \$174.3 million relating to the Public Lighting Authority which will be paid with utility users's tax transfers from the General Fund.

⁹⁶ Ibid.

⁹⁷ The OCFO's City Council orientation presentation on December 3, 2021, slides 13 and 14.

⁹⁸ FY2021 GRS (Component II) Statement of Changes in Fiduciary Net Position, line Total Deductions on page 10 (Defined Benefit Fund and Income Stabilization).

⁹⁹ Ibid

Fund was \$1.102 billion as of June 30, 2021.¹⁰⁰ The City's pension obligations are a burden that have to be closely monitored.

- **Legacy PFRS Pension System Payout Ratio.** The Police and Fire Retirement (PFRS) Legacy Pension Fund had total expenditures of \$302.9 million for the year ended June 30, 2021¹⁰¹. The total Net Position of the fund was \$2.755 billion at June 30, 2021, an increase of \$333.0 million from the prior year¹⁰². The PFRS Legacy Pension Fund has a lower payout ratio (1:9.0, meaning the total PFRS pension net position would be depleted in approximately nine years 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 \$1.201 billion as of June 30, 2021.¹⁰³
- **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 critical services for the residents. 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.**

Highlights from the City's Enterprise Fund Financial Statements in the 2021 ACFR (Long-term perspective):

Enterprise Fund's Net Position. The City's enterprise funds had a net position of \$1.262 billion at June 30, 2021, a decrease of \$21.0 million from the \$1.283 billion net position at June 30, 2020. The enterprise fund cumulative unrestricted net position was a surplus of \$705.9 million in FY 2021 a decrease of \$53.8 million from the \$759.7 million in FY 2020¹⁰⁴.

Water and Sewage Disposal Funds. In fiscal year 2021, Water and the Sewage Disposal Funds had unrestricted net positions of \$444.5 million and \$553.7 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.¹⁰⁵ The Water Fund unrestricted net position decreased by \$12.5 million and the Sewage Disposal Fund unrestricted net position decreased by \$167,900 from the FY 2020 balances.

The Sewage Disposal Fund shows a balance of \$8.3 million in a liability account entitled "shortfall loan payable to Great Lakes Water Authority" on June 30, 2021.¹⁰⁶ The shortfall payable to GLWA was caused by 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

¹⁰⁰ Page 129 of the 2021 ACFR. Per page 96 of the 2021 ACFR, as permitted by GASB No. 68, the City has chosen to use June 30, 2020 as its measurement date for the net pension liability (asset) for its fiscal year 2021 financial statements.

¹⁰¹ FY2021 PFRS (Component II) Statement of Changes in Fiduciary Net Position, line Total Deductions on page 10 (Defined Benefit Fund and Income Stabilization).

¹⁰² Ibid

¹⁰³ Page 130 of the 2021 ACFR. Per page 96 of the 2021 ACFR, as permitted by GASB No. 68, the City has chosen to use June 30, 2020 as its measurement date for the net pension liability (asset) for its fiscal year 2021 financial statements.

¹⁰⁴ Pages 29-32 of the 2021 ACFR and pages 29-32 of the 2020 CAFR.

¹⁰⁵ Pages 29 of the 2020 ACFR, Receivables from Great Lakes Water Authority.

¹⁰⁶ Page 29 of the 2021 ACFR.

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.¹⁰⁷

While the Water and Sewage Disposal Funds have large unrestricted net positions at June 30, 2021, both funds have large capital and infrastructure repair and replacement needs and debt obligations 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.

Per page 17 of DWSD's FY 2021 audited financial statements, there is \$965.9 million lease receivable from GLWA as of June 30, 2021. The receivable was for the present value of the \$50.0 million annual lease payment due over the remainder of the 40 year lease agreement the City has 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, 2021 was \$434.7 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, 2021 was \$531.3 million¹⁰⁸. 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, including DWSD. 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 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

¹⁰⁷ Pages 21-22 of the FY2021 Water and Sewerage audited financial statements, note 6.

¹⁰⁸ Page 17 of DWSD's FY 2021 audited financial statements, Note 4

associated with improvements to the local water and sewer systems based on a percentage of total debt service¹⁰⁹.

As LPD noted in prior fiscal years' reports, the lease receivable from GLWA on DWSD's financial statements does not agree with the lease payable on GLWA's financial statements for FY 2021. GLWA shows the lease to be \$23.4 million less than DWSD for the Water Fund and \$28.6 million less for the sewage Disposal Fund. The difference is due to GLWA using a different discount rate, which is higher than DWSD's and produces lower obligation. LPD raised this issue with DWSD in prior fiscal years and the department neither plans using GLWA's discount rate nor adjusting down the lease receivable balances. Please see attachment V for DWSD's response to LPD's FY 2020 question. Detailed below is the difference.¹¹⁰

	in Millions					
	Water			Sewer		
	DWSD	GLWA	Difference	DWSD	GLWA	Difference
Receivable From GLWA	\$ 434.7	411.2	23.4	\$ 531.3	502.6	28.6

In FY 2021, the Water Fund had \$4.3 million in operating income while the Sewage Disposal Fund had \$11.5 million in operating income¹¹¹. Water Fund revenues were down by \$3.0 million from FY 2020 level and Sewage Disposal Fund revenues were up by \$5.1 million from FY 2020 level. The Water and Sewage Disposal Funds show pension expenses of \$14.2 million and \$18.9, respectively, in FY 2021.¹¹² In addition, the Water and Sewage Disposal Funds show GLWA's share of the pension recovery (operating revenue) in FY 2021 (\$8.1 million for Water Fund and \$14.6 million for Sewage Fund).¹¹³

Of a concern is the GLWA \$210.1 million Net Position deficit at June 30, 2021¹¹⁴ and the impact it will have on rates to DWSD's customers. As LPD report in FY 2020 CAFR review report, 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. In fact, since FY 2018, GLWA had its first positive net position change in FY 2021. The following schedule details GLWA's deficits and net position for FY 2018 to FY 2021.

	Fiscal Year			
	2018	2019	2020	2021
Unrestricted Deficit	(903,746,081)	(126,936,239)	(24,711,448)	(33,707,455)
Net Position	(178,754,764)	(200,824,621)	(221,577,503)	(210,132,125)
Change in Net Position	(75,919,771)	(22,069,857)	(20,752,882)	11,445,378

¹⁰⁹ Pages 118 of the 2021 CAFR

¹¹⁰ Page 17 of DWSD's FY 2021 audited financial statements, Note 4 and page 71 GLWA's FY 2021 ACFR, Note 14.

