



CITY OF DETROIT
OFFICE OF THE CHIEF FINANCIAL OFFICER

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March 31, 2021

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

Re: FY 2021 – 2030 Long-Term Forecast Report for Legacy Pension Plans and Debt Obligations

Dear Honorable City Council Members:

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

This report is provided in accordance with the requirements included in Detroit Financial Review Commission (FRC) Resolution 2020-03, which granted the City its waiver of active FRC oversight through June 30, 2021. It includes long-term forecasts for the City's legacy pension plans, debt obligations, revenues and expenditures, and the assumptions used for the analysis.

Best regards,

Jay B. Rising
Acting CFO

Att: FY 2021 – 2030 Long-Term Forecast Report for Legacy Pension Plans and Debt Obligations

Cc: Mayor Michael E. Duggan, City of Detroit
Hakim Berry, Chief Operating Officer
Tanya Stoudemire, Chief Deputy CFO/Policy & Administration Director
John Naglick, Jr., Chief Deputy CFO/Finance Director
Christa McLellan, Deputy CFO/Treasurer
Steve Watson, Deputy CFO/Budget Director
Avery Peeples, City Council Liaison



Long-Term Forecast Report

FY 2021–2030

Office of the Chief Financial Officer
Office of Budget

March 31, 2021

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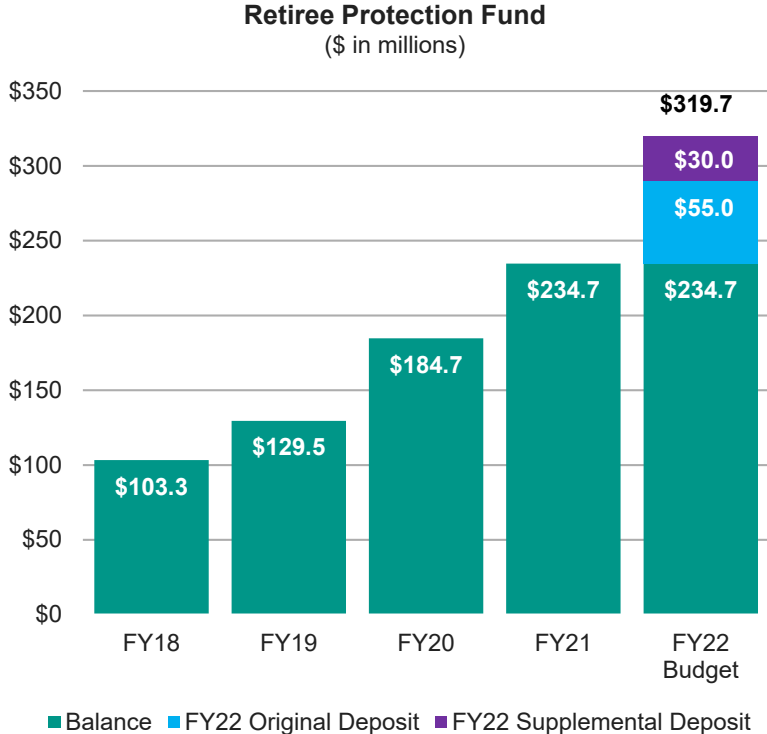
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Executive Summary

- Detroit continues to face long-term financial challenges following the COVID-19 pandemic's impact on the economy and City's finances
- In response, we have proactively maintained balanced budgets through the pandemic and have not wavered in our commitment to our retirees and meeting our long-term obligations
- The proposed FY 2022 - FY 2025 Four-Year Financial Plan includes all of the originally scheduled Retiree Protection Fund ("RPF") deposits, plus an additional \$30M in FY22
- To achieve fiscal sustainability, we will need to identify additional RPF funding, reduce recurring spending through new efficiencies and innovations, and continue to grow and diversify our revenues
- Targeted one-time investments that achieve these goals will be crucial to the City's future

