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City of Detroit
CITY COUNCIL
LEGISLATIVE POLICY DIVISION

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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director
Legislative Policy Division Staff

DATE: August 15, 2016

RE: Detroit VEBAs' FY 2015 Audit Reports

Executive Summary

City Council requested on January 27, 2016, that the Legislative Policy Division (LPD) prepare a report on the Detroit Voluntary Employee Beneficiary Associations' (VEBAs) funding and spending. On March 30, 2015, we issued our report ("Detroit VEBAs") to City Council. At that time the two legacy VEBAs were undergoing the annual audit for the period December 10, 2014 through December 31, 2015. This report presents the audited financial statements and relevant data from the audit for the General and Police and Fire VEBAs.

As noted in our report on the VEBAs, the audit confirmed that the market value of the bonds issued by the City to the VEBAs were approximately 45% of their face (par) value. This was not sufficient to provide the retirees with the minimal benefits that were promised to them per the Plan of Adjustment. Attachment I is the Police and Fire VEBA audit report and Attachment II is the General VEBA audit report.

Background

The City of Detroit Police and Fire Retiree Health Care Trust (Police and Fire VEBA) and City of Detroit General Retiree Health Care Trust (General VEBA) were established on December 10, 2014 (the "Effective Date") under the Plan for the Adjustment of Debts of the City of Detroit (the "Plan of Adjustment") in the matter entitled *In re: City of Detroit, Michigan, Debtor, Chapter 9*, Case *No. 13-53846*, in the United States Bankruptcy Court for the Eastern District of Michigan. The two VEBAs were created as a result of the settlement of certain legal claims made pertinent to that litigation and were established to provide health benefits to existing City of Detroit retirees and certain dependents. The plans and trusts are established as a governmental Voluntary

Employees Beneficiary Association (VEBA) pursuant to Section 501 (c)(9) of the Internal Revenue Code.

The VEBAs are responsible for providing benefits for the welfare of certain police and fire retirees and general civilian retirees of the City of Detroit (the "City"), along with their eligible spouses and dependents, with an effective date of retirement on or before December 31, 2014, and who were eligible to receive retiree healthcare benefits from the City at the time of retirement. Benefits under the VEBAs will be provided to retirees through the purchase of insurance coverage, or by reimbursement of eligible expenses, in accordance with the VEBA and applicable state and federal laws.

The VEBAs sponsor a health reimbursement account (HRA) benefit for non-Medicare eligible retirees and spouses. This benefit is also offered to Medicare eligible retirees electing to opt-out of coverage under the VEBA's Medicare program. Upon enrollment, eligible retirees receive a monthly HRA benefit.

As of January 1, 2015, the City had no further responsibility to provide retiree health care or any other retiree welfare benefits to retirees and such responsibility falls wholly upon the VEBAs' Plan and Trust. The board of trustees of the VEBAs (the "Board") are responsible for designing, adopting, maintaining, and administering retiree healthcare benefits for eligible retirees and beneficiaries. The **board will be under no obligation** to design the retiree healthcare plan to assure that the assets of the VEBA are sufficient to provide benefits to all potential participants of the plan.

The 2014 B bonds owned by the VEBAs are general unsecured obligations of the City of Detroit, with a 30-year maturity date, paying interest at a rate of 4 percent for the first 20 years and 6 percent for years 21 through 30. Interest payments are made twice annually on April 1 and October 1. Amortization of the bonds is interest only for 10 years, with amortization of principal in 20 equal annual installments beginning on the interest payment date nearest to the 11th anniversary from issuance. Due to the City's recent exit from bankruptcy, its lack of an established credit rating, and other economic factors outside the VEBAs control, the bonds owned by the VEBAs as of December 31, 2015 had a market value of approximately 45 percent of par value (i.e., $116,093,693 of $253,900,999 Par for the Police and Fire VEBA and $109,179,840 of $238,780,159 Par for the General VEBA).

The audit reports noted "The bonds do not have a readily determinable market value given the illiquidity and limited trading of these bonds. Management's estimates of these values are based on information provided by investment custodians and other pricing services. Because they are not readily marketable, their estimated value is subject to uncertainty and therefore, may differ significantly from the values that would have been used had a ready market for these securities existed. Subsequent to December 31, 2015, market value decreased approximately 1.78 percent from one pricing source and 14.73 percent from another."

GASB Statement No. 74, *Financial Reporting* for *Postemployment Benefit Plans Other Than* Pension *Plans*, was issued in June 2015. This new accounting standard addresses reporting by postemployment benefit plans other than pensions (OPEB) that administer defined benefit OPEB benefits on behalf of governments. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statements more extensive footnote disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. The provisions of this new standard are effective for the VEBAs' year ending December 31, 2017.

The Police and Fire VEBA is governed by a seven-member board of trustees and, for the first four years, one additional nonvoting, ex-officio member. The General VEBA is governed by a seven-member board of trustees.

As of December 31, 2015, there were 7,441 and 6,726 participants respectively, in the Police and Fire and General VEBAs.

Police and Fire VEBA Audit

Plante & Moran did the financial statement audit of the Police and Fire VEBA for the period from December 10, 2014 through December 31, 2015 and issued its report on June 27, 2016. They had a clean opinion.

The Police and Fire VEBA auditor's opinion included an "Emphasis of Matter:" paragraph, which stated, "As explained in Note I, the financial statements include investments valued at $116,093,693 (97.86 percent of net position) at December 31, 2015, whose fair values have been estimated by management in the absence of readily determinable market values. Management's estimates are based on information provided by investment managers and other pricing services." This means that the $253,900,999 in bonds issued to the Police and Fire VEBA were only worth 45.7% of their par value on December 31, 2015. As discussed in our first report this was not sufficient to provide the retirees with the minimal benefits that were promised to them per the Plan of Adjustment.

Contributions to the Police and Fire VEBA were established in the Plan of Adjustment and other grant agreements established out of the City's bankruptcy. The Plan of Adjustment required the City to distribute $253,900,999 of the City's Financial Recovery Bonds, Series 2014B(1) and 2014B(2), on the Effective Date. This contribution represents a complete discharge of the City's OPEB obligation with respect to the Police and Fire VEBA's membership and no additional contributions from the City are required under the Plan of Adjustment. The Police and Fire VEBA also received $1,816,429 from the Foundation for Detroit's Future pursuant to two separate grant agreements. Contributions of $43,750 will continue to be made annually until 2034 under a grant agreement with the Foundation for Detroit's Future (the "Foundation"). In addition, the Police and Fire VEBA received $3,975,000 from the City of Detroit Employee Benefits Plan, of which, $500,000 was a loan. Member contributions to the VEBA are required based on the medical plan selected and serve to offset a portion of the monthly insurance premium paid by the VEBA on a member's behalf.

The Police and Fire VEBA will provide future benefits only to the extent that plan assets are available to pay them. After the contribution of the bonds, no further employer contributions will be made to the VEBA. As such, the actuarial accrued liability as of December 31, 2015 is equal to the plan net position of $118,628,078.

Under a line of credit agreement with a bank, the Police and Fire VEBA has available borrowings of $25,750,000. Interest is payable semiannually at a rate of 2.25 percent per annum on the undrawn portion and 5.58 percent per annum on the drawn portion. The line of credit is collateralized by City of Detroit Financial Recovery Bonds. Under the line of credit agreement with the bank, the Police and Fire VEBA is subject to various financial covenants, including repaying all outstanding loans and obligations in full if the bonds' market value decreases to a certain amount, providing the lender a daily report of the market value of the bonds, and certain guidelines for the disposition of the bonds. As of December 31, 2015, the Police and Fire VEBA had not drawn on the line of credit.

The participant population of the Police and Fire VEBA is composed of approximately 4,300 Medicare-eligible retirees and beneficiaries in receipt of one of three Medicare Advantage plans or an HRA, and approximately 3,700 pre-65 retirees who are eligible to receive an HRA benefit. Optional dental and vision benefits were also offered to all eligible retirees and beneficiaries at full cost to the participant. Member contributions to the Police and Fire VEBA in the 2015 plan year were required as follows:

Medicare Advantage Plan	Monthly Retiree Contribution for Single Coverage	Monthly Retiree Contribution for Two-Person Coverage
HAP Senior Plus HMO	0.00	0.00
BCN Advantage HMO-POS	0.00	0.00
BCBSM Medicare Plus Blue Group PPO	$29.43	$58.86

The schedule below is the Police and Fire VEBA's Statement of Fiduciary Net Position on December 31, 2015.

Assets	
Cash and cash equivalents	$ 4,300,752
Investments - Bonds	116,093,693
Accrued interest receivable	2,539,682
Deposits	269,557
Total assets	123,203,684
Liabilities	
Accounts Payable	3,480,029
Loan payable to the City of Detroit Employee Beneficiary Association	500,000
Due to City of Detroit	197,050
Member contributions received in advance	398,527
Total liabilities	4,575,606
Net Position - Held in trust for retiree health care	**$ 118,628,078**

The majority of the $118.6 million net position of the Police and Fire VEBA was the City of Detroit Financial Recovery Bonds ($116.1 million). Valuation of these bonds are at current market value, which is heavily discounted from the face or principal value of the bonds and represents less than the expected future cash flows if the City fulfills all of its obligations under the bonds. Therefore, if the City ultimately does pay 100 percent of the interest and principal of the bonds, the benefits the VEBA is able to provide will be higher than what is currently projected.

Investments are reported at fair value or estimated fair value. Investments that do not have an established market value are reported at estimated fair value as determined by the VEBA's management. The fair value of the 2014 B(1) and B(2) bonds owned by the Police and Fire VEBA at December 31, 2015 was $116.1 million or 45.7% of the $253.9 million of bonds per the Plan of Adjustment.

The following schedule is the Police and Fire VEBA's Statement of Changes in Fiduciary Net Position for the period from December 10, 2014 through December 31, 2015.

Additions		
Investment income:		
Interest and dividends	$	10,751,444
Net decrease in fair value of investments		(36,246,906)
Less investment-related expenses		(428,664)
Net investment income		(25,924,126)
Contributions		
Employer contributions - Issuance of $253,900,999 2014 B bonds - Net of $101,560,400 market discount		152,340,599
Retiree contributions		3,403,241
Other contributions - City of Detroit		5,291,429
Total contributions		161,035,269
Total additions		135,111,143
Deductions		
Premium payments		11,539,410
Reimbursement to the City for retiree healthcare activity prior to March 31, 2015 cutover and healthcare reimbursements (Note I)		4,050,368
Administrative expenses		893,287
Total deductions		16,483,065
Net Increase in Net Position held in Trust		118,628,078
Net Position Held in Trust - Beginning of period		-
Net Position Held in Trust - End of period	$	**118,628,078**

The $10.8 million of interest and dividends is from the interest on the 2014 B bonds paid and due from the City as of December 31, 2015. The net decrease in fair value of $36.2 million is the fair value decline from 60% of par value ($152.3 million initial fair market valuation of the 2014 B bonds on December 10, 2014 and amount shown as Employer contributions) to 45.7% of par value ($116.1 million) on December 31, 2015.

Benefits paid to retirees and eligible spouses/dependents were recorded as deductions when paid. Through March 31, 2015, these payments were administered and paid by the City. Subsequently, they were paid directly from the Police and Fire VEBA. Payments made by the City on behalf of the VEBA were recorded as premium payments during the period ended December 31, 2015. The stipends recorded on the statement of changes in fiduciary net position of approximately $1.7 million were paid during the period through March 31, 2015 and were paid directly by the City. Total Police and Fire VEBA deductions were $16.5 million for the year ended December 31, 2015.

The Police and Fire VEBA schedule of funding progress was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) (b)	Unfunded AAL(UAAL) (b) - (a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/2015	$ 118,628,078	$ 118,628,078	$ -	100%	N/A	N/A

As the Police and Fire VEBA will provide future benefits only to the extent that plan assets are available to pay them, the actuarial accrued liability (AAL) is either the present value of future benefits based on current benefit levels or the VEBA's ending net position plus the present value of future assets, whichever is lower. For December 31, 2015, the VEBA's AAL was the ending net position of $118.6 million, as this was lower than the present value of future benefits.