¹¹¹ Page 31 of the 2021 ACFR (Operating Income (Loss) line).

¹¹² Ibid

¹¹³ Ibid

¹¹⁴ Page 29 of the GLWA's FY 2021 ACFR.

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. In addition, the City needs to monitor the impact of GLWA's net position deficit on future GLWA wholesale rates charged to DWSD, which in turn, could increase DWSD's retail rates charged to DWSD customers located in the City of Detroit.

Transportation Fund (DDOT). The Transportation Fund had an unrestricted net position deficit at June 30, 2021 of \$307.8 million¹¹⁵, an increase of \$19.7 million from the \$288.1 million deficit on June 30, 2020. This was mainly due to \$34.4 million increase in net pension liability from \$248.5 million at June 30, 2020 to \$282.8 million at June 30, 2021. The General Fund provided \$31.7 million in subsidies to the Transportation Fund in FY 2021 compared to \$45.9 million in FY 2020.¹¹⁶ DDOT's operating revenues were down by \$10.8 million from FY2020 level and operating expenses were down by \$4.6 million from FY 2020 level. In the questions section we ask why the General Fund's subsidy to DDOT decreased by \$14.2 million in FY 2021.

Public Lighting Authority. In substance, the Public Lighting Authority (PLA) is part of the City's operation and its financial statements are blended (Blended Component Unit) with the City's financial statements in the ACFR's Enterprise Funds section. The PLA had a \$39.0 million net position at June 30, 2021, a decrease of \$576,171 million from the \$39.5 million at June 30, 2020.¹¹⁷ The PLA had revenues of \$12.9 million including \$12.5 million transferred from the General Fund's utility users' tax revenues. In addition, the City provided operating subsidy of \$10.4 million to the PLA. The PLA had \$15.9 million of expenses for the year ended June 30, 2021. The PLA debt service was \$8.0 million.¹¹⁸

The PLA had an unrestricted net position of \$19.7 million at June 30, 2021.¹¹⁹ In addition, the PLA had \$24.1 million restricted net position for debt service which is the cumulative utility users' tax transfers from the General Fund that the PLA will use for future debt service payments. LPD raised this issue with OCFO in prior fiscal years and we are delighted to see the PLA financial statements reflect this important net position restriction. However, we noted a difference of \$781,845 between the amount PLA statements show as restricted for future debt service payments and the amount LPD calculated. LPD team held a Zoom meeting with PLA representatives on January 24, 2022 and requested PLA to share how their amount was calculated, but LPD has not received a response so far. In the questions section we are asking OCFO to explain the difference.

Article 4 of the Interlocal Agreement between the City and PLA¹²⁰ 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

¹¹⁵ Page 29 of the 2021 ACFR.

¹¹⁶ Page 31 of the 2021 ACFR and page 31 of the 2020 CAFR.

¹¹⁷ Page 32 of the 2021 ACFR and pages 32 of the 2020 CAFR.

¹¹⁸ Page 32 of the 2021 ACFR.

¹¹⁹ Page 30 of the 2021 ACFR.

¹²⁰ Interlocal Agreement between the City of Detroit and Public Lighting Authority for the Operation, Maintenance and Management of a Public Lighting System.

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, 2021 a total of \$66.5 million in subsidy has been paid to the PLA. The PLA has incurred \$80.5 million of operating expenses from FY 2013 through FY 2021.

The table below also shows the excess utility user's tax, General Fund subsidy to the PLA, and PLA revenue and expenses from FY 2013 through FY 2021.¹²¹

	2013 to 2015	2016	2017	2018	2019	2020	2021	Total
Utility User Tax	\$ 31,249,994	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000	12,499,995	\$ 106,249,989
City Subsidy	6,284,677	8,886,743	10,039,058	10,302,828	10,099,883	10,453,826	10,403,263	66,470,278
Other Revenue	1,248,981	1,142,791	1,072,660	835,724	136,841	2,526,574	444,842	7,408,413
Total Revenue	38,783,652	22,529,534	23,611,718	23,638,552	22,736,724	25,480,400	23,348,100	180,128,680
Operating Expense	7,056,353	8,157,578	7,813,490	12,711,589	13,958,851	14,830,343	15,933,575	80,461,779
Other Expense			10,493	(205,540)	(526,096)	(1,028,201)	(35,568)	(1,784,912)
Debt Service	9,582,998	8,600,792	8,509,892	8,385,092	8,255,294	8,086,541	8,026,264	59,446,873
Bond Issuance	3,035,877		5,000	5,000	-	-	-	3,045,877
Total Expense	19,675,228	16,758,370	16,338,875	20,896,141	21,688,049	21,888,683	23,924,271	141,169,617
Surplus/(Deficit)	<u>\$ 19,108,424</u>	<u>5,771,164</u>	<u>7,272,843</u>	<u>2,742,411</u>	<u>1,048,675</u>	<u>3,591,717</u>	<u>(576,171)</u>	<u>\$ 38,959,063</u>
Principal Paid	2,970,000	3,030,000	3,120,000	3,245,000	3,749,458	374,458	3,919,458	20,408,374
Excess UUT	15,661,119	869,208	865,108	864,908	495,248	4,039,001	554,273	\$ 23,348,865

Other Enterprise Funds. Other Enterprise Funds represent the Airport Fund. The General Fund subsidy to the Airport decreased \$2.0 million to \$3.3 million for FY 2021 from \$5.3 million in FY 2020. The Airport Fund had a \$4.3 million unrestricted deficit net position at June 30, 2021, an increase deficit of \$1.9 million from the \$2.4 million unrestricted net position deficit at June 30, 2020.¹²² The decrease in net position deficit was mainly due to decrease in General Fund subsidy. In the questions section we ask why the General Fund subsidy to the Airport decreased by \$2.0 million in FY 2021.

In addition, we noted a difference between the transfer from the General Fund amount shown on the Airport Fund financial statements and the actual amount transferred from the General Fund (per note 2 on page 66 of the 2021 ACFR). In the questions section we are asking OCFO to explain the difference.

Other Highlights/Observations from the Review of the 2021 ACFR:

Tax Abatement Disclosures. In the FY 2021 ACFR, Note 14, Tax Abatements are reported as required by GASB Statement No. 77, Tax Abatement Disclosures¹²³. 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 2021 versus FY 2020.