Legacy Pension Obligations

Legacy Pensions Background

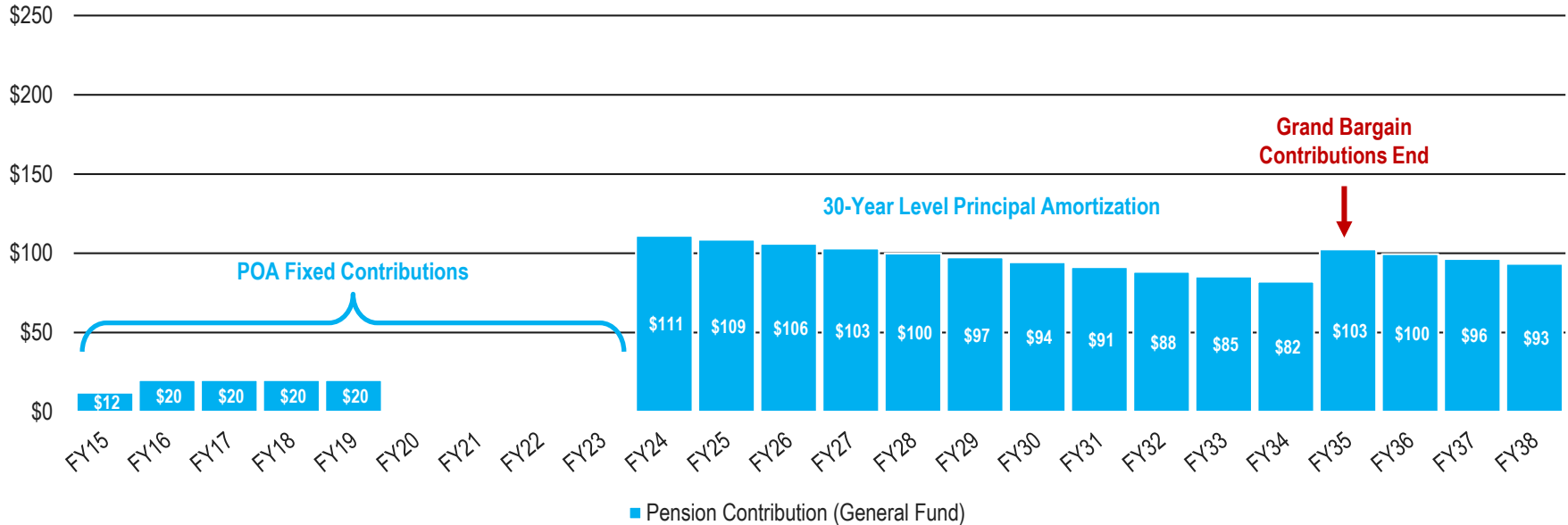


- The Bankruptcy Plan of Adjustment gave the City a 10-year “pension holiday” for the legacy plans to rebuild the tax base by investing in operations, capital, and blight removal
- It assumed only the fixed “Grand Bargain” pension contributions prior to FY 2024 followed by a 30-year amortization
- Instead of waiting for this “pension cliff” in FY 2024, the City began setting aside surplus funds in 2016
- The City established the Retiree Protection Fund (“RPF”) in FY 2018 to conservatively invest the funds in a new irrevocable trust that can only be used for future pension funding and to help the City build room within its recurring budget over time
- The FY 2022 Budget includes the scheduled \$55M deposit, plus another \$30M supplemental deposit, for a total of \$85M
- The RPF is critical to the City’s pension funding strategy, and more funding will be needed to sustain annual pension



Plan of Adjustment (“POA”) Requirement (with October 2014 POA Projections)

General Fund Legacy Pension Contributions
(\$ in millions)

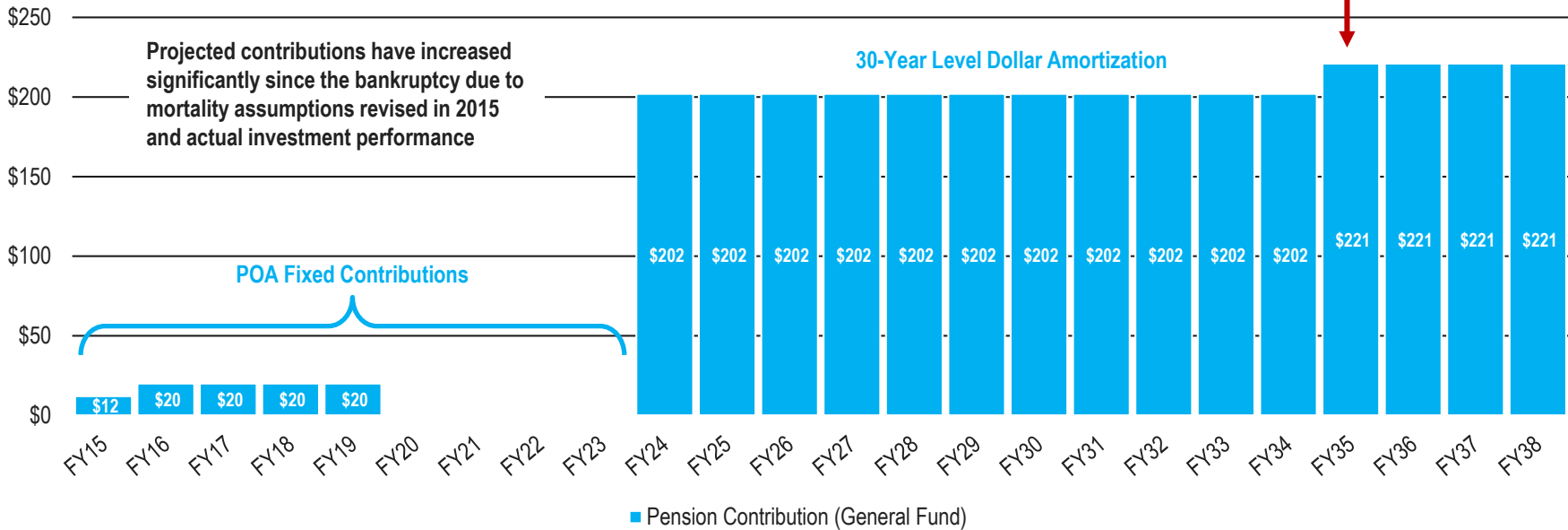


* Excludes “Grand Bargain” contributions from State of Michigan, Foundation for Detroit’s Future (FDF), and Detroit Institute of Arts (DIA). DWSD and Library liabilities and contributions are separate.



