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MEMORANDUM

TO:	Irvin Corley, Jr., Executive Policy Manager-LPD
FROM:	John Naglick, Jr., Chief Deputy CFO / Finance Director
DATE:	July 8, 2022
RE:	OCFO Follow-up Responses to Review of the 2021 ACFR for the City of Detroit (Part 1)

Please find attached responses to your follow-up questions regarding the 2021 ACFR. Answers to the six additional questions from Wednesday, July 6 are also included.

LPD's question #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?

OCFO's response: As part of several initiatives started in recent years, the Office of the Controller completes its Citywide Cost Allocation Plans which in turn provides a methodology for ensuring Special Revenue Funds like DPW are charged for their proportionate share of indirect overhead costs. Accordingly, in FY21 DPW budgeted and posted $7.2 mil in indirect costs to reimburse the GF ($5.7 mil was charged to Major Streets and $1.6 mil to Local Streets). The Office of the Controller in partnership with Office of Departmental Financial Services (ODFS) review of the cost allocation plan is still in process to ensure all costs are properly allocated.

LPD's follow up question: Please provide expenditure account, cost center and appropriation for the indirect costs charged to the Major and Local Street Funds in FY2021. In addition, please provide where the corresponding revenue is recorded.

OCFO's follow up response: As shown in the supporting table below, Major and Local Street Funds #3301 and #3302 recorded total indirect costs of $7.2 mil in object #627140-Purchased Staff Services under accounts **3301-06424-193840-627140** and **3302-06425-190867-627140** respectively. In contrast the corresponding revenue in the GF #1000 was recorded in object

#447605-Other Reimbursements under **1000-04739-351020-447605**. Accordingly, we can deduce that total revenue and expenditures equal and completely offset each other as expected.

Type	F-A-C-O	FUND	Object_Code	ACFR_Line	FY21_Actuals	FY21_Budget
Rev	1000-04739-351020-447605	1000-General Fund	447605-Other Reimb-Deptl	Sales and Charges for Services	**-$7,279,245**	**-$7,279,245**
Tot Rev					**-$7,279,245**	**-$7,279,245**
Exp	3301-06424-193840-627140	3301-Major Street	627140-Pur-Staff Services	Transportation Facilitation	5,685,090	5,685,090
Exp	3302-06425-190867-627140	3302-Local Streets	627140-Pur-Staff Services	Transportation facilitation	1,594,155	1,594,155
Tot Exp		**3301 & 3302**			**$7,279,245**	**$7,279,245**

LPD's question #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?

OCFO's response: The FY21 Airport Transfers include the General Fund annual subsidy to the Airport of $1.8M plus $1.5M land transfer to properly reflect the ownership of the asset (based on an OCFO internal audit of City Land Ownership). The General Fund subsidy was comparable year of year ($1.8M).

LPD's follow up question: Please provide the specific land parcels that were transferred to the Airport Fund. Did the land transfer require City Council approval?

OCFO's follow up response: During Land testing in FY 2021, we noted that parcel #21010582 at address **11055 GLENFIELD (DE LASALLE SCHOOL)** under tag **#A21-010852** with a carrying value of **$1,496,000** was in the system as owned by HRD GASB34 Fund #2095. In contrast, information obtained from the Warranty Deed showed the property was deeded to Airport in 2001. As a result, the City booked an additional transfer of $1.5 mil from Governmental Funds (HRD GASB34 #2095) to Non-major Enterprise Fund (Airport #5095) to properly reclassify parcel 21010582 from HRD's books to Airport, based on information reviewed in the Warranty Deed.

With respect to whether Council approved the noncash transfer of Land to Airport, we should categorically note that this was only a book-entry to correct a prior year error in the GASB34 funds in Fixed Assets and thus did not usurp or add to the existing budgetary resources in FY 2021. As a result, there was no requirement to obtain additional approvals from City Council and accordingly none were obtained.

LPD's question #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 used 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.

OCFO's response: Please see attached schedule prepared by PLA Auditors, George Johnson & Co. The $24,130,710 at 6/30/2021 and the $24,529,982 at 6/30/2020 shown as restricted for debt service in the financial statements is comprised of the sum of the amounts held by the bond trustee, Wilmington Trust at those dates.