¹²¹ FY 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020 and 2021 PLA financial statements

¹²² Pages 30 and 32 of the FY 2021 ACFR, and pages 30 and 32 of the 2020 ACFR.

¹²³ Pages 121-123 of the 2021 ACFR, Note 14

Program	Legislation	Abatement Amount			Comment
		2021	2020	Difference	
		Total Taxes	Total Taxes	Total Taxes	
Brownfield Redevelopment Act (BRA)	PA 381 1996	\$ 1,766,515	\$ 1,402,168	\$ 364,347	Cleanup of Environmental Issues
Industrial Facilities Act (IFT)	PA 198 1974	495,522	646,351	(150,829.00)	Redevelopment of Facility
Commercial Rehabilitation Act (CRA)	PA 210 2005	3,088,124	2,644,724	443,400.00	Rehabilitation of Qualified Facility
Commercial Redevelopment Act (CFT)	PA 255 1978	272,794	249,457	23,337.00	Redevelopment of Commercial Property
Renaissance Zone Act (RZ)	PA 376 1996	5,503,761	8,454,372	(2,950,611.00)	Economic Development in Designated Area
Obsolete Property Rehab Act (OPRA)	PA 146 2000	2,174,442	2,864,604	(690,162.00)	Redevelopment of Obsolete and Blighted Buildings
Neighborhood Enterprise Zone (NEZ)	PA 147 1992	8,026,299	7,112,526	913,773.00	Financial Investment in Property
Land Bank Fast Track Act (LB)	PA 258-263 2003	1,100,819	1,071,669	29,150.00	Improvement of Property
Eligible Manf. Personal Property (EMPP)	PA 328 1998	8,975,210	8,576,108	399,102.00	Exempts Personal Property from Tax
Sr. Citizen/Disabled Fam. Hous. Exempt.	PA 78 2016	160,674	126,052	34,622.00	Provide & manage Sr. Citizen & Disabled Family Housing
MSHDA	PA 346 1966	7,230,649	5,997,924	1,232,725.00	Provide & Manage Low-Income Housing
Totals		\$ 38,794,809	\$ 39,145,955	\$ (351,146)	

In FY 2021 the City gave an estimated \$38.8 million of tax abatements so as to be competitive in Southeastern Michigan to encourage business and residency growth. This was \$351,146 less than the \$39.1 million in tax abatements for FY 2020. The amount of tax abatement amount remained roughly same as it was in fiscal year 2020, but the City has a significantly higher amount of tax abatements when compared to other cities.

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. As a result, the General Fund is left having to pay for those legacy costs. The Solid Waste Fund had a \$35.1 million fund balance at June 30, 2021, which was a decrease of \$8.4 million from the \$43.5 million fund balance at FY 2020.¹²⁴ The Solid Waste, Construction Code and Street Funds were not charged for their 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 2021. The Solid Waste and Street Funds have large fund balances as they are not paying their fair share of the legacy costs. In the questions section we ask the OCFO to provide update on status of the cost allocation plan that was being worked on and expected to be completed during FY 2021.

Other Governmental Entities. The other governmental entities' June 30, 2021 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

¹²⁴ Page 156 of the 2021 ACFR and Page 161 of the 2020 CAFR.

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.

Compliance with Finance-related Legal and Contractual Provisions. The City was not in compliance with legal and contractual provisions for the year ended June 30, 2021 (see note 2 in the ACFR), which included.¹²⁵

- The City was not in compliance with the State of Michigan Public Act 2 of 1968, Uniform Budgeting and Accounting Act, Section 141.438(3), which requires the City not to incur expenditures against an appropriation account in excess of the amount appropriated by the City Council.
- The City was not in compliance with the distribution of taxes, as stated in MCL 211.43 (Section 43(3) of the General Property Tax Act., 1893 PA 206, as amended). Section 211.43 (3)(a) of the tax act states that property taxes must be remitted within 10 business days after the 1st and 15th day of each month.

COVID-19.

- On March 11, 2020, the World Health Organization (WHO) declared Novel Coronavirus Disease (COVID-19) outbreak as a global health emergency. The subsequent implementations of national, state, and local emergency declarations in the United States and in other countries caused significant economic disruptions here at home and around the world.
- On March 10, 2020, the Michigan Department of Health and Human Services identified the first two presumptive-positive cases of COVID-19 in the state of Michigan. At various times in 2020 and 2021, the governor issued series of executive orders declaring state of emergency and state of disaster in response to COVID-19. In fiscal year 2020, the City experienced a loss in revenue and an increase in costs associated with mitigating the impacts of the COVID-19 pandemic on City residents, including public health, emergency response, support to homeless and vulnerable populations, small businesses support, and food assistance, among others¹²⁶.
- In April 2020, the City estimated revenue shortfalls of \$154 million in its fiscal year 2020 and \$194 million in its fiscal year 2021 due to casino closures; income tax reductions due to layoffs and furloughs; anticipated state revenue-sharing reductions; and reduced transportation, parking, and permitting revenue. The City reduced spending through laying off over 200 employees and temporarily reducing the hours of over 2,000 employees, as well as issuing other spending controls. Following these spending reductions, the City enacted budget amendments to bring the fiscal year 2020 General Fund into balance and completed a balanced fiscal year 2021 budget. Through June 30, 2020, the City was awarded \$306 million in grants that originated from federal stimulus sources, and it projected to receive an additional \$22 million. In its September 2020 Revenue Estimating Conference, the City estimated an additional \$66 million General Fund revenue shortfall in its fiscal year 2021 due to the continued duration of the pandemic. In order to maintain

¹²⁵ Page 57 of the 2021 ACFR, Note 2.

¹²⁶ Page 127 of the 2020 CAFR, Note 15

a balanced budget, the City planned to offset the projected revenue shortfall entirely with identified savings and other adjustments to the City's fiscal year 2021 budget¹²⁷.

- In fiscal year 2020, the City was awarded \$116.9 million¹²⁸ allocation from the Coronavirus Aid, Relief, and Economic Security (CARES) Act; and the OCFO documented \$109.7 million expenses relating COVID-19 emergence response which were charged to the City's CARES Act grant.
- In fiscal year 2021, as part of the American Rescue Plan Act (ARPA) of 2021 which included \$350 billion emergency funding for eligible state, local, territorial, and tribal governments. The City was awarded \$826.7 million¹²⁹ and received half of the award (\$413.3 million). The City will receive the second half of the \$826.7 million in fiscal year 2022. In addition, the City was awarded \$28.1 in Emergency Rental Assistance ARPA grant and received \$11.2 of the Emergency Rental Assistance funds in fiscal year 2021. The total cash received of \$424.5 million is reported on a separate column in the Governmental Funds¹³⁰ balance sheet section of the 2021 ACFR. The City did not incur eligible expenses for both awards and recorded unearned revenue (a liability) equal to the cash received in fiscal year 2021 ACFR.
- On June 29, 2021, the Administration presented a budget amendment to the City Council and the Council approved it. This was a collaborative effort between the Administration and City Council and the \$826.7 million ARPA funds were appropriated into 15 different appropriations to ensure citizens of Detroit receive the best possible benefits from these funds in order to alleviate the COVID-19 economic challenges City residents have been experiencing since start of the Pandemic.