Plan of Adjustment (“POA”) Requirement (with City’s March 2021 Projections)

General Fund Legacy Pension Contributions
(\$ in millions)

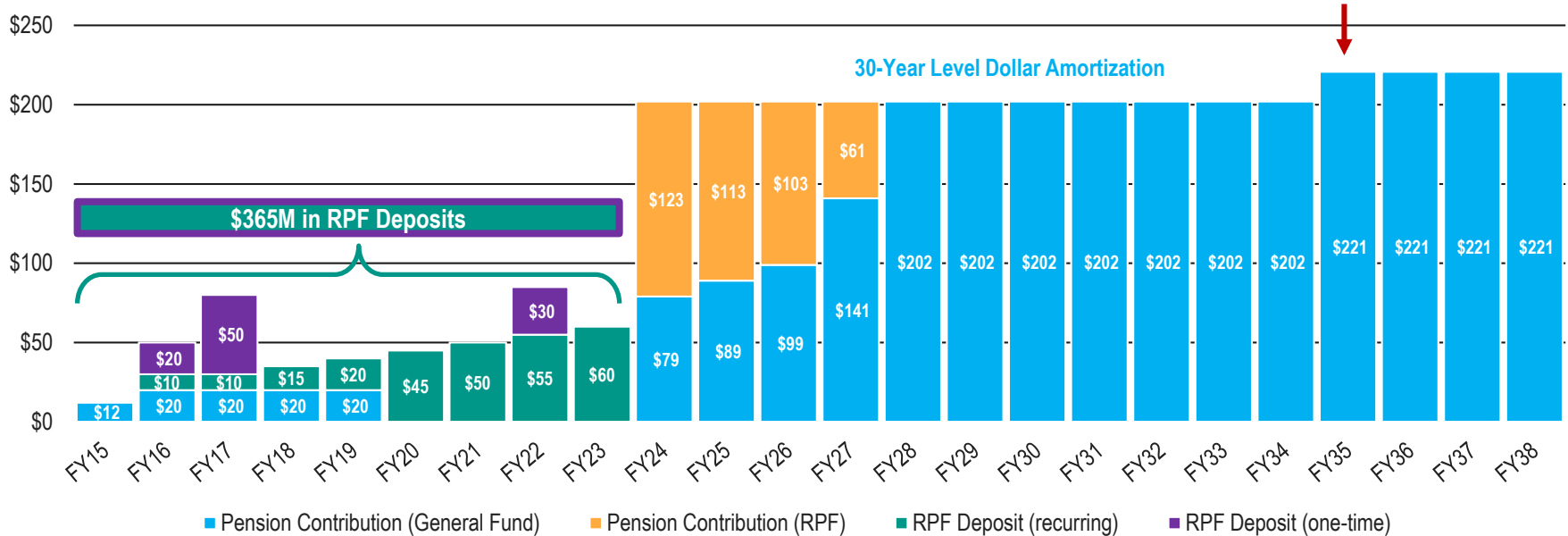


* Excludes “Grand Bargain” contributions from State of Michigan, Foundation for Detroit’s Future (FDF), and Detroit Institute of Arts (DIA). DWSD and Library liabilities and contributions are separate.



Retiree Protection Fund Plan (with City's March 2021 Projections)

General Fund Legacy Pension Contributions
(\$ in millions)



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



FY 2022 Pension Plan and RPF Review

- Prior to developing the FY 2022 Budget recommendation, the OCFO reviewed the latest actuarial valuations, pension plan returns, and RPF returns
- No change to funding policy assumptions
- Projected FY 2024 net contribution from General Fund increased \$36M vs. last year's review
 - Projected increases last year and this year are driven by investment performance below 6.75% assumed rate of return

Pension Model Updates and Assumptions	
Actuarial Valuation ⁽¹⁾	FY 2019 valuation
Latest Pension Plan Returns	-0.96% GRS, 1.6% PFRS FY 2020 actual return
Future Pension Plan Returns	6.75% projected
Amortization / Funding Policy ⁽²⁾	30-year level dollar
FY 2024 Projected Contribution	\$233.2M gross (\$31.2M) FDF/DIA/DWSD/DPL ⁽³⁾ \$202M net from General Fund
Latest RPF Returns	5.8% FY 2020 actual return
Future RPF Returns	1.56% for FY 2021 and declining to 1% post-FY 2023

(1) Actuarial valuations for FY 2020 may be completed by spring 2021.