General VEBA Audit

Plante & Moran did the financial statement audit of the General VEBA for the period from December 10, 2014 through December 31, 2015 and issued its report on June 28, 2016. They had a clean opinion.

The General VEBA auditor's opinion included an "Emphasis of Matter:" paragraph, which stated, "As explained in Note I, the financial statements include investments valued at $109,179,840 (98.69 percent of net position) at December 31, 2015, whose fair values have been estimated by management in the absence of readily determinable market values. Management's estimates are based on information provided by investment managers and other pricing services." This means that the $238,700,159 in bonds issued to the General VEBA were only worth 45.7% of their par value on December 31, 2015. As discussed in our first report this is not sufficient to provide the retirees with the minimal benefits that were promised to them per the Plan of Adjustment.

Contributions to the General VEBA were established in the Plan of Adjustment and other grant agreements established out of the City's bankruptcy. The Plan of Adjustment required the City to distribute $238,780,159 of the City's Financial Recovery Bonds, Series 2014 B(1) and 2014 B(2) on the Effective Date. This contribution represents a complete discharge of the City's OPEB obligation with respect to the General VEBA's membership and no additional contributions from the City are required under the Plan of Adjustment. The VEBA also received $1,816,429 from the Foundation for Detroit's Future pursuant to two separate grant agreements. Contributions of

$43,750 will continue to be made annually until 2034 under a grant agreement with the Foundation for Detroit's Future (the "Foundation"). In addition, the General VEBA received $4,025,000 from the City of Detroit Employee Benefits Plan, of which $500,000 was a loan. Member contributions are required based on the medical plan selected and serve to offset a portion of the monthly insurance premium paid by the VEBA on a member's behalf.

Under a line of credit agreement with a bank, the General VEBA has available borrowings of $24,250,000. Interest is payable semiannually at a rate of 2.25 percent per annum on the undrawn portion and 5.58 percent per annum on the drawn portion. The line of credit is collateralized by City of Detroit Financial Recovery Bonds. Under the line of credit agreement with the bank, the VEBA is subject to various financial covenants, including repaying all outstanding loans and obligations in full if the bonds' market value decreases to a certain amount, providing the lender a daily report of the market value of the bonds, and certain guidelines for the disposition of the bonds. As of December 31, 2015, the General VEBA had not drawn on the line of credit

The participant population of the General VEBA is comprised of approximately 7,500 Medicare-eligible retirees and beneficiaries in receipt of one of three Medicare Advantage plans or an HRA, and approximately 3,000 pre-65 retirees, who are eligible to receive an HRA benefit. Optional dental and vision benefits were also offered to all eligible retirees and beneficiaries, at full cost to the participant. Member contributions to the General VEBA in the 2015 plan year were required as follows:

Medicare Advantage Plan	Monthly Retiree Contribution for Single Coverage	Monthly Retiree Contribution for Two-Person Coverage
HAP Senior Plus HMO	0.00	0.00
BCN Advantage HMO-POS	0.00	0.00
BCBSM Medicare Plus Blue Group PPO	$29.43	$58.86

The schedule below is the General VEBA's Statement of Fiduciary Net Position on December 31, 2015.

Assets	
Cash and cash equivalents	$ 3,286,697
Investments - Bonds	109,179,840
Accrued interest receivable	2,387,802
Deposits	179,332
Total assets	115,033,671
Liabilities	
Accounts Payable	3,419,490
Loan payable to the City of Detroit Employee Beneficiary Association	520,000
Member contributions received in advance	460,044
Total liabilities	4,399,534
Net Position - Held in trust for retiree health care	**$ 110,634,137**

The majority of the $110.6 million net position of the General VEBA is the City of Detroit Financial Recovery Bonds ($109.2 million). Valuation of these bonds are at current market value, which is heavily discounted from the face or principal value of the bonds and represents less than the expected future cash flows if the City fulfills all of its obligations under the bonds. Therefore, if the City ultimately does pay 100 percent of the interest and principal of the bonds, the benefits the VEBA is able to provide will be higher than what is currently projected.

Investments are reported at fair value or estimated fair value. Investments that do not have an established market value are reported at estimated fair value as determined by the VEBA's management. The fair value of the 2014 B(1) and B(2) bonds owned by the General VEBA at December 31, 2015 was $109.2 million or 45.7% of the $238.8 million of bonds per the Plan of Adjustment.

The following schedule is the General VEBA's Statement of Changes in Fiduciary Net Position for the period from December 10, 2014 through December 31, 2015.

Additions	
Investment income:	
Interest and dividends	$ 10,109,427
Net decrease in fair value of investments	(34,088,224)
Less investment-related expenses	(542,372)
Net investment income	(24,521,169)
Contributions	
Employer contributions - Issuance of $238,780,159 2014 B Bonds - Net of $95,512,064 market discount	143,268,095
Retiree contributions	3,579,383
Other contributions - City of Detroit	5,347,695
Total contributions	152,195,173
Total additions	127,674,004
Deductions	
Premium payments	14,324,077
Reimbursement to the City for retiree healthcare activity prior to March 31, 2015 cutover and healthcare reimbursements (Note I)	2,029,913
Administrative expenses	685,877
Total deductions	17,039,867
Net Increase in Net Position held in Trust	110,634,137
Net Position Held in Trust - *Beginning of period*	-
Net Position Held in Trust - End of period	**$ 110,634,137**

The $10.1 million of interest and dividends is from the interest on the 2014 B bonds paid and due from the City as of December 31, 2015. The net decrease in fair value of $34.1 million is the fair value decline from 60% of par value ($143.3 million initial fair market valuation of the 2014 B bonds on December 10, 2014 and amount shown as Employer contributions) to 45.7% of par value ($109.2 million) on December 31, 2015.

Benefits paid to retirees and eligible spouses/dependents were recorded as deductions when paid. Through March 31, 2015, these payments were administered and paid by the City. Subsequently, they were paid directly from the General VEBA. Payments made by the City on behalf of the VEBA were recorded as premium payments during the period ended December 31, 2015. The stipends recorded on the statement of changes in fiduciary net position of approximately $1.0 million were paid during the period through March 31, 2015 and were paid directly by the City. Total General VEBA deductions were $17.0 million for the year ended December 31, 2015.

The General VEBA schedule of funding progress was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) (b)	Unfunded AAL(UAAL) (b) - (a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/2015	$ 110,634,137	$ 110,634,137	$ -	100%	N/A	N/A

As the General VEBA will provide future benefits only to the extent that plan assets are available to pay them, the actuarial accrued liability (AAL) is either the present value of future benefits based on current benefit levels or the VEBA's ending net position plus the present value of future assets, whichever is lower. For December 31, 2015, the VEBA's AAL was the ending net position of $110.6 million, as this was lower than the present value of future benefits.

Required Supplemental Information
OPEB Schedule of Funding Progress
Period Ended December 31, 2015

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/15	$118,628,078	$118,628,078	$ -	100.0	$ -	DIV/0

As the Trust will provide future benefits only to the extent that plan assets are available to pay them, the actuarial accrued liability (AAL) is either the present value of future benefits based on current benefit levels or the Trust's ending net position plus the present value of future assets, whichever is lower. For December 31, 2015, the Trust's AAL is the ending net position as this is currently lower than the present value of future benefits.

ATTACHMENT I

City of Detroit Police and Fire Retiree Health Care Trust

Financial Report with Supplemental Information December 31, 2015

City of Detroit Police and Fire Retiree Health Care Trust

Contents

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Independent Auditor's Report

To the Board of Trustees
City of Detroit Police and Fire Retiree Health Care Trust

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Detroit Police and Fire Retiree Health Care Trust (the "Trust") for the period from December 10, 2014 through December 31, 2015 and the related notes to the financial statements, which collectively comprise the City of Detroit Police and Fire Retiree Health Care Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Detroit Police and Fire Retiree Health Care Trust as of December 31, 2015 and the changes in its financial position for the period then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
City of Detroit Police and Fire Retiree Health Care Trust

Emphasis of Matter

We draw attention to Note 1, which explains that these financial statements are for the period from December 10, 2014 through December 31, 2015. Our opinion is not modified with respect to this matter.

As explained in Note 1, the financial statements include investments valued at $116,093,693 (97.86 percent of net position) at December 31, 2015, whose fair values have been estimated by management in the absence of readily determinable market values. Management's estimates are based on information provided by investment managers and other pricing services. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and OPEB schedule of funding progress on pages 3-6 and page 15, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Plante & Moran, PLLC

June 27, 2016

Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Overall Fund Structure and Objectives

The City of Detroit Police and Fire Retiree Health Care Trust (the "Trust") was established on December 10, 2014 (the "Effective Date") under the Plan for the Adjustment of Debts of the City of Detroit (the "Plan of Adjustment") in the matter entitled *In re: City of Detroit, Michigan, Debtor, Chapter 9, Case No. 13-53846*, in the United States Bankruptcy Court for the Eastern District of Michigan. The Trust is newly created as a result of the settlement of certain legal claims made pertinent to that litigation and is established to provide health benefits to existing City of Detroit retirees and certain dependents. The plan and trust is established as a governmental Voluntary Employees Beneficiary Association (VEBA) pursuant to Section 501(c)(9) of the Internal Revenue Code.

The City of Detroit Police and Fire Retiree Health Care Trust is responsible for providing benefits for the welfare of certain police and fire retirees of the City of Detroit (the "City"), along with their eligible spouses and dependents, with an effective date of retirement on or before December 31, 2014, and who were eligible to receive retiree healthcare benefits from the City at the time of retirement. Benefits under the Trust will be provided to retirees through the purchase of insurance coverage, or by reimbursement of eligible expenses, in accordance with the Trust and applicable state and federal laws.

Condensed Financial Information

The table below compares key financial information in a condensed format for the period ended December 31, 2015:

Total assets	$	123,203,684
Total liabilities		4,575,606
Trust net position	$	**118,628,078**
Net investment loss	$	(25,924,126)
Contributions - Employer		152,340,599
Contributions - Employee		3,403,241
Other contributions - City of Detroit		5,291,429
Retiree health benefits paid		(15,589,778)
General and administrative expenses		(893,287)
Net increase in trust net position		118,628,078

Trust Contributions

Contributions to the Trust are established in the Plan of Adjustment and other grant agreements established out of the City's bankruptcy. The Plan of Adjustment required the City to distribute $253,900,999 million of the City's Financial Recovery Bonds, Series 2014B(1) and 2014B(2) on the Effective Date. This contribution represents a complete discharge of the City's OPEB obligation with respect to the Trust's membership and no additional contributions from the City are required under the Plan of Adjustment. The Trust also received $1,816,429 from the Foundation for Detroit's Future pursuant to two separate grant agreements. Contributions of $43,750 will continue to be made annually until 2034 under a grant agreement with the Foundation for Detroit's Future (the "Foundation"). In addition, the Trust received $3,975,000 from the City of Detroit Employee Benefits Plan, of which, $500,000 is a loan. Member contributions to the Trust are required based on the medical plan selected and serve to offset a portion of the monthly insurance premium paid by the Trust on a member's behalf.

Retiree Health Benefits and Employee Contributions

As of January 1, 2015, the City has no further responsibility to provide retiree health care or any other retiree welfare benefits to retirees and such responsibility falls wholly upon the VEBA Plan and Trust. The board of trustees of the Trust (the "Board") is responsible for designing, adopting, maintaining, and administering retiree healthcare benefits for eligible retirees and beneficiaries. The board will be under no obligation to design the retiree healthcare plan to assure that the assets of the Trust are sufficient to provide benefits to all potential participants of the plan.