New debt issuance:

During fiscal year 2021¹³¹, the City issued one new Unlimited Tax Obligation (UTGO) Bonds:

- On February 4, 2021, the City issued UTGO Bonds, Series 2021A at a par amount of \$135.0 million with a premium of approximately \$30.7 and \$40.0 million of UTGO Bonds, Series 2021B for the purpose of financing the costs of neighborhood improvements in the City through property rehabilitation, demolition and other blight remediation activities. Both the 2021A UTGO and 2021B UTGO Bonds are secured by a pledge of the full faith and credit of the City. The 2021A UTGO Bonds are tax exempt and mature on April 1, 2050. The 2021B UTGO Bonds taxable and mature on April 1, 2034.

Questions for the Administration:

Listed below are LPD's questions for the City's Administration on the 2021 ACFR. LPD respectfully requests that the Administration respond to these question in four weeks. LPD wants to thank the Administration in advance for their responses.

¹²⁷ Page 127 of the 2020 CAFR, Note 15

¹²⁸ Page 159 to 161 of the 2020 CAFR.

¹²⁹ ARPA funds allocation for Metropolitan Cities is available at U.S. Department of Treasury website: <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds>

¹³⁰ Page 23 of the 2021 ACFR.

¹³¹ Page 79 of the 2021 ACFR.

1. The Solid Waste and Street Funds had fund balances of \$35.1 million and \$94.7 million, respectively at June 30, 2021. 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 2020 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 OCFO's response was the cost allocation plan process was being completed and should be completed before June 30, 2021. What is the status of the cost allocation plan?
2. After our review of the 2020 CAFR, LPD asked a follow up question to our FY 2019 CAFR regarding establishing Internal Service Fund for City's Risk Management activity. OCFO's response was that OCFO plans to review the Risk Management reclassification to Internal Service in conjunction with the planned implementation of GASB 84 requirements. The City adopted GASB 84 in FY2021, what is conclusion of OCFO's analysis of the Risk Management Fund reclassification to Internal Service Fund?
3. 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. This is a repeat non-compliance, what is OCFO's action plan to address this issue? Please provide a schedule showing the appropriations that were exceeded by expenses. Were these appropriations with deficits closed out?
4. The City was not in compliance with the distribution of taxes, as stated in MCL 211.43 (Section 43(3) of the General Property Tax Act., 1893 PA 206, as amended). Section 211.43 (3)(a) of the tax act states that property taxes must be remitted within 10 business days after the 1st and 15th day of each month. What is OCFO's action plan to address this issue?
5. On Page 32 of the FY 2021 ACFR, the General Fund subsidy to the Airport decreased by \$2.0 million in FY 2021. Please explain the reason for the decrease.
6. Note 5 on page 66 of the FY 2021 ACFR (Interfund Receivables, Payables, and Transfers) shows General Fund transferred \$1,846,502 to Nonmajor Enterprise Funds. The Airport Fund is the only Nonmajor Enterprise Fund in the FY 2021 ACFR and it shows Transfers In of \$3,342,502. Did the Airport Fund receive additional transfers from other City Funds?
7. PLA's financial statements show \$24,130,710 restricted for debt service. This amount represents the remaining cumulative Utility Users' Tax (UUT) transfers from the General Fund that PLA will use for future debt service payments. LPD calculated total UUT transfers through June 30, 2021 less total debt service payments through June 30, 2021 and noted a difference of \$781,845 between the restricted for debt service amount on the financial statements and amount calculated by LPD. We asked PLA representatives to provide support for the amount shown on the financial statements, but we have not received response so far. Please see attachment VI for LPD's calculations and have PLA provide support for the amount restricted for debt service.

8. On Page 30 of the FY 2021 ACFR, PLA's Net Invested in Capital Assets shows a negative \$4,862,538, but PLA's standalone financial statements show amount Net Invested in Capital Assets as zero (See page 9 of PLA's FY 2021 standalone financial statements). Please explain this difference.
9. On Page 31 of the FY 2021 ACFR, the General Fund provided \$31.7 million in subsidies to the Transportation Fund in FY 2021 compared to \$45.9 million in FY 2020. Please explain why the General Fund subsidy to DDOT decreased by \$14.2 million in FY 2021.

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

10. On page 23 of the FY 2021 ACFR, the General Fund had \$42.9 million and \$59.3 million increases in income tax assessments receivable and wagering tax receivable, respectively, compared to FY 2020. What are these increases due to?
11. General Fund Due from Other Funds decreased \$57.8 million in FY 2021 compared to FY 2020 Due from Other Funds balance. Was this decrease due to improvement on timely interfund receivables settlement?
12. General Fund Income Tax Refunds Payable increased by \$29.4 million to \$70.3 million from the \$40.9 million in fiscal 2020. Is this increased due to estimated liability for nonresident remote work income tax refunds?
13. General Fund Deposits from Vendors and Customers increased by \$20.1 million in FY 2021 to \$26.6 million from the \$6.5 million in FY 2020. What is this increase due to?
14. General Fund Municipal Income Tax revenue increased by \$26.0 million in fiscal year 2021 to \$316.0 million from the \$290.0 million in fiscal year 2020. Was this increase due to improved enforcement efforts by OCFO? Please provide if there were other factors that contributed to the increase in the Municipal Income Tax revenue.
15. General Fund investment earnings were \$3.8 million in FY 2021, a decrease of \$17.4 million from the \$21.1 million in FY 2020. LPD understands the current low interest rate environment and the impact that the COVID-19 pandemic has had on the economy. Please provide OCFO's investment strategy for FY 2022 and beyond.
16. General Fund Public Protection expenditures were \$440.8 million in FY 2021, an increase of \$56.6 million from the \$384.3 million in FY 2020. Why did the public protection expenses increase in FY 2021?
17. General Fund Development and Management expenditures were \$275.0 million in FY 2021, a \$20.8 million decrease from the \$295.8 million in FY 2020. Why did development and management expenses decrease in FY 2021?
18. General Fund Transportation Facilitation expenditures were \$5.9 million in FY 2021, a decrease of \$11.4 million from the \$17.3 million in FY 2020. Why did the transportation facilitation expenses decrease in FY 2021?