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

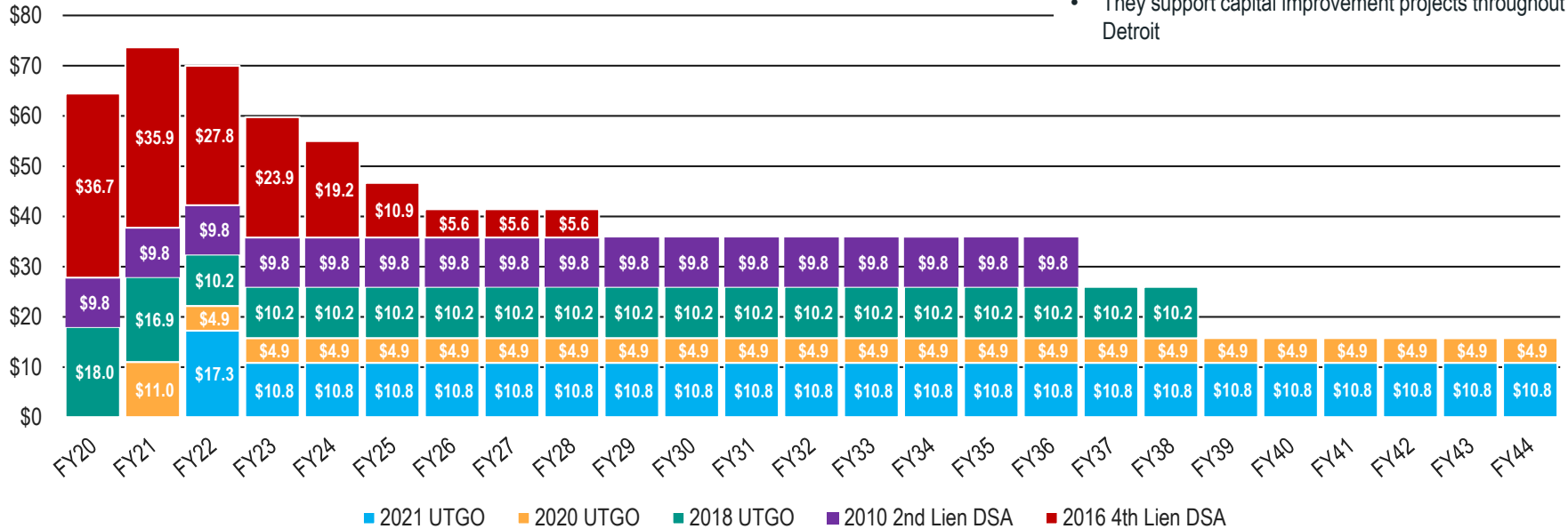
(3) Foundation for Detroit's Future and Detroit Institute of Arts are the "Grand Bargain" outside sources through FY 2034. Detroit Water and Sewerage Department and Detroit Public Library pension liabilities do not impact the General Fund.

Debt Obligations

Unlimited Tax General Obligation Debt Service

Debt Service Fund
(\$ in millions)

- UTGO bonds are authorized by voters and repaid from the City's debt millage
- They support capital improvement projects throughout Detroit



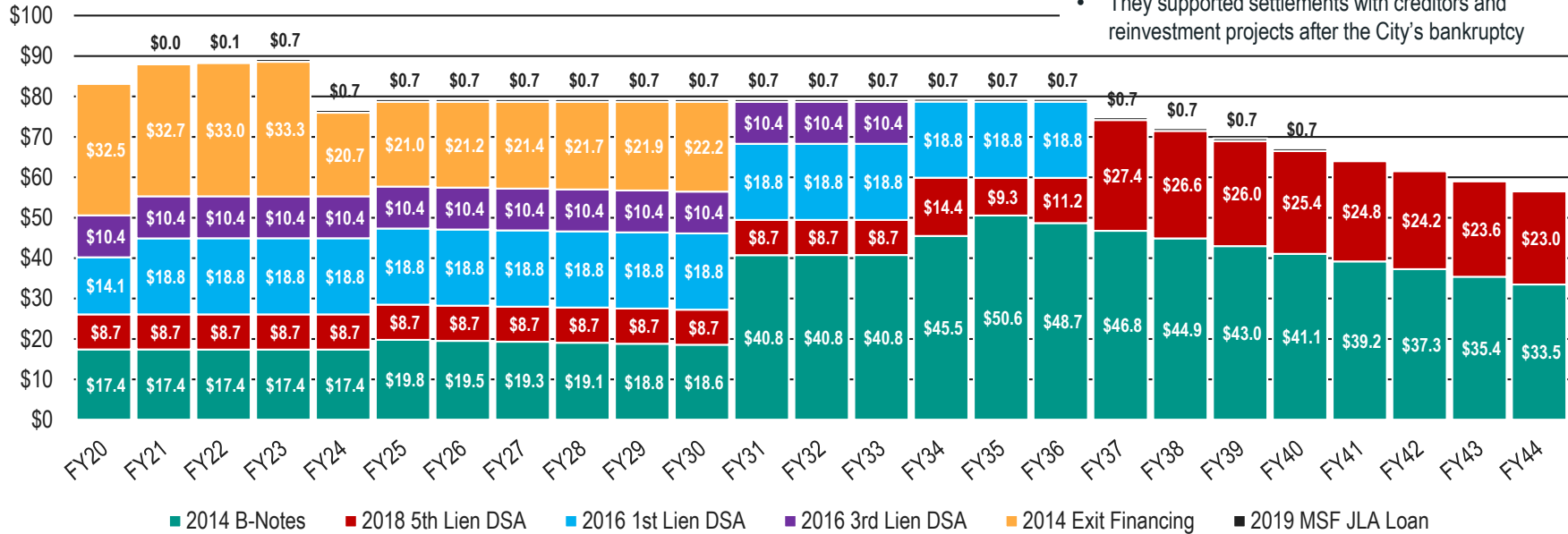
* Does not include projected debt service for remaining authorizations for unissued \$40M in Capital Improvement UTGO bonds and \$75M in Neighborhood Improvement Plan UTGO bonds.
Source: OCFO – Office of the Treasury