The participant population of the Trust is composed of approximately 4,300 Medicare-eligible retirees and beneficiaries in receipt of one of three Medicare Advantage plans or an HRA, and approximately 3,700 pre-65 retirees who are eligible to receive an HRA benefit. Optional dental and vision benefits were also offered to all eligible retirees and beneficiaries at full cost to the participant. Member contributions to the Trust in the 2015 plan year were required as follows:

Medicare Advantage Plan	Monthly Retiree Contribution for Single Coverage	Monthly Retiree Contribution for Two-Person Coverage
HAP Senior Plus HMO	$0.00	$0.00
BCN Advantage HMO-POS	$0.00	$0.00
BCBSM Medicare Plus Blue Group PPO	$29.43	$58.86

Member contributions for 2015 dental and vision coverage options were as follows:

Monthly Rate for Blue Cross Blue Shield of Michigan Dental

One person - $33.74
Two person - $80.97
Family - $101.21

Monthly Rate for Golden Dental

One person - $24.20
Two person - $39.61
Family - $58.31

Monthly Rate for Heritage Standard Vision Plan

$6.80 for one-person, two-person, or family coverage

Monthly Rate for Heritage National Vision Plan

$7.09 for one person
$14.03 for two-person or family coverage

The City's Financial Recovery Bonds

The B notes owned by the Trust are general unsecured obligations of the City of Detroit, with a 30-year maturity date, paying interest at a rate of 4 percent for the first 20 years and 6 percent for years 21 through 30. Interest payments are made twice annually on April 1 and October 1. Amortization of the B notes is interest only for 10 years, with amortization in 20 equal annual installments beginning on the interest payment date nearest to the 11th anniversary from issuance. Due to the City's recent exit from bankruptcy, its lack of an established credit rating, and other economic factors outside the board's control, the new B notes owned by the Trust currently have a market value of approximately 45 percent of face value (i.e., $116,093,693).

Contacting the Trust's Management

This financial report is intended to provide a general overview of the Trust's finances and investment results in relation to actuarial projections. It shows the Trust's accountability for the money it receives from employer and employee contributions. If you have questions about this report or need additional information, we welcome you to contact the Trust's office at 8220 Irving Road, Sterling Heights, MI 48312.

City of Detroit Police and Fire Retiree Health Care Trust

Statement of Fiduciary Net Position
December 31, 2015

Assets		
Cash and cash equivalents	$	4,300,752
Investments - Bonds		116,093,693
Accrued interest receivable		2,539,682
Deposits		269,557
Total assets		123,203,684
Liabilities		
Accounts payable		3,480,029
Loan payable to the City of Detroit Employee Beneficiary Association		500,000
Due to City of Detroit		197,050
Member contributions received in advance		398,527
Total liabilities		4,575,606
Net Position - Held in trust for retiree health care		**118,628,078**

See Notes to Financial Statements and Independent Auditor's Report.

City of Detroit Police and Fire Retiree Health Care Trust

Statement of Changes in Fiduciary Net Position
Period From December 10, 2014 through December 31, 2015

Additions	
Investment income:	
Interest and dividends	$ 10,751,444
Net decrease in fair value of investments	(36,246,906)
Less investment-related expenses	(428,664)
Net investment income	(25,924,126)
Contributions:	
Employer contributions - Issuance of $253,900,999 B notes - Net of $101,560,400 market discount	152,340,599
Retiree contributions	3,403,241
Other contributions - City of Detroit	5,291,429
Total contributions	161,035,269
Total additions	135,111,143
Deductions	
Premium payments	11,539,410
Reimbursement to the City for retiree healthcare activity prior to March 31, 2015 cutover and healthcare reimbursements (Note 1)	4,050,368
Administrative expenses	893,287
Total deductions	16,483,065
Net Increase in Net Position Held in Trust	118,628,078
Net Position Held in Trust - Beginning of period	-
Net Position Held in Trust - End of period	**$118,628,078**

See Notes to Financial Statements and Independent Auditor's Report.

Note 1 - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by the City of Detroit Police and Fire Retiree Health Care Trust:

Reporting Entity

The City of Detroit Police and Fire Retiree Health Care Trust (the "Trust") is governed by a seven-member board of trustees and, for the first four years, one additional nonvoting, ex-officio member. The Trust was established under the Plan for the Adjustment of Debts of the City of Detroit (the "Plan of Adjustment") related to the City of Detroit's (the "City") Chapter 9 bankruptcy on December 10, 2014. The Plan of Adjustment provides for the establishment of the Trust as a governmental Voluntary Employees Beneficiary Association (VEBA) pursuant to Section 501(c)(9) of the Internal Revenue Code of 1986, as amended.

The Trust is responsible for providing benefits for the welfare of certain police and fire retirees of the City of Detroit, along with their eligible spouses and dependents, with an effective date of retirement on or before December 31, 2014, and who were eligible to receive retiree healthcare benefits from the City at the time of retirement. Benefits under the Trust will be provided to retirees through the purchase insurance coverage, or by reimbursement of eligible expenses, in accordance with the Trust and applicable state and federal laws.

The Trust was established on December 10, 2014 under the Plan of Adjustment, at which point the Trust was distributed approximately $253.9 million of the City's Financial Recovery Bonds, Series 2014B(1) and 2014B(2) (the "bonds"). As of December 31, 2015, the bonds had a market value of $116,093,693. These bonds represent the entire funding responsibility of the City.

The Trust will provide future benefits only to the extent that plan assets are available to pay them. The Trust is under no obligation to design the retiree healthcare benefits plan to assure that the assets of the Trust are sufficient to provide benefits to all potential participants in the plan for any particular period.

Benefits paid to retirees and elibilible spouses/dependents are recorded when paid. Through March 31, 2015, these payments were administered and paid by the City. Subsequently, they were paid directly from the Trust. Payments made by the City on behalf of the Trust are recorded as premium payments during the period ended December 31, 2015. The stipends recorded on the statement of changes in fiduciary net position of approximately $1.7 million were paid during the period through March 31, 2015 and were paid directly by the City.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Trust will sponsor a health reimbursement account (HRA) benefit for non-Medicare-eligible retirees and spouses. This benefit will also be offered to Medicare-elgibile retirees electing to opt-out of coverage under the Trust's Medicare program. Upon enrollment, eligible retirees receive a monthly HRA benefit.

This report covers the period from December 10, 2014 through December 31, 2015.

Accounting and Reporting Principles

The Trust follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

Basis of Accounting

The Trust's financial statements are prepared using the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Contributions are recognized when due pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Trust.

Specific Balances and Transactions

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments - Investments are reported at fair value or estimated fair value. Investments that do not have an established market value are reported at estimated fair value as determined by the Trust's management.

As of December 31, 2015, the Trust holds City of Detroit Financial Recovery Bonds Series 2014B(1) and 2014B(2) with a face value of $253,900,999 and an estimated market value of $116,093,693. The bonds do not have a readily determinable market value given the illiquidity and limited trading of these bonds. Management's estimates of these values are based on information provided by investment custodians and other pricing services. Because they are not readily marketable, their estimated value is subject to uncertainty and therefore, may differ significantly from the values that would have been used had a ready market for these securities existed. Subsequent to December 31, 2015, market value decreased approximately 1.78 percent from one pricing source and 14.73 percent from another.

Note 1 - Summary of Significant Accounting Policies (Continued)

The bonds mature in 30 years and carry an interest rate of 4.0 percent for the first 20 years, and a 6.0 percent interest rate thereafter. For the first 10 years, semiannual interest-only payments will be made on the bonds. Beginning on the 11th anniversary of the issuance, 20 equal installments will be made annually.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Federal Income Taxes - The Trust is tax exempt under Section 501(c)(9) of the Internal Revenue Code.

Note 2 - Deposits and Investments

The Trust is not limited in the types of investments held by any legal or contractual provisions. The Trust has designated two banks for the deposit of its funds. Under the Plan of Adjustment, the City was required to distribute the bonds to provide initial funding for the Trust. The bonds are the primary investment held by the Trust.

The Trust's cash and investments are subject to several types of risk, which are examined in more detail below:

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates.

At year end, the Trust had the following investments:

Investment	Fair Value	Weighted Average Maturity (in Years)
Municipal bonds	$ 116,093,693	28.27

Credit Risk - As of year end, the Trust had $116,093,693 in municipal bonds, which were not rated by a national rating agency. However, the bonds have a rating of 6Z (highest risk, near or at default) by the National Association of Insurance Commissioners (NAIC).

Concentration of Credit Risk - The Trust places no limit on the amount it may invest in any one issuer. More than 5 percent of the Trust's investments are in the City of Detroit Financial Recovery Bonds, Series 2014B(1) and 2014B(2); these investments are 100 percent of the Trust's total investments.

Note 3 - Other Postemployment Benefits

Plan Description - The Trust provides healthcare benefits to retirees, and their eligible spouses and dependents, with an effective date of retirement on or before December 31, 2014 and who were eligible to receive retiree healthcare benefits from the City of Detroit at the time of retirement. This is a single-employer benefit plan administered by the Trust. As of December 31, 2015, there were 7,441 participants in the plan.

Funding Policy - Contributions are established in the Plan of Adjustment and other grant agreements. The Plan of Adjustment required the City to distribute $253,900,999 million of the City's Financial Recovery Bonds, Series 2014B(1) and 2014B(2) on the effective date. The City of Detroit no longer has any responsibility to provide retiree healthcare or any other retiree welfare benefits. The Trust also received $1,816,429 from two grant agreements. Contributions of $43,750 will continue to be made annually until 2034 under a grant agreement with the Foundation for Detroit's Future (the "Foundation"). In addition, the Trust received $3,975,000 from the City of Detroit Employee Benefits Plan, of which $500,000 is a loan. Member contributions are required based on the medical plan selected.

Funding Status - The Trust will provide future benefits only to the extent that plan assets are available to pay them. After the contribution of the bonds, no further employer contributions will be made to the Trust. Future contributions will be composed of $43,750 annually until 2034 under a city grant agreement with the Foundation. As such, the actuarial accrued liability as of December 31, 2015 is equal to the plan net position of $118,628,078.

The majority of net position of the Trust is the City of Detroit Financial Recovery Bonds. Valuation of these bonds are at current market value, which is heavily discounted from the face or principal value of the bonds and represents less than the expected future cash flows if the City fulfills all of its obligations under the notes. Therefore, if the City ultimately does pay 100 percent of the interest and principal of the bonds, the benefits the Trust is able to provide will be higher than what is currently projected.

Note 4 - Line of Credit

Under a line of credit agreement with a bank, the Trust has available borrowings of $25,750,000. Interest is payable semiannually at a rate of 2.25 percent per annum on the undrawn portion and 5.58 percent per annum on the drawn portion. The line of credit is collateralized by City of Detroit Financial Recovery Bonds. Under the line of credit agreement with the bank, the Trust is subject to various financial covenants, including repaying all outstanding loans and obligations in full if the bonds' market value decreases to a certain amount, providing the lender a daily report of the market value of the bonds, and certain guidelines for the disposition of the bonds. As of December 31, 2015, the Trust has not drawn on the line of credit.

Note 5 - Upcoming Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Trust is currently evaluating the impact this standard will have on the financial statements when adopted, during the Trust's 2016 fiscal year.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued in June 2015. This new accounting standard addresses reporting by postemployment benefit plans other than pensions (OPEB) that administer defined benefit OPEB benefits on behalf of governments. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statements more extensive footnote disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. The provisions of this new standard are effective for the Trust's year ending December 31, 2017.

Required Supplemental Information

City of Detroit General Retiree Health Care Trust

Required Supplemental Information
OPEB System Schedule
Peroid Ended December 31, 2015

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/15	$110,634,137	$110,634,137	$ -	100.0	N/A	N/A

As the Trust will provide future benefits only to the extent that plan assets are available to pay them, the actuarial accrued liability (AAL) is either the present value of future benefits based on current benefit levels or the Trust's ending net position plus the present value of future assets, whichever is lower. For December 31, 2015, the Trust's AAL is the ending net position as this is currently lower than the present value of future benefits.