LPD's follow up question: Thank you for providing the cash with Trustee schedule. However, We at LPD believe that the difference is due to the cumulative earnings on the cash with Wilmington Trust. Please provide per year earnings on the cash deposited with Wilmington Trust for fiscal years 2014 to 2021.

OCFO's follow up response: Upon further review of LPD attachment VI, OCFO discovered an error in the amount shown for principal paid for fiscal years 2019, 2020 and 2021 in that document. In each of those three fiscal years, LPD attachment VI includes $374,458 of bond premium amortization on the "Principal Paid" line, which is a non-cash item. LPD attachment VI did not have the same error in the years 2013-2018. After correcting for this error, LPD attachment VI would show Excess UUT of $24,472,239 at June 30, 2021, compared to $24,130,710 on the schedule prepared by PLA Auditors, George Johnson &Co., which matches the amount shown in the audited financial statements. LPD attachment VI is not an accounting record that has been reconciled to the PLA audited books and records each year, so there may be other errors contained in it. LPD Attachment VI also shows receipts of UUT prior to the issuance of the 2013 bonds and bond issuance costs, which the OCFO could not verify. The PLA trustee has six different bank accounts that are used to account for the receipt of intercepted UUT and the payment of principal and interest on the bonds. So, the only way to track down the difference would be to reconcile the receipts and disbursements in those six bank accounts over the eight years since the bonds were issued as compared to LPD attachment VI. OCFO does not have access to these PLA trustee accounts and would suggest that the Auditor General or PLA independent auditors (George Johnson & Co) be engaged to conduct this analysis to the extent that LPD wants to determine why LPD attachment VI does not match the PLA audited financial statements.

LPD's question #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?

OCFO's response: The wagering tax increase relates to the $40.5M Hold Harmless Payment and adjustments to the annual Municipal Services Fee which account for the new wagering tax types (retail sports betting, online gaming and online sports betting). The income tax receivable is adjusted each year based on new assessments from the current tax year less collections from previous tax years. Additionally, in FY21, Treasury recorded an accrued receivable (in accordance with GASB/GAAP standards) in the amount of $54.2M for future additions to the receivable balances that relate to prior years primarily due to ongoing compliance work.

LPD's follow up question: Please explain how the amount of $54.2 million in income tax receivable booked in FY21 was derived. Does the $54.2 million reflect the total universe of prior year income tax receivables that Treasury through ongoing compliance work could go after to collect? If not, what is the estimated total income tax receivable universe amount? Is all ongoing compliance work done in-house, or are there outside collection agencies utilized by the Treasury's Office to assist in the ongoing compliance work?

OCFO's follow up response: PENDING

LPD's question #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?

OCFO's response: In FY20, the income tax payable included an estimated remote work liability ($23.5M), refunds pending processing/approval ($10.7M), credit carry-forwards ($1.9M) and an accrual related to the income tax extension ($4.8M).

In FY21, the income tax payable included an estimate on all tax payments that could be subject to refund including withholding, individual and corporate ($35M), refunds pending processing/approval ($23.4M), estimated refunds from tax return extensions ($9.6M) and credit carry-forwards ($2.2M).

LPD's follow up question: For the FY21 income tax payable liability, please provide the final tax payments that were subject to refund including withholding, individual and corporate, refunds approved and processed, refunds from tax return extensions and credit carry-forwards to see if the refunds related to nonresident remote work has actually decreased as of June 30, 2021, which would hopefully reflect that more nonresidents are choosing to return to work in the City of Detroit proper.

OCFO's follow up response: PENDING

LPD's question #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?

OCFO's response: The $9.0 mil or 2% slight increase in development and management expenses is primarily attributed to activities in the Demolition agency #16 which was established FY2021 of $7.4 mil and other $1.6 mil.

LPD's follow up question: It appears rolling up Agency 16 Demolitions expenses to the Housing Supply and Conditions category instead of the Development and Management would make more sense. Does the OCFO concur?

OCFO's follow up response: That seems reasonable. We will review this for the FY 2022 ACFR. It is possible that the current roll-up is a legacy issue from the prior defunct Agency 16 prior to the establishment of the Demolition Department.

LPD's first part of question #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.

OCFO's response: LPD feels the OCFO did not respond to the above part of question 35.

LPD's follow up question: LPD requests that the OCFO responds to the first part of question 35 noted above.