Limited Tax General Obligation Debt Service

General Fund and Enterprise Funds*
(\$ in millions)

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

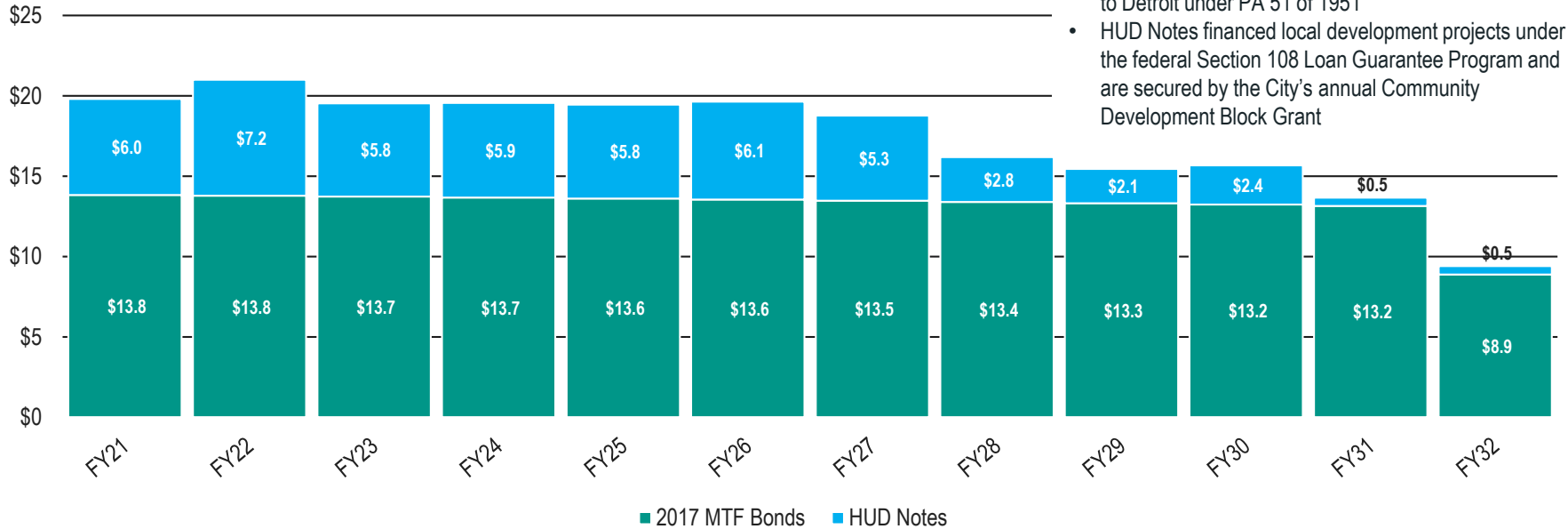


* 2014 B-Notes are split approximately 80% General Fund and 20% Enterprise Funds.
Source: OCFO – Office of the Treasury



Michigan Transportation Fund Bonds and HUD Notes Debt Service

Street Fund and Block Grant Fund
(\$ in millions)