ATTACHMENT II

City of Detroit General Retiree Health Care Trust

Financial Report

with Supplemental Information

December 31, 2015

City of Detroit General Retiree Health Care Trust

Contents

plante moran

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Independent Auditor's Report

To the Board of Trustees
City of Detroit General Retiree
Health Care Trust

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Detroit General Retiree Health Care Trust (the "Trust"), for the period from December 10, 2014 through December 31, 2015 and the related notes to the financial statements, which collectively comprise the City of Detroit General Retiree Health Care Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Detroit General Retiree Health Care Trust as of December 31, 2015, and the changes in its financial position for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Praxity

To the Board of Trustees
City of Detroit General Retiree
Health Care Trust

Emphasis of Matter

We draw attention to Note 1, which explains that these financial statements are for the period from December 10, 2014 through December 31, 2015. Our opinion is not modified with respect to this matter.

As explained in Note 1, the financial statements include investments valued at $109,179,840 (98.69 percent of net position) at December 31, 2015, whose fair values have been estimated by management in the absence of readily determinable market values. Management's estimates are based on information provided by investment managers and other pricing services. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and OPEB system schedule on pages 3-6 and 15, respectivley, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Plante & Moran, PLLC

June 28, 2016

Using this Annual Report

This annual report consists of three parts: (1) the management's discussion and analysis (this section), (2) the basic financial statements, and (3)the required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Overall Fund Structure and Objectives

The City of Detroit General Retiree Health Care Trust (the "Trust") was established on December 10, 2014 (the "Effective Date") under the Plan for the Adjustment of Debts of the City of Detroit (the "Plan of Adjustment") in the matter titled, *In re: City of Detroit, Michigan, Debtor*, Chapter 9, Case No. 13-53846, in the United States Bankruptcy Court for the Eastern District of Michigan. The Trust is newly created as a result of the settlement of certain legal claims made and pertinent to that litigation and is established to provide health benefits to existing City of Detroit retirees and certain dependents. The plan and trust is established as a governmental voluntary employees beneficiary association (VEBA) pursuant to Section 501(c)(9) of the Internal Revenue Code.

The City of Detroit General Retiree Health Care Trust is responsible for providing benefits for the welfare of certain general retirees of the City of Detroit (the "City"), along with their eligible spouses and dependents, with an effective date of retirement on or before December 31, 2014, and who were eligible to receive retiree healthcare benefits from the City at the time of retirement. Benefits under the Trust will be provided to retirees through the purchase of insurance coverage, or by reimbursement of eligible expenses, in accordance with the Trust and applicable state and federal laws.

Condensed Financial Information

The table below compares key financial information in a condensed format for the current period:

	Period Ended December 31, 2015
Total assets	$ 115,033,671
Total liabilities	4,399,534
Trust position net	**$ 110,634,137**
Net investment loss	$ (24,521,169)
Contributions - Employer	143,268,095
Contributions - Employee	3,579,383
Other contributions - City of Detroit	5,347,695
Retiree health benefits paid	(16,353,990)
General and administrative expenses	(685,877)
Net increase in trust net position	110,634,137

Trust Contributions

Contributions to the Trust are established in the Plan of Adjustment and other grant agreements established out of the City's bankruptcy. The Plan of Adjustment required the City to distribute $238,780,159 million of the City's Financial Recovery Bonds, Series 2014B(1) and 2014B(2) on the Effective Date. This contribution represents a complete discharge of the City's OPEB obligation with respect to the Trust's membership and no additional contributions from the City are required under the Plan of Adjustment. The Trust also received $1,816,429 from the Foundation for Detroit's Future pursuant to two separate grant agreements. Contributions of $43,750 will continue to be made annually until 2034 under a grant agreement with the Foundation for Detroit's Future (the "Foundation"). In addition, the Trust received $4,025,000 from the City of Detroit Employee Benefits Plan, of which $500,000 is a loan. Member contributions are required based on the medical plan selected and serve to offset a portion of the monthly insurance premium paid by the Trust on a member's behalf.

Retiree Health Benefits and Employee Contributions

As of January 1, 2015, the City has no further responsibility to provide retiree healthcare or any other retiree welfare benefits to retirees, and such responsibility falls wholly upon the VEBA Plan and Trust. The board of trustees of the Trust (the "Board") is responsible for designing, adopting, maintaining and administering retiree healthcare benefits for eligible retirees and beneficiaries. The board will be under no obligation to design the retiree healthcare plan to assure that the assets of the Trust are sufficient to provide benefits to all potential participants of the plan.

The participant population of the Trust is comprised of approximately 7,500 Medicare-eligible retirees and beneficiaries in receipt of one of three Medicare Advantage plans or an HRA, and approximately 3,000 pre-65 retirees, who are eligible to receive an HRA benefit. Optional dental and vision benefits were also offered to all eligible retirees and beneficiaries, at full cost to the participant. Member contributions to the Trust in the 2015 plan year were required as follows:

Medicare Advantage Plan	Monthly Retiree Contribution for Single Coverage	Monthly Retiree Contribution for Two-Person Coverage
HAP Senior Plus HMO	$0.00	$0.00
BCN Advantage HMO-POS	$0.00	$0.00
BCBSM Medicare Plus Blue Group PPO	$29.43	$58.86

Member contributions for 2015 dental and vision coverage options were as follows:

Monthly Rate for Blue Cross Blue Shield of Michigan Dental

One person - $33.74
Two person - $80.97
Family - $101.21

Monthly Rate for Golden Dental

One person - $24.20
Two person - $39.61
Family - $58.31

Monthly Rate for Heritage Standard Vision Plan

$6.80 for one person, two person or family coverage

Monthly Rate for Heritage National Vision Plan

$7.09 for one person
$14.03 for two person or family coverage

City of Detroit Financial Recovery Bonds

The B Notes owned by the Trust are general unsecured obligations of the City of Detroit with a 30-year maturity date, paying interest at a rate of 4 percent for the first 20 years and 6 percent for years 21 through 30. Interest payments are made twice annually on April 1 and October 1. Amortization of the B notes is as follows: interest only for 10 years; amortization in 20 equal annual installments beginning on the interest payment date nearest to the 11th anniversary from issuance. Due to the City's recent exit from bankruptcy, its lack of an established credit rating, and other economic factors outside the board's control, the New B notes owned by the Trust currently have a market value of approximately 45 percent of face value (i.e., $112,262,242).

Contacting the System's Management

This financial report is intended to provide a general overview of the Trust's finances and investment results in relation to actuarial projections. It shows the Trust's accountability for the money it receives from employer and employee contributions. If you have questions about this report or need additional information, we welcome you to contact the Trust's office at 700 Tower Drive, Suite 300, Troy, MI 48098.

City of Detroit General Retiree Health Care Trust

Statement of Fiduciary Net Position
December 31, 2015

Assets	
Cash and cash equivalents	$ 3,286,697
Investments - Bonds (Note 2)	109,179,840
Accrued interest receivable	2,387,802
Other noncurrent assets	179,332
Total assets	115,033,671
Liabilities	
Accounts payable	3,419,490
Loan payable to the City of Detroit Employee Beneficiary Association	520,000
Member contributions received in advance	460,044
Total liabilities	4,399,534
Net Position - Held in trust for retiree health care	**$ 110,634,137**

See Notes to Financial Statements and
Independent Auditor's Report.

City of Detroit General Retiree Health Care Trust

Statement of Changes in Fiduciary Net Position
Period from December 10, 2014 through December 31, 2015

Additions	
Investment income:	
Interest and dividends	$ 10,109,427
Net decrease in fair value of investments	(34,088,224)
Less investment-related expenses	(542,372)
Net investment income	(24,521,169)
Contributions:	
Employer contributions - Issuance of $238,780,159 of B notes - Net of $95,512,064 market discount	143,268,095
Retiree contributions	3,579,383
Other contributions - City of Detroit	5,347,695
Total contributions	152,195,173
Total additions	127,674,004
Deductions	
Premium payments	14,324,077
Reimbursement to City for retiree healthcare activity prior to March 31, 2015 cutover and healthcare reimbursements (Note 1)	2,029,913
Administrative expenses	685,877
Total deductions	17,039,867
Net Increase in Net Position Held in Trust	110,634,137
Net Position Held in Trust - Beginning of period	-
Net Position Held in Trust - End of period	**$ 110,634,137**

See Notes to Financial Statements and Independent Auditor's Report.

Note 1 - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by the City of Detroit General Retiree Health Care Trust:

Reporting Entity

The City of Detroit General Retiree Health Care Trust (the "Trust") is governed by a seven-member board of trustees. The Trust was established under the Plan for the Adjustment of Debts of the City of Detroit (the "Plan of Adjustment") related to the City of Detroit's (the "City") Chapter 9 bankruptcy on December 10, 2014. The Plan of Adjustment provides for the establishment of the Trust as a governmental Voluntary employees beneficiary association (VEBA) pursuant to Section 501(c)(9) of the Internal Revenue Code of 1986, as amended.

The Trust is responsible for providing benefits for the welfare of certain general retirees of the City of Detroit, along with their eligible spouses and dependents, with an effective date of retirement on or before December 31, 2014 and who were eligible to receive retiree healthcare benefits from the City at the time of retirement. Benefits under the Trust will be provided to retirees through the purchase insurance coverage, or by reimbursement of eligible expenses, in accordance with the Trust and applicable state and federal laws.

The Trust was established on December 10, 2014 under the Plan of Adjustment, at which point the Trust was distributed approximately $238.8 million of the City's Financial Recovery Bonds, Series 2014B(1) and 2014B(2) (the "bonds"). As of December 31, 2015, the bonds had a market value of $109,179,840. These bonds represent the entire funding responsibility of the City.

The Trust will provide future benefits only to the extent that plan assets are available to pay them. The Trust is under no obligation to design the retiree healthcare benefits plan to assure that the assets of the Trust are sufficient to provide benefits to all potential participants in the plan for any particular period.

Benefits paid to retirees and elibilible spouses/dependents are recorded when paid. Through March 31, 2015, these payments were administered and paid by the City. Subsequently, they were paid directly from the Trust. Payments made by the City on behalf of the Trust are recorded as premium payments during the period ended December 31, 2015. The stipends paid as recorded on the statement of changes in fiduciary net position of approximately $1,000,000 were from the period through March 31, 2015 and were paid directly by the City.

The Trust will sponsor a health reimbursement account (HRA) benefit for non-Medicare-eligible retirees and spouses. This benefit will also be offered to Medicare-elgibile retirees electing to optout of coverage under the Trust's Medicare program. Upon enrollment, eligible retirees receive a monthly HRA benefit.

Note 1 - Summary of Significant Accounting Policies (Continued)

This report covers the period from December 10, 2014 through December 31, 2015.

Accounting and Reporting Principles

The Trust follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board.

Basis of Accounting

The Trust's financial statements are prepared using the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Contributions are recognized when due pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Trust.

Specific Balances and Transactions

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments - Investments are reported at fair value or estimated fair value. Investments that do not have an established market value are reported at estimated fair value as determined by the Trust's management.

As of December 31, 2015, the Trust holds City of Detroit Financial Recovery Bonds Series 2014B(1) and 2014B(2) with a face value of $238,780,159 and an estimated market value of $109,179,840. The bonds do not have a readily determinable market value given the illiquidity and limited trading of these bonds. Management's estimates of these values are based on information provided by investment custodians and other pricing services. Because they are not readily marketable, their estimated value is subject to uncertainty and therefore may differ significantly from the values that would have been used had a ready market for these securities existed. Subsequent to December 31, 2015, market value decreased approximately 1.78 percent from one pricing source and 14.73 percent from another.

The bonds mature in 30 years and carry an interest rate of 4.0 percent for the first 20 years and a 6.0 percent interest rate thereafter. For the first 10 years, semiannual interest-only payments will be made on the bonds. Beginning on the 11th anniversary of the issuance, 20 equal installments will be made annually.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Federal Income Taxes - The Trust is tax exempt under Section 501(c)(9) of the Internal Revenue Code.

Note 2 - Deposits and Investments

The Trust is not limited in the types of investments held by any legal or contractual provisions. The Trust has designated two banks for the deposit of its funds. Under the Plan of Adjustment, the City was required to distribute the bonds to provide initial funding for the Trust. The bonds are the primary investment held by the Trust.