19. General Fund Housing Supply and Conditions expenditures were \$20.2 million in FY 2021, a decrease of \$21.5 million from the \$41.7 million in FY 2020. Why did housing supply and conditions expenses decrease in FY 2021?

20. General Fund Capital Outlay expenses were \$13.3 million in FY 2021, a decrease of \$15.6 million from the \$28.8 million in FY 2020. Why did the capital outlay expenses decrease in FY 2021?

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

21. Primary government restricted net position as of June 30, 2021 shows \$40.5 million restricted for Public Act 152. Is this regarding Michigan Public Act 152 of 2011? We understand PA 152 has been amended few times since 2011, please provide some background on how this amount was calculated.

22. Primary government Unearned Revenue liability was \$470.1 at June 30, 2021, an increase of \$427.9 million from the \$42.2 million on June 30, 2020. Is this increase mainly due the \$424.6 million unspent ARPA funds received in FY 2021?

23. On page 21 of the FY 2021 ACFR, the primary government charges for services revenue was \$759.5 million at June 30, 2021, a decrease of \$23.7 million from the \$783.2 million at June 30, 2020. Detailed below is a comparison of the various charges for services for FY 2021 and FY 2020.

	FY 2021	FY 2020	Difference
Public Protection	80,462,520	79,340,103	1,122,417
Health	1,654,975	1,440,641	214,334
Recreation and Culture	1,846,738	1,442,388	404,350
Economic Development	8,216,676	19,386,799	(11,170,123)
Housing Supply and Conditions	1,707,531	864,612	842,919
Physical Environment	45,787,662	44,372,872	1,414,790
Transportation Facilitation	14,303,892	35,452,937	(21,149,045)
Development and Management	140,938,844	123,827,642	17,111,202
Water	111,783,623	114,814,401	(3,030,778)
Sewer	336,786,647	331,693,766	5,092,881
Transportation	2,739,015	15,116,575	(12,377,560)
Automobile Parking	-	-	-
Airport	369,861	451,812	(81,951)
Public Lighting Authority	12,944,837	15,026,574	(2,081,737)
Total	759,542,821	783,231,122	(23,688,301)

The following had significant changes in charges for services revenue: (1) economic development \$11.2 million decrease; (2) transportation facilitation \$21.1 million decrease; (3) development and management \$17.1 increase; (4) transportation (DDOT) \$12.4 million

decrease. Please explain the significant changes in the charges for services revenues for FY 2021 compared to FY 2020 charges for services revenues.

24. Primary government operating grants revenue was \$385.9 million for the year ended June 30, 2021, an increase of \$40.2 million from the \$345.7 million for the year ended June 30, 2020. Please explain this increase in operating grants revenue in FY 2021.
25. Primary government capital grants revenue was \$4.7 million for the year ended June 30, 2021, a decrease of \$29.8 million from the \$34.5 million for the year ended June 30, 2020. The decrease in capital grants relates to the Transportation Fund (See page 21 of the FY 2021 ACFR). Please explain this decrease in DDOT's capital grants in FY 2021.
26. Primary government health expenses were \$125.5 million in FY 2021, an increase of \$61.6 million from the \$63.9 million in FY 2020. Was the increase in health expenses due to COVID-19 public health emergency response only?
27. Primary government economic development expenses were \$72.0 million for the year ended June 30, 2021, a decrease of \$6.8 million from the \$78.8 million for the year ended June 30, 2020. Why did the economic development expenses decrease in FY 2021?
28. Primary government transportation facilitation expenses were \$131.5 million for the year ended June 30, 2021, an increase of \$34.6 million from the \$96.8 million for the year ended June 30, 2020. Why did the transportation facilitation expenses increase in FY 2021?
29. Primary government housing supply and conditions expenses were \$20.6 million for the year ended June 30, 2021, a decrease of 21.3 million from the \$41.9 million for the year ended June 30, 2020. Why did the housing supply and conditions expenses decrease in FY 2021?
30. Primary government development and management expenses were \$481.2 million in FY 2021, an increase of \$9.0 million from the \$472.2 million in FY 2020. Why did development and management expenses increase in FY 2021?
31. Primary government interest on long-term debt was \$74.0 million in FY 2021, an increase of \$10.3 million from the \$63.6 million in FY 2020. Why did the interest on long-term debt increase so much in FY 2021?
32. Primary government sewage disposal expenses were \$345.5 million in FY 2021, an increase of \$22.0 million from the \$323.5 million in FY 2020. Why did the Sewage Disposal expenses increase in FY 2021?
33. Primary government water expenses were \$134.1 million in FY 2021, an increase of \$18.3 million from the \$115.8 million in FY 2020. Why did the water expenses increase in FY 2021?
34. Primary government airport expenses were \$4.1 million in FY 2021, an increase of \$3.1 million from the \$1.0 million in FY 2020. Why did the Airport expenses increase in FY 2021?

35. On Page 52 of the 2021 ACFR, under Note 1, the second from the last sentence under the description for “Wagering Tax” indicates: “The City accrues additional wagering tax revenue when the gross internet gaming revenue falls under the \$183 million in a fiscal year, in accordance with the Lawful Internet Gaming Act (PA 152 of 2019).” However, based on LPD’s inquiry with the OCFO, it appears that the \$183 million threshold test is on all gaming revenue that rolls up to the wagering tax line in the ACFR (i.e., all gaming revenue other than municipal service fees). If the latter is correct, we request that the OCFO make the correction under the “Wagering Tax” footnote in the 2022 ACFR. In addition, the last sentence of the “Wagering Tax” footnote indicates: “In FY 2021, the City accrued approximately \$40 million in additional wagering tax receivable as a result of this provision.” However, the OCFO informed LPD that the \$40 million in additional wagering tax revenue will most likely be received by the City after 60 days from June 30, 2021, which means the \$40 million should have been recorded as a deferred inflow of resources rather than as a receivable. If the \$40 million should have been recorded as a deferred inflow of resources, would the adjustment be material enough to make a prior year adjustment in the 2022 CAFR to make this correction?