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

Source: OCFO – Office of the Treasury



Long-Term Forecast

Baseline Forecast Assumptions

Revenues

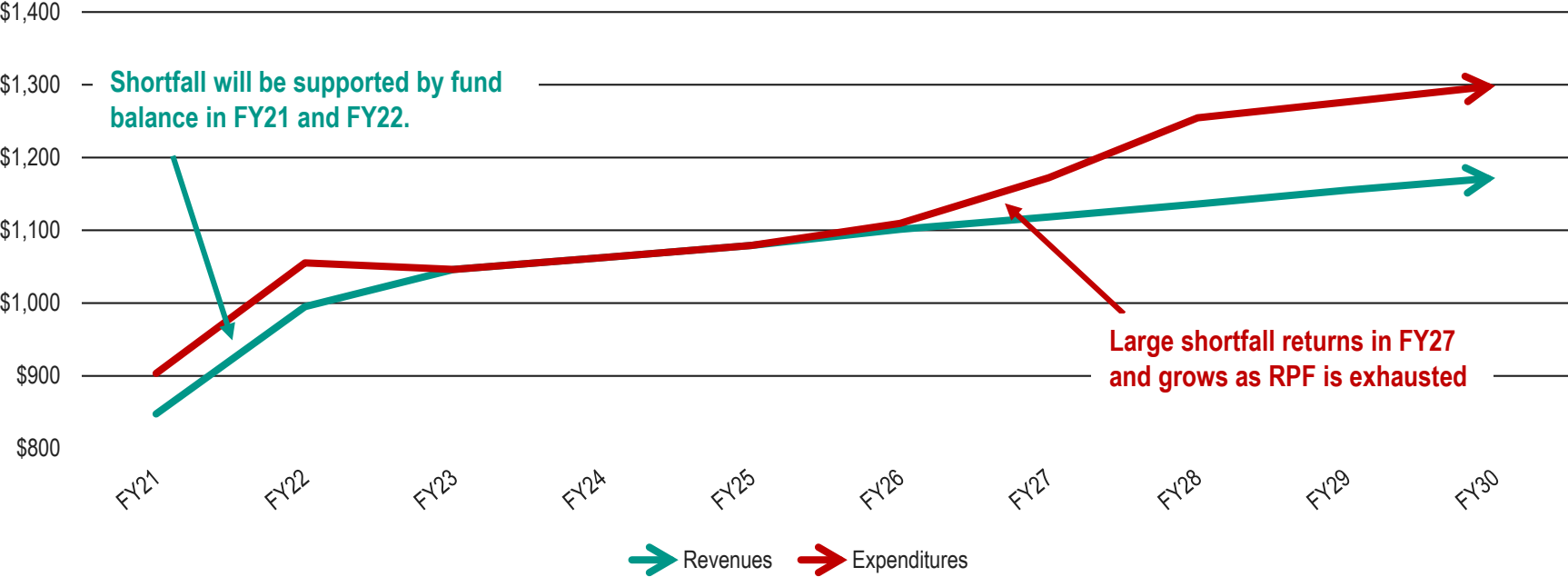
- Based on the approved February 2021 Revenue Estimating Conference results for FY 2022 – FY 2025
- Revenue growth generally continues along revenue conference trends after FY 2025
- Forecast does not include one-time federal American Rescue Plan Act funding
- Forecast does not include potential significant negative effects of the proposed charter revisions presented to the Governor

Expenditures

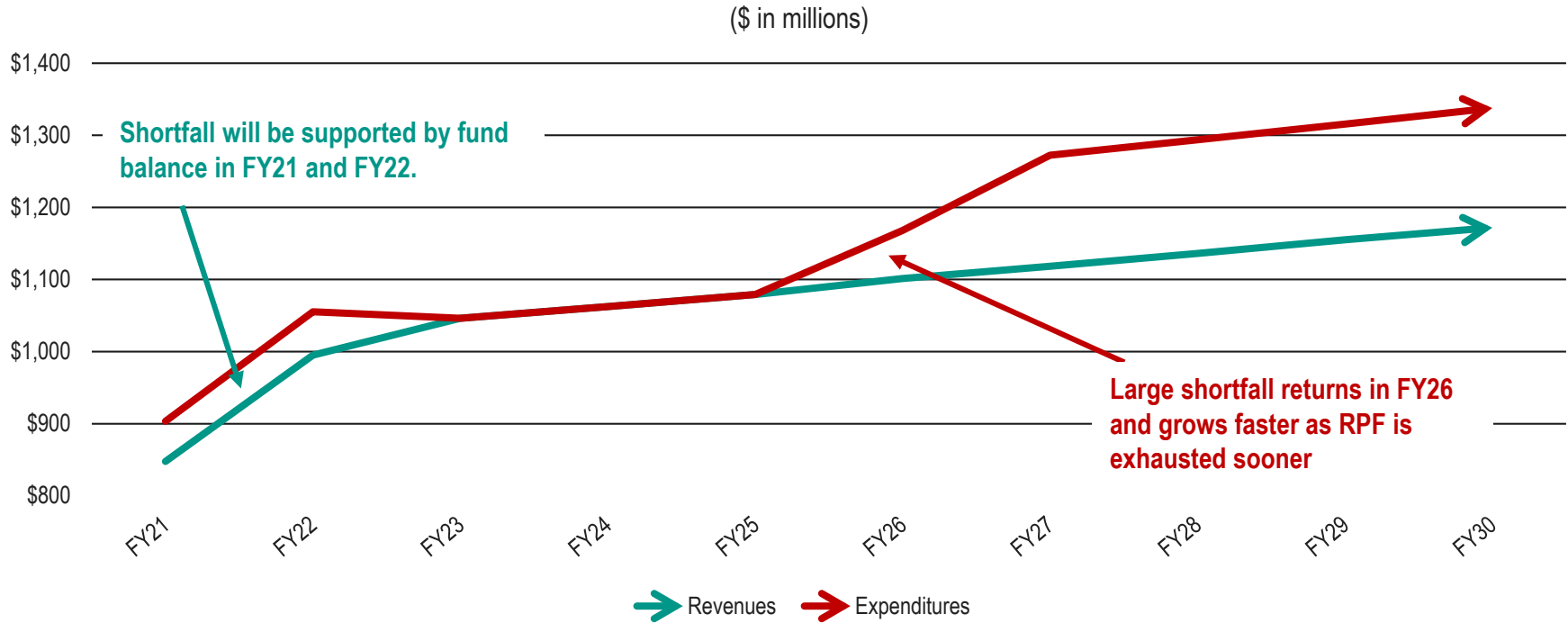
- Generally forecasted from FY 2020 actuals and known adjustments
- Annual wage growth based on current labor agreements and inflationary increases thereafter
- Healthcare, dental, and vision benefits include inflationary growth
- Legacy Pension cost based on proposed FY 2022 budget and 30-year level dollar amortization
 - An additional graph is provided to show the impact of a 20-year level dollar amortization
- Debt service based on existing debt service schedules
- Other operating expenditures include 2% inflationary growth
- Includes turnover, overtime, and other savings based on proposed FY 2022-2025 four-year financial plan
- Forecast does not include one-time spending from fund balance (e.g., blight, capital); it only includes recurring revenues and expenses
- Projections do not assume any corrective action beyond the four-year financial plan that would be taken to balance the budget