The Trust's cash and investments are subject to several types of risk, which are examined in more detail below:

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates.

At year end, the Trust had the following investments:

Investment	Fair Value	Weighted Average Maturity (Years)
Municipal bonds	$ 109,179,840	28.27

Credit Risk - As of year end, the Trust had $109,179,840 in municipal bonds, which were not rated by a national rating agency. However, the bonds have a rating of 6Z (highest risk, near or at default) by the National Association of Insurance Commissioners (NAIC).

Concentration of Credit Risk - The Trust places no limit on the amount it may invest in any one issuer. More than 5 percent of the Trust's investments are in the City of Detroit Financial Recovery Bonds, Series 2014B(1) and 2014B(2); these investments are 100 percent of the Trust's total investments.

Note 3 - Other Postemployment Benefits

Plan Description - The Trust provides healthcare benefits to retirees, and their eligible spouses and dependents, with an effective date of retirement on or before December 31, 2014 and who were eligible to receive retiree healthcare benefits from the City of Detroit at the time of retirement. This is a single-employer benefit plan administered by the Trust. As of December 31, 2015, there were 6,726 participants in the plan.

Funding Policy - Contributions are established in the Plan of Adjustment and other grant agreements. The Plan of Adjustment required the City to distribute $238,780,159 of the City's Financial Recovery Bonds, Series 2014B(1) and 2014B(2) on the effective date. The City of Detroit no longer has any responsibility to provide retiree healthcare or any other retiree welfare benefits. The Trust also received $1,816,429 from two grant agreements. Contributions of $43,750 will continue to be made annually until 2034 under a grant agreement with the Foundation for Detroit's Future (the "Foundation"). In addition, the Trust received $4,025,000 from the City of Detroit Employee Benefits Plan, of which $500,000 is a loan. Member contributions are required based on the medical plan selected.

Funding Status - The Trust will provide future benefits only to the extent that plan assets are available to pay them. After the contribution of the bonds, no further employer contributions will be made to the Trust. Future contributions will be comprised of $43,750 annually until 2034 under a city grant agreement with the Foundation. As such, the actuarial accrued liability as of December 31, 2015 is equal to the plan net position of $110,634,137.

The majority of net position of the Trust is the City of Detroit Financial Recovery Bonds. Valuation of these bonds are at current market value, which is heavily discounted from the face or principal value of the bonds and represents less than the expected future cash flows if the City fulfills all of its obligations under the notes. Therefore, if the City ultimately does pay 100 percent of the interest and principal of the bonds, the benefits the Trust is able to provide will be higher than what is currently projected.

Note 4 - Line of Credit

Under a line of credit agreement with a bank, the Trust has available borrowings of $24,250,000. Interest is payable semiannually at a rate of 2.25 percent per annum on the undrawn portion and 5.58 percent per annum on the drawn portion. The line of credit is collateralized by City of Detroit Financial Recovery Bonds. Under the line of credit agreement with the bank, the Trust is subject to various financial covenants, including repaying all outstanding loans and obligations in full if the bonds' market value decreases to a certain amount, providing the lender a daily report of the market value of the bonds, and certain guidelines for the disposition of the bonds. As of December 31, 2015, the Trust has not drawn on the line of credit.

Note 5 - Upcoming Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Trust is currently evaluating the impact this standard will have on the financial statements when adopted, during the Trust's 2016 fiscal year.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued in June 2015. This new accounting standard addresses reporting by postemployment benefit plans other than pensions (OPEB) that administer defined benefit OPEB benefits on behalf of governments. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statement more extensive footnote disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. The provisions of this new standard are effective for the Trust's December 31, 2017 year end.

Required Supplemental Information

Reminder: if your department receives a letter from MIOSHA or an Inspector arrives, Call Risk Management at 224-2282. (Email Copy of any letters to riskmanagement@detroitmi.gov) We will assist you with the issues.

Safety Issues

With summer finally here, it is important to remember the additional hazards that come with the season– Potholes, citizen conduct on the bus, heat stress.

- Employee safety at the terminals is an issue with staff and others not stopping at the guard booth before entering the terminal, and citizens walking off the street. This concern has been addressed by the addition of extra security guards to man the booths. Recommendations have been made to have security report any employees who do not follow proper procedures.

- Please pre-trip your coach to ensure that all equipment is working properly – Handicap lift, air conditioning, ventilation hatches if available.

- Coach cleanliness was a concern mentioned at the last meeting, this issue will be addressed by the Coach Service Attendant supervisors.
- Any department area that employees frequents should be dry and free of obstacles and situations that could lead to personal injury. (Potholes in the employee parking lot (Gilbert Terminal). A recent employee injury was caused by this.

Other Recommendations

I endorse the recommendation made at the June Health and Safety Committee Meeting that a Code of Conduct for passengers should be posted on every coach, to reinforce correct passenger behavior while riding on the coach.

Public service announcements that highlight the policies and procedures for bus ridership, and repair the electronic message boards at the Rosa Parks Transit Center to aid the public with schedule/bus stop changes, and general rider information.

(72)

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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director
Legislative Policy Division Staff

DATE: August 17, 2016

RE: Risk Management in the City of Detroit

Executive Summary

Council President Pro Tem George Cushingberry requested on June 29, 2016, that the Legislative Policy Division (LPD) prepare a report on the City's Risk Management. This is our report on the City's Risk Management.

Risk Management is a critical function of government. In the FY 2015 CAFR the City reported a total of $152.6 million in long-term obligations for workers compensation, legal (claims and judgments), disability benefits, and vehicular liabilities for both Governmental and Business-type activities. This was an $11.7 million increase from the $140.9 million for FY 2014.[1] The City has a large exposure to claims and judgments for personal injury and property damage. City services such as transportation, street and sidewalk maintenance, police and fire that if not properly developed, maintained and managed could result in accidents and other incidents that the City could be liable for.

The schedule below shows the top 10 long-term obligation amounts and number of incidents for claims for FY 2015 and compares them to the FY 2013 and FY 2014 amounts[2]. These amounts are included in the Government-wide statements (e.g., long-term obligations) of the respective CAFRs.

[1] Page 105 of the FY 2015 CAFR
[2] Attachment III data from Legal Reserve file provided by the Law Department for the FY 2013 to FY 2015 CAFR.

Claim Description	FY 2013 Pre-Bankruptcy Incidents	FY 2013 Pre-Bankruptcy Amount	FY 2014 Bankruptcy Incidents	FY 2014 Bankruptcy Amount	FY 2015 Post-Bankruptcy Incidents	FY 2015 Post-Bankruptcy Amount
Property Tax Claim	1,034	$ 6,537,041	689	$ 9,764,786	597	$ 6,069,306
DDOT Bus Collision	756	10,994,649	752	6,713,736	409	5,325,835
Police Misconduct Claim	208	7,424,104	134	8,758,288	77	2,763,638
Sidewalk injury claim	487	6,299,765	404	3,499,750	163	2,558,626
City vehicle collision	194	6,044,666	159	5,173,669	92	2,488,782
Person injured on bus	89	1,579,250	81	1,103,107	46	1,108,761
Personal or Property damage from bus	110	1,496,451	101	720,333	44	579,820
Street injury claim	204	1,744,714	203	867,885	72	567,128
Other Vehicle Collision accidents	117	2,505,412	106	1,153,595	33	405,172
Personal injury or property damage	77	483,729	70	138,437	14	85,937

The largest amount for claims were for property taxes which mainly were for overvalued assessments. DDOT (Detroit Department of Transportation) bus collisions with other vehicles and pedestrians was the second highest in number of incidents and amount of obligations. Police misconduct claims was the third highest in amount. Sidewalk injury claims were higher in number of incidents than police misconduct cases but the amount was less. The FY 2015 claims were down from FY 2014 and FY 2013 because many claims that were filed prior to bankruptcy will be compromised and were not included in the cases for FY 2015. These compromised claims were classified as Class 14 claims in the bankruptcy and are still being reviewed and resolved. As detailed in the schedule below, $20.6 million was set aside to settle the Class 14 claims[3]. The following schedule also shows the top 10 largest number of incidents and obligations for claims by department for FY 2013 to FY 2015[4].

Department	FY 2013 Pre-Bankruptcy Incidents	FY 2013 Pre-Bankruptcy Amount	FY 2014 Bankruptcy Incidents	FY 2014 Bankruptcy Amount	FY 2015 Post-Bankruptcy Incidents	FY 2015 Post-Bankruptcy Amount
Class 14 Claims		$ -		$ -	1	$ 20,596,747
DDOT	1,163	21,512,940	1,123	15,191,657	617	9,964,660
Office of Chief Financial Officer	1,054	6,754,161	704	9,914,564	615	6,421,800
Police Department	383	14,085,999	289	14,599,559	189	6,395,269
Public Works	779	9,642,700	685	5,618,095	285	3,847,762
Fire Department	77	1,324,830	73	887,140	37	664,490
Buildings and Safety Engineering	12	122,841	11	78,500	6	501,000
General Services	64	486,650	40	299,500	15	241,500
Planning & Development	3	84,500	5	1,693,500	5	193,500
City Council	5	25,000	6	105,800	7	106,250

After the Class 14 bankruptcy claims, DDOT has the largest amount of obligations because of the alleged damages resulting from the bus service provided. The next largest is the OCFO which is mainly the claims for over-assessments. The Police Department is third highest in obligations due to allegations of police misconduct. Public Works ranks fourth in amount of obligations because of alleged damages from accidents caused by sidewalks and streets.

[3] Page 110 of the 2015 CAFR

[4] Attachment III data from Legal Reserve file provided by the Law Department for the FY 2013 to FY 2015 CAFR.

The schedule below shows the top ten workers compensation obligations by department for FY 2013 to FY 2015[5]. These amounts are included in the Government-wide statements of the respective CAFRs.

Department	FY 2013	FY 2014	FY 2015
Transportation	$ 18,002,000	19,931,000	18,877,000
DPW	13,522,000	14,820,000	13,840,000
Fire	7,991,000	9,265,000	9,317,000
Police	7,433,000	8,716,000	8,524,000
Sewage Disp	3,293,000	3,692,000	7,764,540
Water	9,590,000	10,696,000	5,857,460
PLD	3,541,000	3,938,000	3,752,000
Recreation	2,887,000	3,174,000	2,972,000
Housing	1,509,000	1,650,000	1,538,000
Health	1,449,000	1,582,000	1,485,000

The schedule above does not include the worker compensation payroll costs of the fire and police uniform employees. It only includes the medical costs for the uniform (police and fire) employees. For the first year of worker's compensation, the uniformed employees are paid through the regular payroll system. After that, if they are still disabled, they are paid through disability in the Police and Fire Retirement System (PFRS) Fund. If the uniform police and fire payroll costs were included they would have the highest obligations of all the City departments.

DDOT has the highest non-uniform worker compensation claim obligations, mainly for injuries to bus drivers. Public works has the next highest amount of non-uniform workers compensation claim obligations resulting from its work on street maintenance and trash removal. City employees, especially bus drivers, fire fighters and police officers are exposed to hazardous conditions in their duties and they have a high risk for injury.

The City of Detroit has a formal Risk Management Process. The City's Charter requires a Risk Management Council[6] and the City's Municipal Code requires the claim losses to be paid for and accounted for in a Risk Management Fund[7] (RMF). Also, the City has a Risk Management Division within the Office of the Chief Financial Officer (OCFO) which is responsible for coordinating and managing the City's risk activities.

The Risk Management Division has a Central Safety Office and Safety Officers who are assigned to the various City Departments. The Safety Officers assist the department in prevention and mitigation of risks. In addition, they monitor the workers compensation and other damage claims for the departments and prepare quarterly reports for the departments[8]. The Risk Management Division has undergone significant downsizing and cost reductions since FY 2004.