Conclusion

LPD commends the Administration for issuing the FY 2021 ACFR before the December 31, 2021 deadline during a global pandemic that forced OCFO’s staff to work remotely.

LPD encourages the Budget, Finance and Audit committee to continue its due diligence in understanding and examining the 2021 ACFR, and future ACFRs to come.

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

Attachments

cc: Auditor General’s Office
Jay Rising, CFO
John Naglick, Chief Deputy CFO/Finance Director
Tanya Stoudemire, Chief Deputy CFO/Financial Services
Steven Watson, Deputy CFO/Budget Director
Eric Higgs, Deputy CFO/Controller
Gail Fulton, Mayor’s Office

Attachment I

**Balance Sheet
General Fund**

	Balance June 30, 2021	Balance June 30, 2020	Variance	Balance June 30, 2013
ASSETS				
Cash and Investments	\$ 493,204,044	340,900,125	152,303,919	3,745,156
Investments	-	-	-	98,431,798
Accounts and Contracts Receivable:				
Estimated Withheld Income Taxes Receivable	23,863,183	20,360,873	3,502,310	26,324,313
Utility Users' Taxes Receivable	3,562,049	2,827,227	734,822	922,059
Property Taxes Receivable	18,208,894	17,292,125	916,769	229,037,260
Income Tax Assessments	176,430,649	133,503,591	42,927,058	34,395,579
Special Assessments	24,669,919	24,669,919	-	24,678,690
DIA and Foundation Receivable	158,315,008	165,798,602	(7,483,594)	-
Wagering Tax Receivables	59,263,432	-	59,263,432	-
Trade Receivables	217,007,326	204,784,096	12,223,230	182,223,491
Total Accounts and Contracts Receivable	681,320,460	569,236,433	112,084,027	497,581,392
Allowance for Uncollectible Accounts	(287,787,714)	(301,485,622)	13,697,908	(438,864,254)
Total Accounts and Contracts Receivable - Net	393,532,746	267,750,811	125,781,935	58,717,138
Due from Other Funds	72,677,530	130,471,733	(57,794,203)	37,213,151
Advances to Other Funds	45,060,448	46,423,800	(1,363,352)	-
Due from Fiduciary Funds	-	707,146	(707,146)	2,795,937
Due from Component Units	637,578	585,730	51,848	1,696,589
Due from Other Governmental Agencies	42,591,089	14,657,977	27,933,112	84,993,602
Advances to Component units	13,195,247	23,315,637	(10,120,390)	-
Prepaid Expenditures	3,923,878	8,199,760	(4,275,882)	-
Restricted Cash and Investments	318,328,009	280,376,564	37,951,445	-
Restricted Other Assets	24,540,138	10,870,395	13,669,743	-
Other Advances	-	-	-	4,050,006
Other Assets	217,703	92,595	125,108	895,271
Total Assets	1,407,908,410	1,124,352,273	283,556,137	292,538,648
DEFERRED OUTFLOWS OF RESOURCES				
Total Assets and Deferred Outflows of Resources	\$ 1,407,908,410	1,124,352,273	283,556,137	292,538,648
LIABILITIES				
Accounts and Contracts Payable	\$ 37,048,668	49,745,420	(12,696,752)	18,854,370
Accrued Liabilities	31,071,843	16,875,882	14,195,961	34,807,913
Accrued Salaries and Wages	36,756,904	38,034,746	(1,277,842)	19,265,344
Due to Other Funds	6,132,453	2,689,809	3,442,644	86,548,889
Due to Fiduciary Funds	-	-	-	44,439,265
Due to Other Governmental Agencies	11,496,789	10,604,347	892,442	81,863,033
Due to Component Units	-	-	-	1,985,328
Income Tax Refunds Payable	70,253,484	40,876,632	29,376,852	8,373,617
Deposits from Vendors and Customers	26,577,727	6,525,443	20,052,284	4,986,969
Unearned Revenue	-	-	-	45,260,341
Other Liabilities	-	-	-	14,892,981
Claims and Judgments	-	-	-	4,241,347
Total Liabilities	\$ 219,337,868	165,352,279	53,985,589	365,519,397
DEFERRED INFLOWS OF RESOURCES	334,414,897	212,746,134	121,668,763	-
FUND BALANCES (DEFICIT)				
Nonspendable:				
Prepays and Long-term Advances	\$ 62,179,558	77,939,197	(15,759,639)	4,050,006
Restricted for:				
Capital Acquisitions	-	-	-	979,826
Retiree Protection Trust	235,354,491	184,724,028	50,630,463	-
QOL Program	-	2,727,880	(2,727,880)	-
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	107,280,192	107,280,192	-	-
Continuign Appropriations	71,877,818	85,678,097	(13,800,279)	-
Subsequent Appropriations	113,274,123	77,381,658	35,892,465	-
Risk Management Operations	37,603,047	53,959,620	(16,356,573)	-
Unassigned:				
General Fund Surplus	179,086,416	109,063,188	70,023,228	(132,560,895)
Total Fund Balances	854,155,645	746,253,860	107,901,785	(72,980,749)