FY 2021-2030 Long-Term Forecast Baseline

(\$ in millions)



FY 2021-2030 Long-Term Forecast Baseline with 20-Year Pension Amortization



* The Retirement Systems are considering a 20-year level dollar amortization as the funding policies for the legacy pension plans.



Potential Upside and Downside Risks

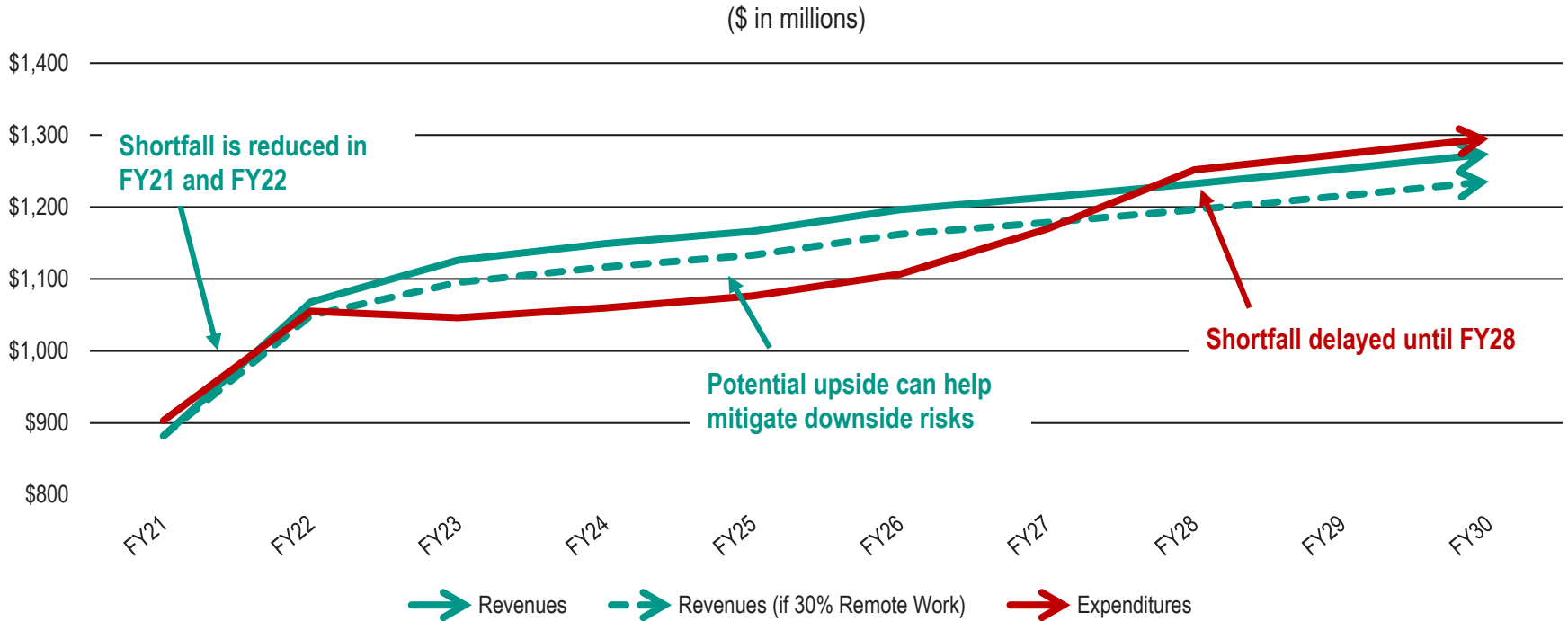
Potential Upside (added to forecast)