The Risk Management Council (RMC) controls city losses associated with city operations by setting operational policies and procedures. The City Charter was significantly revised to

[5] Data from workers compensation schedules prepared for FY 2013 to FY 2015 CAFRs
[6] Article 9, Chapter 7 (See Attachment I)
[7] Article VIII – Self-Insurance by City (See Attachment II)
[8] See Attachments VI to VIII for sample of Quarterly reports

strengthen and expand the functions of the Risk Management Council along the lines of reducing the City's exposure to risk and liability throughout government, which can result in significant savings and improved safety.

The City's RMC has not met since October 18, 2011. The new Charter became effective January 1, 2012 and established specific reporting requirements (Chapter 7, Section 9-702) for the Risk Management Council. The City's Mayors since 2012 have not established the Risk Management Council and have not met the reporting requirements, as required by the City Charter.

The City Code (Section 18-8-24) requires that the OCFO report annually on the Fiscal Status of the Risk Management Fund and the loss experiences of the City departments to the City Council. Also, the City Code requires that "The law department corporation counsel shall make a risk management fund report in each quarter of the fiscal year to the city council containing the following information:

- **(1) Plaintiff's name and case number.**
- **(2) Date of payment.**
- **(3) Claim, arbitration, settlement or judgment amount paid.**
- **(4) Arbitration amount paid including the city council authorized arbitration settlement range.**
- **(5) City agency number involved in the case.**
- **(6) Plaintiff's legal representation.**
- **(7) Type of incident.**
- **(8) Final arbitration payments where city council has pre-approved an arbitration settlement range."**

LPD has not found any of the reports since 2011 from the Law department nor the OCFO to City Council as required by the City Code, Section 18-8-24.

We recommend that the City Council urge the Administration to fulfil its Charter and City Code requirements and establish the Risk Management Council and provide the City Council with the required reports from the Law department and OCFO.

Providing municipal services, meeting budgets and doing it safely should all go hand-in-hand. The City needs to provide a safe environment for workers and citizens who are provided City services. Best practices include adopting "zero accidents" as a primary goal in risk management practices. Additionally, a motto of many organizations with excellent risk management is "sending employees home in the same condition in which they arrived". The belief and attitude should be that every accident and injury is preventable and this philosophy is embedded into every employee and City service through a combination of technical field procedures and ongoing training programs. Any unsafe behavior must be managed, all unsafe conditions must be corrected, all accidents must be reported and investigated, and all employees need to comply with this philosophical concept.[9]

[9] "Fostering a Strong Construction Safety Culture", January 2011, Patrick X Zou, Ph.D. Leadership Manage. Eng., 10.1061 (ASCE) LM. 1943-5630.0000093,11-22

The bankruptcy stayed much of the litigation against the City and the claims and judgments paid out in FY 2014 and FY 2015 were much less because of the bankruptcy. If the City's risk management efforts are not sufficient the City could see a significant increase in claims and judgments. Not having an operational Risk Management Council creates a less than positive expectation for future claims and judgments filed against the City.

Risk Management Background

"Risk" is defined as uncertainty that may be either positive or negative arising out of a given set of circumstances. Risk is a natural part of life and though we can list, measure and mitigate it, we can never completely eliminate risk. We deal with risk every day in our private lives. Groups of people, however, need a formal process to deal with the risks they face, and the term "risk management" is used to refer to the various practices an organization uses to manage risks. In government, the level and types of risk vary among agencies, as well as within agency divisions. Regardless of the agency's mission, each agency faces risks. These risks must be identified and managed to protect the government's employees, resources, citizens and reputation.[10]

The general classes of risk include: (1) Economic; (2) Legal; (3) Political; (4) Social; (5) Physical; and (6) Judicial. Risk Management is more than just mitigation of accidents and damages. Good Risk Management focuses on prevention, avoidance, and minimization of exposure to risk with negative consequences[11]. Also, good risk management seizes on opportunities to increase revenues and minimize waste and costs.

The City through its services provided to the public has a high exposure to risks from physical injury and property damage. In the FY 2015 CAFR the City reported a total of $152.6 million in long-term obligations for workers compensation, legal (claims and judgments), disability benefits, and vehicular liabilities for both Governmental and Business-type activities. This was an $11.7 million increase from the $140.9 million for FY 2014.[12] These obligations are legacy costs. They are costs incurred in the past that will have to be paid from future revenues, which will adversely impact the amount of funds available for essential City services.

Risk Management is an important function within City government. It requires the collective insight and cooperation of City departments and agencies in order to adequately assess and reduce the City's liability and exposure to risk. The City Charter was significantly revised to strengthen and expand the functions of the Risk Management Council along the lines of reducing the City's exposure to risk and liability throughout government, which can result in significant savings and improved safety.

The City of Detroit has a formal Risk Management Process. The City's Charter requires a Risk Management Council[13] and the City's Municipal Code requires the claim losses to be paid for and accounted for in a Risk Management Fund[14] (RMF).

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[10] State of Washington, Washington State Department of Enterprise Services – "Risk Management Basics", December 2015

[11] Discussion with City's Risk Manager, Risk Management Division

[12] Page 105 of the FY 2015 CAFR

[13] Article 9, Chapter 7 (See Attachment I)

[14] Article VIII – Self-Insurance by City (See Attachment II)

Traditional risk areas, which are generally associated with some type of insurance product, include:

- Worker safety
- Automobile liability
- Property
- General liability
- Compliance (sometimes called regulatory liability)

Risk Management Functions include the following:

- Loss prevention and avoidance
- Risk mitigation
- Incident reporting
- Root cause analysis
- Insurance
    - Self-insurance and commercial insurance
    - Uses of and need for reinsurance
    - Contractor and lease indemnification and insurance
- Claims management
    - Tort claims
    - Litigation
    - Workers compensation
    - Loss history
    - Health and safety
    - Driver safety
    - Worker safety
    - Emergency management

Taking risks can also have positive outcomes such as increased revenue. For example, moving the City's administration of income tax returns and collections to the State of Michigan has the potential of increasing income tax. Also, granting tax abatements to businesses to relocate to the City could also increase revenues to the City from the economic benefits of new residents and income tax paid by workers of the relocated business. The negative outcome of these risks could be decreased revenues if the expectations of these actions are not realized. **The City's management needs to be proactive risk managers and ensure maximization of revenues, while at the same time preventing or minimizing the risks for injury and damages to the public and City employees.**

Mitigating risks such as having an effective "Return to Work" program for injured employees can reduce claim costs. Also, it can benefit the City and employee by having productive employment.[15]

Miscellaneous claims are incidents that involve property damage or minor injury for which the City is allegedly at fault. Miscellaneous claims generally do not exceed $2,500 and often do not

[15] Discussion with City's Risk Manager, Risk Management Division

involve legal counsel on the part of the claimant. Lawsuits are typically larger and more extensive than the miscellaneous claims and require additional time and resource devotion by both the plaintiff and defendant. Legal department management can approve claim settlements without approval of City Council that do not exceed $2,500.

A tort is a civil wrong or wrongful act, whether intentional or accidental, from which injury occurs to another. Torts include all negligence cases, as well as intentional wrongs that result in harm. It is common for the injured party to seek to recover damages.

Tort claims against the City can result from personal injury; bodily injury; property damage; financial loss; or loss of business or damage to reputation, when a claimant believes an injury is the fault of a City agency or employee. With limited exceptions, the City must pay damages just like a private party when the City or one of its agents commits a tort.

Department and incident codes are assigned to each case to identify the City Department involved (e.g. Fire, Police, etc.) and provide a description of the nature of each case. The Incident Code identifies the nature of the case and usually includes a letter and two-digit number (e.g. B03 – persons attempting to board moving coach or S01 – fall on broken or cracked sidewalk). See Attachment III for a detailed listing by incident code of the City's litigation long-term obligations for FY 2013 to FY 2015.

A settlement is the result of litigation requiring a payment for loss or damages by the City to the plaintiff (or petitioner for cases involving property taxes). Further, a settlement can be strongly recommended by the overseeing Judge. Claims and settlements exceeding $2,500 are required to be approved by City Council. Evidence of Council approval is printed as a formal resolution in the Council Meeting Minutes published for that meeting. City Council Approval is also evidenced through the Legal News and an e-mail sent out to the Law Department that lists all the cases approved at the City Council Meeting.

Once a settlement has been determined, a Resolution Memorandum is prepared and needs to be approved by City Council in order for the settlement to take effect. Further, the Plaintiff's counsel must sign a stipulation and order dismissing the case. The Plaintiff must sign the Legal Release to evidence both the agreement of the settlement amount and releasing the City from all future claims stemming from the event litigated before a check can be issued.

Risk Management Council

The Risk Management Council (RMC) controls city losses associated with city operations by setting operational policies and procedures. The RMC according to the City Charter section 9-7 (see Attachment I): "shall make recommendations to the Mayor, and shall have authority to implement the Mayor's directives concerning implementation of policies, programs and activities to minimize exposure or liability of the city to claims and damages." In addition, "Annually the Risk Management Council shall assess the administration and effectiveness of safety, liability and risk reduction functions in each city agency, and report findings and recommendations to the Mayor and City Council."[16]

[16] Article 9-702 of the City Charter

The City's RMC has not met since October 18, 2011. The new Charter became effective January 1, 2012 and established specific reporting requirements (Chapter 7, Section 9-702) for the Risk Management Council. The City's Mayors since 2012 have not established the Risk Management Council as required by the City Charter.

The City Charter specifies the following as members of the RMC: Auditor General, Corporation Counsel, Human Resources Director, Finance Director, Inspector General, Transportation Director, City Council designee, Chief of Police, and a Chairperson appointed by the Mayor.

The RMC envisions that City departments with major losses will each form and administer a Local Risk Management Team, consisting of a representative from the department's administration, the department's safety officer, the department's human resources officer, a union representative, and a member of the job title determined by the RMC to be at greatest risk of illness or injury. These Teams are envisioned to meet every month to review all of the accidents and injuries that occurred that month.[17]

The City currently has the "SMART Committee" comprised of representatives from DDOT, Fire, EMS, and Police that meets periodically on risk management issues.[18]

The RMC envisions receiving ongoing support, as needed, from the staffs of the Auditor General, Inspector General, OCFO's Risk Management Division, the Law Department Litigation Section, and the Human Resources Benefits Division. The City Charter specifies that "the City shall make an annual appropriation for the operation of the risk management council," which is envisioned for any special operational investigations and evaluations that may be indicated. The RMC including two auditors are funded by Appropriation 11195 in the Auditor General's cost center (500095).

The RMC goals include[19]:

- Minimize litigation filed against the City of Detroit
- Limit damage claims filed and awarded against the city
- Address employee wellness to limit sickness, productivity loss, and health care utilization
- Eliminate occupational health and safety related workers compensation incidents and other drains on employee productivity
- Reduce early retirement filings
- Limit damage to city property occurring on the job
- Impact overhead costs in the management of the Risk Management Fund

RMC Reporting[20]includes:

- The Risk Management Council shall produce, with the assistance of the Finance Department, a quarterly report that summarizes its evaluation, monitoring and coordination of the City's comprehensive risk management strategy.

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17 Paper – "Risk Management in the Budget Process 9-21-07"

18 Discussion with City's Risk Manager, Risk Management Division

19 ibid

20 City Charter

- The Risk Management Council shall prepare for the Mayor and City Council an annual strategic risk management report, in conjunction with the Finance Department, which evaluates the effectiveness of risk management functions within the City. Included in the report shall be recommendations on, and identification of, city-wide and agency and department specific, risk reduction strategies and projected savings from implementation of these strategies.

- The Risk Management Council and Finance Department shall formulate a cost system to monitor, control and report on all potential risk and liability costs to the City of Detroit.

- Assisted by the Finance Department, the Risk Management Council shall provide an annual report to the Mayor and City Council summarizing claims that have been paid by the City on risk related matters including, but not limited to, the settlement of lawsuits, pre-litigation claims and worker's compensation claims. The report shall provide recommendations for risk avoidance and liability exposure reduction measures related to these claims. Release of the report shall coincide with the Mayor's annual submission of the proposed budget to City Council.

We have seen none of the required reports from the City nor the RMC since 2011.