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

	<u>Balance</u> <u>June 30, 2021</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Variance</u>	<u>Balance</u> <u>June 30, 2013</u>
REVENUES:				
Taxes:				
Property Taxes	\$ 120,691,671	\$ 116,616,661	\$ 4,075,010	\$ 132,755,307
Municipal Income Tax	316,003,427	290,017,002	25,986,425	248,017,356
Utility Users' Tax	31,866,731	26,864,531	5,002,200	35,299,844
Wagering Tax	136,694,691	132,404,085	4,290,606	174,599,992
Other Taxes and Assessments	2,729,532	2,534,911	194,621	11,689,666
Interest and Penalties on Taxes	3,886,017	3,021,076	864,941	924,928
Licenses, Permits, and Inspection Charges	12,570,409	11,400,495	1,169,914	10,665,160
Intergovernmental:				
Federal	4,779,040	2,674,439	2,104,601	47,517,680
State:				
State Shared Revenue	214,027,713	181,745,030	32,282,683	183,058,520
Local Community Stabilization Authority	9,893,954	8,728,340	1,165,614	
State and Local Sources	2,339,916	601,867	1,738,049	8,990,794
Sales and Charges for Services	84,577,276	84,002,852	574,424	138,617,705
Ordinance Fines and Forfeitures	12,769,430	18,108,264	(5,338,834)	18,941,254
Revenue from Use of Assets	5,638,507	18,033,887	(12,395,380)	12,017,348
Investment Earnings (Losses)	3,758,936	21,144,638	(17,385,702)	(532,986)
DIA and Foundation Revenue	18,675,000	18,675,000	—	—
Other Revenue	23,429,063	23,864,932	(435,869)	20,750,950
Total Revenues	1,004,331,313	960,438,010	43,893,303	1,043,313,518
EXPENDITURES:				
Current:				
Public Protection	440,826,035	384,263,893	56,562,142	452,422,790
Health	6,913,196	8,004,659	(1,091,463)	32,705,761
Recreation and Culture	13,813,778	14,901,060	(1,087,282)	13,149,199
Economic Development	4,050,305	12,813,870	(8,763,565)	
Transportation Facilitation	5,900,365	17,280,471	(11,380,106)	—
Housing Supply and Conditions	20,197,343	41,683,286	(21,485,943)	4,188,991
Physical Environment	11,306,012	11,662,382	(356,370)	68,268,583
Development and Management	275,041,802	295,828,839	(20,787,037)	191,052,907
Debt Service:				
Principal	42,935,000	36,240,000	6,695,000	—
Interest	41,769,369	43,417,313	(1,647,944)	2,570,598
Bond Issuance Costs	—	—	—	1,612,046
Capital Outlay	13,256,134	28,835,506	(15,579,372)	25,338,872
Total Expenditures	876,009,339	894,931,279	(18,921,940)	791,309,747
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	128,321,974	65,506,731	62,815,243	252,003,771
OTHER FINANCING SOURCES (USES):				
Sources:				
Transfers In	394,627	32,365,895	(31,971,268)	9,256,416
Proceeds From Sale of Assets	19,218,125	24,768,323	(5,550,198)	
Proceeds From Bonds and Notes Issued	5,840,896	4,159,104	1,681,792	143,530,688
Uses:				
Transfers Out	(45,923,188)	(72,618,106)	26,694,918	(208,284,967)
Principal Paid to Bond Agents for Refunded Bonds	—	—	—	
Total Other Financing Sources (Uses)	(20,469,540)	(11,324,784)	(9,144,756)	(55,497,863)
Net Change in Fund Balances	107,852,434	54,181,947	53,670,487	196,505,908
Fund Balances at Beginning of Year (Restated)	746,303,211	692,121,264	54,181,947	(269,486,657)
Fund Balances at End of Year	\$ 854,155,645	\$ 746,303,211	\$ 107,852,434	\$ (72,980,749)

Attachment III

Statement of Net Position Primary Government

	Balance June 30, 2021	Balance June 30, 2020	Variance	Balance June 30, 2013
ASSETS				
Cash and Cash Equivalents	\$ 1,370,766,986	\$ 921,245,614	\$ 449,521,372	\$ 245,748,434
Restricted Cash and Cash Equivalents	868,490,918	618,123,656	250,367,262	
Investments	—	—	—	946,998,283
Accounts and Contracts Receivable - Net	484,584,397	385,216,608	99,367,789	300,747,636
Due from Fiduciary Funds	—	707,146	(707,146)	
Due from Component Units	670,071	818,665	(148,594)	2,890,675
Due from Other Governmental Agencies	127,975,247	83,433,550	44,541,697	111,724,029
Inventory	11,672,148	10,353,067	1,319,081	20,559,223
Prepaid Expenses	4,313,454	16,643,521	(12,330,067)	4,917,878
Long-Term Receivable	—	—	—	9,521,918
Advance to Component Unit	13,195,247	23,315,637	(10,120,390)	24,016,604
Receivable from GLWA	1,048,515,349	1,063,483,169	(14,967,820)	
Other Assets	—	—	—	1,044,242
Net Pension Asset	28,023,927	37,262,730	(9,238,803)	1,286,225,715
Deferred Charges	—	—	—	143,230,109
Restricted Assets	24,540,138	10,870,395	13,669,743	
Capital Assets:				
Non-Depreciable	501,799,071	567,187,786	(65,388,715)	931,442,832
Depreciable, Net	2,431,800,834	2,330,446,611	101,354,223	5,781,339,248
Total Capital Assets - Net	<u>2,933,599,905</u>	<u>2,897,634,397</u>	<u>35,965,508</u>	<u>6,712,782,080</u>
Total Assets	<u>6,916,347,787</u>	<u>6,069,108,155</u>	<u>847,239,632</u>	<u>9,810,406,826</u>
DEFERRED OUTFLOWS OF RESOURCES				
	<u>363,531,307</u>	<u>199,713,028</u>	<u>163,818,279</u>	<u>-</u>
LIABILITIES				
Accounts and Contracts Payable	138,968,010	146,081,068	(7,113,058)	182,314,575
Accrued Liabilities	45,637,139	55,984,548	(10,347,409)	53,467,821
Accrued Salaries and Wages	46,741,256	46,808,063	(66,807)	23,330,097
Accrued Interest Payable	22,398,249	20,120,569	2,277,680	169,432,102
Income Tax Refunds Payable	70,253,484	40,876,632	29,376,852	
Due to Other Governmental Agencies	33,962,188	30,996,002	2,966,186	130,823,920
Due to Fiduciary Funds	—	1,687,489	(1,687,489)	
Due to Component Units	3,690,000	7,486,499	(3,796,499)	9,125,372
Due to Great Lakes Water Authority	16,732,944	32,041,306	(15,308,362)	
Deposits and Refunds	37,462,786	16,806,222	20,656,564	14,172,507
Unearned Revenue	470,072,188	42,151,764	427,920,424	18,678,599
Derivative Instruments - Swap Liability	—	—	—	296,488,744
Settlement Credit Contingent Liability	25,000,000	25,000,000	—	
Net Pension Liability	2,159,574,662	1,792,678,121	366,896,541	
Other Liabilities	—	—	—	55,293,277
Long-Term Obligations:				
Due within one year	220,962,385	216,076,045	4,886,340	342,480,094
Due in more than one year	3,126,819,142	2,902,255,066	224,564,076	9,192,977,938
Total Liabilities	<u>6,418,274,433</u>	<u>5,377,049,394</u>	<u>1,041,225,039</u>	<u>10,488,585,046</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>47,146,024</u>	<u>47,834,170</u>	<u>(688,146)</u>	<u>-</u>
NET POSITION (DEFICIT)				
Net Investment in Capital Assets	1,610,575,810	1,617,233,051	(6,657,241)	1,358,091,011
Restricted for:				
Highway and Street Improvement	61,780,375	64,228,518	(2,448,143)	39,980,142
Construction Code	13,691,010	6,063,745	7,627,265	
Endowments and Trust (Expendable)	677,036	684,944	(7,908)	819,870
Endowments and Trust (Non-Expendable)	964,747	1,005,096	(40,349)	937,861
Capital Projects and Acquisitions	—	—	—	1,907,238
Debt Service	85,112,676	72,369,078	12,743,598	275,450,351
Water Affordability	1,593,502	1,463,004	130,498	
Budget Stabilization	7,500,000	7,500,000	—	
Community and economic development	14,734,075	18,283,186	(3,549,111)	
Grants	41,162,508	31,937,805	9,224,703	
Public Act 152	40,510,602	—	40,510,602	
Police	4,547,085	5,848,903	(1,301,818)	
Rubbish Collection and Disposal	35,052,029	43,458,071	(8,406,042)	
Unrestricted (Deficit)	<u>(1,103,442,818)</u>	<u>(1,026,137,782)</u>	<u>(77,305,036)</u>	<u>(2,355,364,693)</u>
Total Net Position (Deficit)	<u>\$ 814,458,637</u>	<u>\$ 843,937,619</u>	<u>\$ (29,478,982)</u>	<u>\$ (678,178,220)</u>