- Income and property taxes from economic development projects underway
- Internet gaming and sports betting taxes (launched Jan 2021)
- State-shared excise tax from adult-use marijuana (City authorized in Nov 2020, implementation underway)
- Departmental revenue gains from Emergency Medical Services and Municipal Parking improvements
- Potential income tax gains by reducing the resident poverty rate by 10% during the forecast period

Downside Risk (not included in forecast)

- Slower on-site casino recovery than expected
- Slower than anticipated recovery from recession
- Larger income tax losses from nonresidents who continue to work remotely (reduces taxable income)
 - Baseline assumes an ongoing 10% remote work loss, and a 30% loss is shown to illustrate risk
- Longer lasting changes in local economic activity due to workplace and behavior changes
- Future state and federal budget pressures causing reductions in local funding

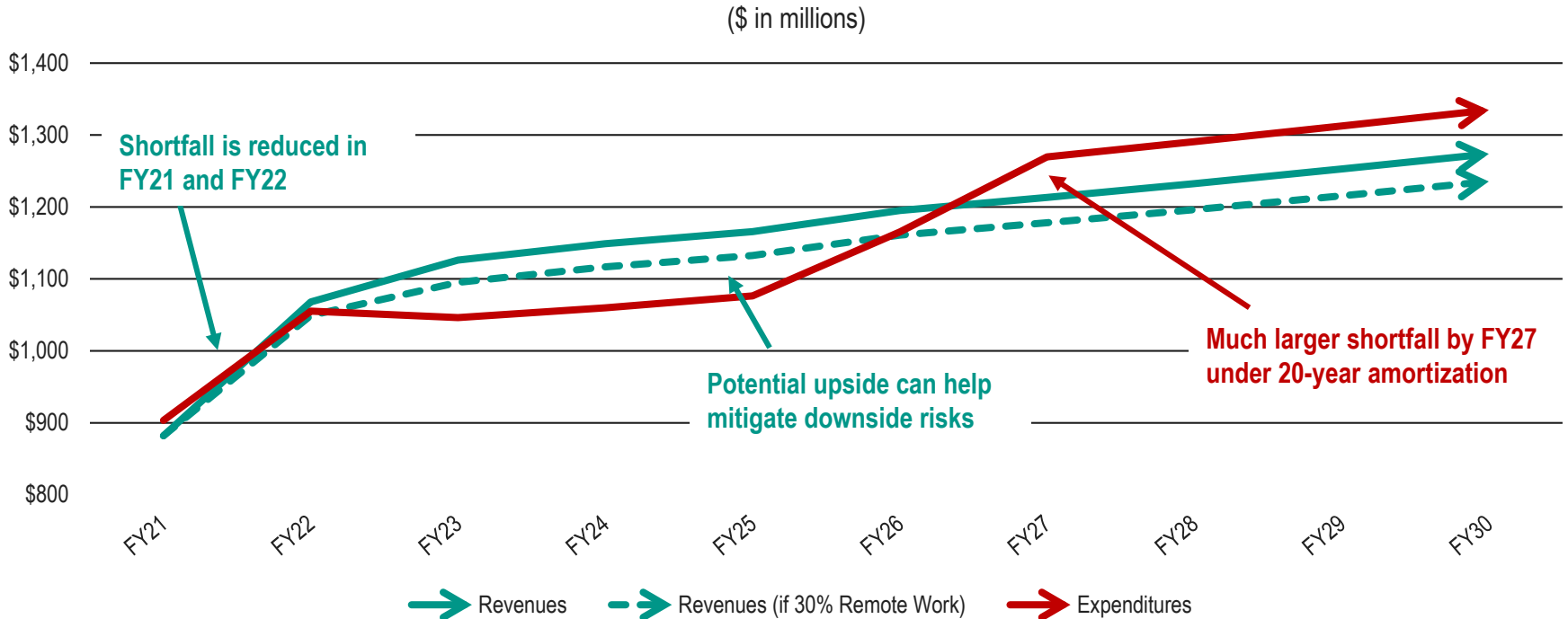
FY 2021-2030 Long-Term Forecast with Potential Upside



* Baseline forecast assumes an ongoing 10% nonresident income tax loss from commuters who continue to work remotely. The dotted line shows the impact if the ongoing loss is 30% instead.



FY 2021-2030 Long-Term Forecast with Potential Upside and 20-Year Amortization



* The Retirement Systems are considering a 20-year level dollar amortization as the funding policies for the legacy pension plans.

* Baseline forecast assumes an ongoing 10% nonresident income tax loss from commuters who continue to work remotely. The dotted line shows the impact if the ongoing loss is 30% instead.

Long-Term Forecast Report