Risk Management Fund (Governmental Fund)
Article VIII of the Detroit Municipal Code provides for self-insurance by the City and establishment of the Risk Management Fund (see Attachment II).

On June 28, 1995, (amended December 6, 1995) Council approved an ordinance (Ord. No. 16-95) amending Chapter 18 of the 1984 City Code and added Sections 18-8-16 through 18-8-24. These sections provide for the establishment and administration of a Risk Management Fund (RMF) which consolidates Worker's Compensation expenses, Automotive Damage Claims, Damage Claims, and Public Liability Insurance Reserve Fund settlement expenditures.

The Ordinance states, "The Risk Management Fund shall cover liability to third parties for any loss or damage whatsoever arising out of negligence, tort, contract or otherwise accruing payable by the City from and after July 1, 1994, and for which insurance could be provided by a third party insurer, but for which the City has determined to self-insure, including, without limitation, any obligation for which the City may be held liable under Worker's Compensation or Disability Benefits Law, or under any similar laws, or for damage to property or personal injury, in accordance with applicable law."

In accordance with the amended ordinance and as approved by City Council, in June 1995, the city sold $100.0 million in limited tax general obligation bonds to initially capitalize the RMF.

The purpose of the city's self-insurance program is to protect itself against claims arising from negligence or tort. It is deemed more practical and cost-beneficial to operate a self-insurance program for the General Fund and certain Enterprise Funds (in particular, DDOT) since third-party insurance coverage for certain types of claims are very limited and expensive. The Risk Management Fund accounts for claim and lawsuit payments of the General Fund agencies and

Detroit Department of Transportation (DDOT). Each fiscal year, the Risk Management Fund receives premiums from the General Fund and DDOT to cover expected claim and lawsuit payments. The Risk Management Fund also receives earnings from the investment of fund assets.

The RMF does not charge any non-general fund governmental departments such as the Public Work's Solid Waste and Street Funds for their claims and workers compensation. The RMF has a large amount of obligations for Public Works claims and workers compensation. These funds have revenue sources and should be able to pay their share of the obligations.

The charging of injury and damage claims and workers compensation to a central Risk Management Fund instead of directly to the responsible department could contribute to a lack of accountability and effort by the department on risk management. Budgeting for and charging departments (including General Fund departments) directly for their claims would place more accountability for risk management upon the departments and their managers. Consideration should be given to holding all City departments accountable for the injury and damage costs by establishing an Internal Service Fund for Risk Management whereby all City departments would have budgets for their claims and be charged directly for them.

In some cases the staff of the Risk Management Division in the Finance Department may determine that it is more feasible for a General Fund or Enterprise agency to purchase its own insurance coverage from a third-party insurance carrier in order to cover high-risk or large exposure losses.

The Risk Management Fund also accounts for the worker's compensation costs. This covers the payroll, medical bills, and any final redemption for all civilian General Fund and DDOT employees. It also covers the medical costs for the uniform (police and fire) employees, but not their payroll costs. For the first year of worker's compensation, the uniformed employees are paid through the regular payroll system. After that, if they are still disabled, they are paid through disability in the Police and Fire Retirement System (PFRS) Fund.

The RMF ordinance requires a $20.0 million minimum balance in the RMF as permanent fund equity for payment of losses the city becomes legally obligated to pay after FY 1994-95. If it is necessary to change the minimum required balance amount, then Council must authorize the change.

Although the General Fund has reserved the fund balance of the Risk Management Fund for the purpose of funding the City's future claims and liabilities, the Finance Director (Detroit Code, Section 18-8-19) can adjust the amount of contributions. The only constraint is that the Risk Management Fund maintain a minimum required balance of $20.0 million. The Finance Director is authorized (Detroit Code, Section 18-8-18) to recommend a change to the minimum required balance, subject to City Council approval.

The City has deposited $18,161,787[21] in an escrow account under the State's Department of Insurance and Financial Services (DIFS) and managed by the State's Treasury department per a Memorandum of Understanding between DIFS, the City and State Treasurer, signed by the State's Treasurer on May 26, 2015. These funds will be held for payment of no-fault claims. The City must replenish the escrow account for expenditures from it.

The City should review Section 18-8-18 of the City Code to determine if we should continue to require a minimum Risk Management Fund balance of $20.0 million considering the $18.2 million set aside in the DIFS escrow account. Proper management of the Risk Management Fund requires maintaining a sufficient balance to provide for the City's claims including any extraordinary payments.

The schedule below details the RMF revenues and expenditures for FY 2013 to FY 2016. The FY 2016 expense balances are incomplete as of the date of this report and are expected to be larger when the FY 2016 year is closed. The RMF revenues, expenses, assets, liabilities and Fund Balance are included in the General Fund's financial statements[22].

Risk Management Fund Expenses FY 2013 to FY 2016

	Pre-Bankruptcy	Bankruptcy	Post-Bankruptcy	
Revenues	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**
Other Reimbursements	$ 779,439	198,722	1,373,229	57,978
General Fund Contribution	61,092,164	19,426,000		37,440,524
DDOT Contribution		13,694,755	12,000,000	12,000,000
Total Revenue	61,871,603	33,319,477	13,373,229	49,498,502
Expenses				
Benefits	109,535			
Actuarial	15,187		31,100	(4,576)
Medical Other	246,765	2,465		(13,612)
Legal	400	82,007	233,282	
Contractual	249,672	194,071	2,169,031	985,249
Operating	84,876	200,423	1,068,589	1,086,224
Insurance-Premium	69,372	171,651	280,309	555,324
Misc Damage Claims	287,062	34,818	634,511	1
Litigation	25,407,100	(2,936,580)	9,604,157	10,162,904
Workers Compensation	4,802,483	2,184,639	8,855,594	10,484,085
Work Comp Medical	7,093,662	6,088,139	1,162,038	-
Misc. Claims City Agencies	4,189,520	2,581,103	14,521,471	7,341,183
Other			(4,708,458)	4,708,458
Total Expenses	42,555,634	8,602,736	33,851,624	35,305,240
Net Revenue/(Expense)	**$ 19,315,969**	**24,716,741**	**(20,478,395)**	**14,193,262**
Beginning Fund Balance	$ 35,234,345	54,550,314	79,267,055	58,788,660
Ending Fund Balance	$ 54,550,314	79,267,055	58,788,660	72,981,922

[21] Per MOU between City, DIFS and State Treasurer. Original escrow amount was $21,561,787. The required balance was reduced by $3,400,000 to $18,161,787 in June 2016 because the No-Fault reserve requirement was adjusted.

[22] Pages 25 and 27 of the 2015 CAFR

The General Fund and DDOT make annual contributions (e.g., premiums) to the RMF. Contributions were reduced in FY 2014 and FY 2015 because of the bankruptcy (i.e., stay on payments), which reduced the expenditures from the Fund during that period. The Litigation expenses have been reduced since FY 2013 due to the bankruptcy. There are still many unsettled litigation cases from the bankruptcy period which will increase the expenses of the Risk Management Fund in future years as they are paid out.

Miscellaneous claims expenses of $14.5 million were higher in FY 2015 because of settlements for Compuware, DTE, and ATT.

The Risk Management Fund balance was $58.8 million for FY 2015 and is much greater than the $20.0 million required by the City ordinance.

Attachment IV details the Risk Management Fund's total expenses for FY 2010 through FY 2016 by City department. If the City's risk management is poor the RMF expenditures will likely increase. In FY 2011 the RMF total expenses were $65.1 million.

The following table shows the top 10 Risk Management Fund total expenses by City department for FY 2010 to FY 2016. These include workers compensation, litigation, and other claims expenses.

Top 10 Risk Management Fund Total Expenses (Workers Compensation, Litigation and Other Claims) by Department

Agency	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
DDOT	$9,840,752	$ 13,845,602	$ 11,197,534	$ 15,272,660	$2,935,157	$7,019,237	$ 12,719,881
Administrative	2,207,010	7,980,776	714,046	882,984	542,723	(319,490)	7,327,051
Police	22,679,010	24,019,659	8,789,631	11,750,952	2,519,206	8,413,752	7,267,695
Fire	2,573,284	5,085,108	7,394,852	3,894,443	2,394,063	3,764,829	2,491,513
DPW	7,405,833	6,398,933	6,117,867	6,728,963	(427,927)	428,393	1,557,484
Water	306,500	245,436	520,017	204,477	148,761	759,735	1,225,487
Bankruptcy	-	-	-	-	-	12,355,908	754,646
PLD	652,335	635,776	1,158,766	606,926	335,589	490,746	395,529
GSD	128,380	736,733	(358,401)	160,246	122,675	263,276	379,161
Sewerage	-	168,112	276,151	141,724	149,076	42,105	372,324

DDOT had the largest Risk Management Fund expenses for FY 2016 at $12.7 million to date (the final accounting for FY 2016 is still on-going and the amounts will change). Administrative costs for the fund were the next highest, as bankruptcy costs of $4.7 million were included. Police, Fire and Public Works had the next highest costs as they have high risk for damages and claims.

Police historically have had high RMF expenses. In FY 2011 Police had $24.0 million in RMF expenses. Since FY 2011 Police RMF expenses have been reduced significantly. This is likely due to the Department of Justice oversight and reforms in the Police department.

The Bankruptcy RMF expenses of $12.4 million in FY 2015 are the miscellaneous claims expenses due to settlements with Compuware, DTE, and ATT, as mentioned above.

DPW costs, especially litigation costs, have declined significantly from the $7.4 million of FY 2010. This is mainly due to the bankruptcy and the stays on claim payments.

The schedule below details the Risk Management Fund worker compensation expenses by Department for FY 2010 to FY 2016. These include the actual workers compensation payroll, medical, and other charges incurred. As discussed previously the FY 2016 accounting is incomplete and the actual amount is expected to be larger.

Risk Management Fund Worker Compensation Expenses

Department	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
DDOT	$ 2,430,035	2,643,432	3,024,274	2,400,892	1,283,625	1,674,704	2,465,030
Fire	1,634,254	4,100,625	3,685,992	3,430,131	2,648,648	3,739,671	2,425,183
Police	2,336,652	3,911,058	3,399,908	3,111,653	2,916,484	2,345,222	2,151,903
Water	-	181,636	500,967	203,277	147,262	759,735	1,049,862
DPW	1,721,315	1,041,317	958,343	849,304	230,674	250,461	800,293
PLD	652,335	635,776	1,158,766	606,926	335,513	490,746	395,529
GSD	128,380	706,733	(397,401)	160,246	191,675	257,046	375,612
Sewerage	-	168,112	276,151	141,724	149,076	42,105	372,274
BSED	180,341	156,367	172,912	220,844	60,130	37,744	105,140
Recreation	314,904	187,769	240,735	183,371	95,769	99,873	95,420
Parkings Enforcement	-	-	3,471	441	-	43,655	56,910
Nondepartmental	436,184	817,058	943,034	275,557	4,887	33,727	39,743
36th District Court	21,622	92,329	1,596	3,974	2,016	20,395	33,059
OCFO	5,264	6,251	1,818	684	613	6,844	32,782
PDD	49,432	159,304	92,973	55,213	29,921	23,320	27,727
Citys Clerk	745	-	134	-	-	-	19,701
Elections	2,979	5,050	126	-	-	479	10,417
Human Services	5,715	3,208	13,209	2,721	-	29,034	10,099
Library	61,654	3,812	21,026	17,180	5,452	24,968	7,055
Housing	101,685	68,039	48,473	33,219	7,952	3,085	4,515
Health	38,402	57,843	95,058	67,815	7,854	60,264	3,725
Law	84,099	5,635	26,402	13,136	543	223	832
Parking	147,934	130,278	53,482	31,291	72,681	10,377	642
Human Resources	56,619	41,548	26,738	907	1,195	40,388	587
Airport	222	497	543	-	-	-	45
Employmt & Training	47,103	22,660	23,982	21,219	13,927	7,370	
Public Information	3,655	4,648	5,077	1,968	21,391	5,759	
City Clerk	-	-	335	248	-	471	
Budget	35,592	33,663	29,637	23,812	10,837	447	
Civic Center	47,560	27,700	2,327	373	546	273	
Arts	19,190	15,620	7,678	5,949	4,581	85	
Historical	-	140	329	-	-	85	
City Council	19,942	17,545	-	-	-	-	
Mayor	1,506	-	-	4,833	-	-	
Consumers Affairs	-	-	-	-	-	-	
Corrections	-	140	-	-	-	-	
ITS	-	-	-	-	-	-	
Ombudsman	-	-	-	-	-	-	
Recorders	-	(33)	-	-	-	-	
Senior Citizens	-	-	-	-	-	-	
Zoo	27,851	27,577	27,387	27,114	29,527	9,074	
Grand Total	**$ 10,613,168**	**15,273,336**	**14,445,484**	**11,896,022**	**8,272,780**	**10,017,632**	**10,484,085**

Workers Compensation costs were $10.0 million in FY 2015, which was much reduced from the $15.3 million in FY 2011 and the $14.4 million in FY 2012. DDOT had the largest amount of workers compensation expenses in FY 2016 followed by Fire and Police. In FY 2015 the City contracted out its workers compensation administration.