Attachment IV
Statement of Changes In Net Position
Primary Government

	Balance June 30, 2021	Balance June 30, 2020	Variance	Balance June 30, 2013
Revenues				
Program revenues				
Charges for services	\$ 759,542,821	\$ 783,231,122	\$ (23,688,301)	\$ 1,124,725,171
Operating grants	385,880,823	345,717,294	40,163,529	281,613,540
Capital grants	4,688,394	34,525,983	(29,837,589)	31,595,558
General revenues				
Property Taxes	192,367,046	189,638,983	2,728,063	199,191,923
Municipal Income Tax	396,116,231	304,292,369	91,823,862	248,017,356
Utility User Tax	31,869,369	26,866,308	5,003,061	35,299,844
Wagering Tax	177,205,293	132,404,085	44,801,208	174,357,416
Shared Taxes	228,772,007	194,142,893	34,629,114	183,058,520
Other Local Taxes	6,929,332	5,687,851	1,241,481	15,309,357
Investment Earnings	4,408,911	29,117,592	(24,708,681)	(135,001,916)
Miscellaneous	92,351,185	92,209,826	141,359	19,120,327
Gain/(Loss) on Sale of Capital Assets	2,790,442	17,304,906	(14,514,464)	
Total Revenues	2,282,921,854	2,155,139,212	127,782,642	2,177,287,096
Expenses				
Public Protection	619,098,994	618,928,434	170,560	694,708,112
Health	125,485,209	63,925,533	61,559,676	38,070,128
Education	-	-	-	37,040,734
Recreation and Culture	39,569,134	37,826,345	1,742,789	26,856,182
Economic Development	71,983,530	78,756,473	(6,772,943)	81,455,649
Transportation facilitation	131,452,454	96,823,521	34,628,933	20,745,859
Housing Supply and Conditions	20,630,109	41,892,422	(21,262,313)	5,086,777
Physical Environment	83,938,992	83,210,022	728,970	121,192,467
Development and Management	481,194,151	472,185,625	9,008,526	205,937,823
Interest on Long-term Debt	73,957,188	63,638,561	10,318,627	133,545,027
Sewage Disposal	345,510,369	323,538,794	21,971,575	523,909,799
Transportation	157,397,166	162,061,355	(4,664,189)	166,024,287
Water	134,115,230	115,816,967	18,298,263	398,086,572
Automobile Parking	-	-	-	20,089,165
Airport	4,108,471	1,025,146	3,083,325	1,910,151
Public Lighting Authority	23,959,839	22,916,884	1,042,955	
Total Expenses	2,312,400,836	2,182,546,082	129,854,754	2,474,658,732
Excess (deficiency) before	(29,478,982)	(27,406,870)	(2,072,112)	(297,371,636)
Gain on Sale of Capital Assets	-	-	-	(8,832,679)
Increase/(decrease) in Net Position	(29,478,982)	(27,406,870)	(2,072,112)	(306,204,315)
Net Position, July 1 (Restated)	843,937,619	871,344,489	(27,406,870)	(371,973,905)
Net Position, June 30	\$ 814,458,637	\$ 843,937,619	\$ (29,478,982)	\$ (678,178,220)

ATTACHMENT V

Relevant for FY 2021: Question on FY 2020 DWSD's Statement of Net Position and DWSD Management Responses

- LPD understands DWSD's response for FY 2019 CAFR question that the department consulted with Plante Moran concerning the appropriate 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.

ATTACHMENT VI

Public Lighting Authority

Excess Subsidy and Utility User Tax (FY 2013-FY 2021)

	2013 to 2015	2016	2017	2018	2019	2020	2021	Total
Utility User Tax	\$ 31,249,994	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000	12,499,995	\$ 106,249,989
City Subsidy	6,284,677	8,886,743	10,039,058	10,302,828	10,099,883	10,453,826	10,403,263	66,470,278
Other Revenue	1,248,981	1,142,791	1,072,660	835,724	136,841	2,526,574	444,842	7,408,413
Total Revenue	38,783,652	22,529,534	23,611,718	23,638,552	22,736,724	25,480,400	23,348,100	180,128,680
Operating Expense	7,056,353	8,157,578	7,813,490	12,711,589	13,958,851	14,830,343	15,933,575	80,461,779
Other Expense			10,493	(205,540)	(526,096)	(1,028,201)	(35,568)	(1,784,912)
Debt Service	9,582,998	8,600,792	8,509,892	8,385,092	8,255,294	8,086,541	8,026,264	59,446,873
Bond Issuance	3,035,877		5,000	5,000	-	-	-	3,045,877
Total Expense	19,675,228	16,758,370	16,338,875	20,896,141	21,688,049	21,888,683	23,924,271	141,169,617
Surplus/(Deficit)	<u>\$ 19,108,424</u>	<u>5,771,164</u>	<u>7,272,843</u>	<u>2,742,411</u>	<u>1,048,675</u>	<u>3,591,717</u>	<u>(576,171)</u>	<u>\$ 38,959,063</u>
Principal Paid	2,970,000	3,030,000	3,120,000	3,245,000	3,749,458	374,458	3,919,458	20,408,374
Excess UUT	15,661,119	869,208	865,108	864,908	495,248	4,039,001	554,273	\$ 23,348,865