OCFO's follow up response: Yes, if this footnote is needed again for the FY 2022 ACFR, we will revise the note accordingly.

ADDITIONAL QUESTIONS

1. On page 56 of the 2021 ACFR, the pension funds and Employee Death Benefits OPEB fund is no longer a part of the Fiduciary statements on pages 35 and 36, per implementation of the GASB 84, Fiduciary Activities. No fault of yours, but I feel this is unfortunate for the average ACFR reader. It appears that now a reader cannot see the balance sheet (Statement of Fiduciary Net Position) and income statement (Statement of Changes in Fiduciary Net Position) for the pension and opeb funds in the ACFR, including in the footnotes and supplemental schedules. A reader now has to know to find the balance sheet and income statements for the pension and opeb funds in the respective GRS and PFRS annual financial audit reports on the retirement system website. Should there be a reference to the pension annual financial audit reports in the pension footnote in future ACFRs? Should a pension balance sheet and income statement be a part of the supplementary schedules in future ACFRs that are referenced in the pension footnote in future ACFRs?

OCFO's Response: You are correct that the presentation changed as a result of the required adoption of GASB 84, Fiduciary Activities. In essence, because the City does not have majority control of the Board of the pension funds and OPEB funds, they can no longer be shown as the City's assets in the ACFR. You will note that in the government wide financial statements, the net pension liability is reflected recognizing that the City is responsible for funding these benefits as the plan sponsor. I attached a copy of the ACFR for FY20, which is marked up in red to show the changes when comparing the FY20 ACFR to the FY21 ACFR. The presentation in the FY21 ACFR fully complies with the GASB standards.

2. In layman's terms, please explain why the COD's pension systems and opeb funds are no longer reflected in ACFR fiduciary statements. I probably to want to say something briefly to this in my power point.

OCFO's Response: In essence, because the City does not have majority control of the Board of the pension funds and OPEB funds, they can no longer be shown as the City's assets in the ACFR.

3. Please provide the agencies and programs that are included in the following expense functions used for the government-wide's statement of activities: public protection, health, recreation and culture, economic development, housing supply and conditions, physical environment, transportation facilitation, and development and management.

OCFO'S Response: Please see attached spreadsheet with the rollup of agencies to all Govt Wide expenses by function. Also, because there are some minor reconciling items we included a reconciliation tab to show how the numbers agree to p.21 of the ACFR. Please reach out to Jude Katatumba with any questions (mapping tab is the key).

4. Under the "Assigned" portion of the General Fund's fund balance, please explain the "continuing appropriations" and "subsequent year budget" categories, and how they impact future budgets.

OCFO's Response: The "continuing appropriations" category represents appropriations within the General Fund that do not lapse at year-end and continue into the next fiscal year. In the case of the FY21 ACFR, this means appropriations that continued into FY22. This primarily includes prior year blight (fund 1003), capital (fund 4533), quality of life (fund 3100), and PLD decommissioning appropriations. The "subsequent year budget" category represents General Fund appropriations City Council authorized for the subsequent year budget from fund balance. In the case of the FY21 ACFR, this means new appropriations from fund balance appropriated in the FY22 budget. This primarily includes new blight (fund 1003), capital (fund 4533), and other one-time spending appropriations, such as supplemental Retiree Protection Fund deposits. There is no impact on future budgets beyond what has already been authorized and budgeted. If these appropriations had not been made, then the unassigned fund balance would be larger, all else equal.

5. According to page 4 of LPD's report on the 2021 ACFR, cash and equivalents was at $102.1 M as of June 30, 2013, and $811.5 M as of June 30, 2021. In case the BF&A Committee members ask, can the OCFO explain why such a large increase since June 30, 2013?

OCFO's Response: The City is obviously in a much stronger cash position as a result of running budget surpluses over the eight years since bankruptcy exit.

6. I'm considering adding some of the schedules/charts from the MD&F section of the 2021 ACFR in my power point. But based on time constraints, I may not be able to do so for this power point at least. Is the 2021 MD&F schedules/charts available in word or excel format for an easy transition to a power point? I could try scanning the schedules/charts I want to use and cut and paste them to the power point, but that take a while.

OCFO's Response: The MD&A files were previously sent to LPD under separate cover.