The schedule below details the Risk Management Fund litigation expenses by department for FY 2010 to FY 2016.

Risk Management Fund Litigation (Claims) Expenses

Department	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Police	$ 19,245,077	19,484,639	4,902,058	8,159,162	(762,908)	5,932,563	4,623,003
DDOT	4,717,423	8,615,470	4,965,782	9,372,758	(525,562)	3,366,577	4,231,052
DPW	5,536,213	5,200,135	5,085,776	5,805,662	(687,000)	169,876	741,416
Law	1,281	30,873	-	-	-	56,292	191,833
Water	306,500	63,800	15,500	1,200	-	-	175,625
Fire	937,635	939,893	3,665,300	364,578	(262,000)	20,900	63,500
BSED	58,646	3,138,000	16,341	16,341	(16,341)	-	56,750
Airport	46,581	205,370	-	45,600	45,600	53,200	41,800
Mayor	575,500	-	200,000	16,000	-	-	16,875
City Council	-	40,000	375,000	128,500	-	-	6,250
Human Services	-	-	641,385	18,000	-	-	6,250
Recreation	30,000	69,000	(20,200)	-	-	-	6,250
GSD	-	30,000	39,000	-	(69,000)	5,000	1,250
Elections	1,758	-	-	-	-	-	1,000
Sewerage	-	-	-	-	-	-	50
36th District Court	549	-	-	-	-	-	
BZA	98,750	-	-	-	-	-	
City Clerk	-	-	-	-	-	-	
Civic Center	172,500	18,750	(13,000)	20,000	-	-	
Consumers Affairs	168,538	-	-	-	-	-	
Finance	933,364	73,957	(133,614)	442,799	(650,869)	(251)	
Health	80,000	114,316	(55,816)	148,500	(8,500)	-	
Housing	(4,000)	-	-	-	-	-	
Human Rights	-	-	42,247	-	-	-	
Humans Resources	18,000	-	25,253	-	-	-	
Nondepartmental	(6,165)	-	183,900	193,000	-	-	
Parking	25,000	40,735	(21,842)	-	-	-	
PDD	286,598	-	-	-	-	-	
Public Lighting	3,217,308	911	685,000	675,000	-	-	
Zoo	-	-	-	-	-	-	
Grand Total	**$ 36,447,056**	**38,065,849**	**20,598,069**	**25,407,099**	**(2,936,580)**	**9,604,157**	**10,162,904**

As mentioned previously, litigation expenses were down in FY 2013 to FY 2016 because of the bankruptcy, which stayed most payments. The City is currently reviewing and settling the cases prior to the bankruptcy (Class 14 Claims) and in accordance with the Plan of Adjustment has set aside $20.6 million for this purpose. The Police had the highest amount of expenses for litigation expenses in FY 2015. The $5.9 million expensed in FY 2015 by the Police department was much less than the $19.2 million in FY 2010. DDOT had the next highest litigation expenses of $4.2 million in FY 2016.

Section 18-8-24 of the City Code requires, "The finance director shall make an annual report for the most recently completed fiscal year to the city council before the twentieth day of January of each year regarding the performance and the fiscal status of the risk management fund. The annual report shall include the loss experiences of the departments, respectively, as well as investment earnings with respect to the risk management fund, together with a recommendation thereon as to the appropriations necessary to carry out the provisions of this division. Such recommended appropriations may be included in the budget for the ensuing fiscal year, subject to the normal budget process as defined in the Charter and applicable ordinances, provided that such appropriations shall be prorated among the departments, respectively, on the basis of loss experiences. The law department corporation counsel shall make a risk management fund report in each quarter of the fiscal year to the city council containing the following information:

(1) Plaintiff's name and case number.
(2) Date of payment.
(3) Claim, arbitration, settlement or judgment amount paid.
(4) Arbitration amount paid including the city council authorized arbitration settlement range.
(5) City agency number involved in the case.
(6) Plaintiff's legal representation.
(7) Type of incident.
(8) Final arbitration payments where city council has pre-approved an arbitration settlement range."

LPD has not found any of the reports required by the City Code, Section 18-8-24.

Risk Management Division

The Office of the Chief Financial Officer's (OCFO) Risk Management Division is responsible for the City's Risk Management. The OCFO's Risk Management Division works with other City agencies including the Law and Human Resources departments to mitigate risks and manage claims. The Risk Management Division is also responsible for managing the City's insurance. For the most part the City is self-insured for workers compensation and physical injury and property damage claims. Property insurance for fire and other types of insurance are procured for certain agencies. The Risk Management Division is included in the OCFO's Budget in the General Fund (cost center 230100 and appropriation 00245) and the revenues and expenditures for FY 2010 to 2016 are detailed below.

OCFO Risk Management Division Costs

Revenue	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Admin Fee	$ (23)	(43)	(64)	(147)	(82)		-
IPO Personal Services	(248,874)	(142,410)	(147,793)	(21,048)	(202,398)	(222,503)	-
Misc Revenue	(8)						
Total Revenue	(248,905)	(142,453)	(147,857)	(21,195)	(202,480)	(222,503)	-
Expense							
Salaries & Wages	723,148	823,688	705,901	657,334	632,909	608,281	308,149
Pension	160,403	238,660	272,550	152,880	65,286	38,285	18,394
Health	210,324	262,013	283,936	371,754	358,554	189,035	49,924
Other Benefits	150,519	134,014	150,203	120,148	146,319	82,606	56,242
Medical Other		2,188,617	(680,100)		583	635	715
Contract Svc Other	50,000						
Office Supplies	8,732	21,234	6,874	3,516	5,720	1,276	345
Repairs & Maint Equip		80					
Printing	557	384	965	307	245	60	
Insurance Premium	58,012						
Rental Building	79,723	65,433	78,851	78,850	96,082	106,474	50,807
Rental Office Equip	4,154	4,150	4,866	4,623	361	228	(245)
Dues & Misc	940	93	150		3,743	535	
Private Car Reimb	397	-	23	64	118	30	
Purch Services Other	43,919	38,654	(6,128)	5,524		35	(487)
Training						300	
Misc Purchases	2,746		(350)				
Total Expenses	1,493,574	3,777,021	817,741	1,394,999	1,309,919	1,027,780	483,845
Net Expense	$1,244,669	3,634,568	669,884	1,373,804	1,107,438	805,277	483,845

The Risk Management Division has a Central Safety Office and Safety Officers who are assigned to the various City Departments. The Safety Officers monitor the risk activities for the departments and prepare quarterly reports for the departments. Attachments VI to VIII are the most recent quarterly reports for the quarter ending June 30, 2016 for DDOT, Fire and Police respectively.

The Safety Officer quarterly reports for each City department includes the number of employee injuries, vehicle accidents, and MIOSHA (Michigan Occupational Safety and Health Administration) citations for the quarter reported compared to the prior year's quarter. There are also detailed narratives explaining citations and injuries. The reports also include risk management improvement recommendations for the departments.

The Risk Management Division has undergone significant downsizing and cost reductions since FY 2004. They have been significantly reduced in the past three years. This was due in part to turning over workers compensation claims management to a Third Party Administrator (TPA - CMI, A York Risk Services Company). On October 1, 2014 CMI took over the servicing of all of the City's workers' compensation claims. The TPA costs are charged to the Risk Management Fund (Fund 1001), which accounts for the increase in contractual expenses for FY 2015 compared to the prior years.

Attachment V is a report on the City's Workers Compensation for the period September 1, 2014 to August 31, 2015 prepared by the TPA. It contains detailed data on the workers compensation claims and the accomplishments of the TPA and City's risk management for the reporting period. It includes the open and closed claims and the amount of days lost by department.

The Law Department defends the City for physical injury and property damage claims. It also manages and litigates these cases if necessary. Directors of City departments are involved in the Risk Management process by investigating and devising means to minimize liability and risk exposure for their departments.

Risk Management Obligations (Government-Wide Long-Term Obligations)

The City has a high risk for physical injury and property damage claims from bus and vehicle accidents, slip and falls, and employee misconduct because of the types of services provided to the public which include: (1) bus service provided by the Detroit Department of Transportation; (2) street and sidewalk maintenance provided by the Department of Public Works; and (3) public safety provided by the Police and Fire Departments. Also, the large number of vehicles operated by City agencies also adds to the risk for accidents and claims. The City accounts for the Risk Management long-term obligations for litigation and workers compensation in the Government-wide Fund. These obligations differ from the expenses recorded in the Risk Management Fund as they are long-term liabilities that are not accounted for in the Risk Management Fund until they are paid. They will eventually be paid out and expensed in the risk management fund (General Fund) when settled or litigated. The schedule below shows the top 10 estimated legal claims for the number of incidents and long-term obligation amounts for FY 2013 to FY 2015[23](see Attachment III for a list of all long-term claims by incident code).

[23] Source is "Legal Reserve Data", provided by the Law Department to the OCFO for the CAFR "Claims and Judgments" Long-term obligations. The top ten Claim Description combines similar incident code items such as A01 to A04 for various bus collisions.

Top 10 Claims by Incidents and Amount

Claim Description	FY 2013 Pre-Bankruptcy		FY 2014 Bankruptcy		FY 2015 Post-Bankruptcy	
	Incidents	Amount	Incidents	Amount	Incidents	Amount
Property Tax Claim	1,034	$ 6,537,041	689	$ 9,764,786	597	$ 6,069,306
DDOT Bus Collision	756	10,994,649	752	6,713,736	409	5,325,835
Police Misconduct Claim	208	7,424,104	134	8,758,288	77	2,763,638
Sidewalk injury claim	487	6,299,765	404	3,499,750	163	2,558,626
City vehicle collision	194	6,044,666	159	5,173,669	92	2,488,782
Person injured on bus	89	1,579,250	81	1,103,107	46	1,108,761
Personal or Property damage from bus	110	1,496,451	101	720,333	44	579,820
Street injury claim	204	1,744,714	203	867,885	72	567,128
Other Vehicle Collision accidents	117	2,505,412	106	1,153,595	33	405,172
Personal injury or property damage	77	483,729	70	138,437	14	85,937

Property tax claims and challenges to assessments were the highest number of incidents and amount of claims the City was obligated for as of June 30, 2015 (FY 2015). The City's properties were over assessed for years and many taxpayers challenged the assessments in the tax tribunals. DDOT bus accident claims were the next highest number of incidents and claims amounts the City was obligated for in FY 2015. DDOT has a significant number of claims filed against it and has high risks because of operation of the transportation system in the City. Police misconduct and sidewalk injury claims were the third and fourth highest amount of damage claims the City was obligated for in FY 2015. The FY 2015 claims were down from FY 2014 and FY 2013 because many claims that were filed prior to bankruptcy will be compromised (paid out at a lesser rate per the Plan of Adjustment) and were not included in the cases for FY 2015. These compromised claims were classified as Class 14 claims in the bankruptcy and are still being reviewed and resolved.

Attachment III provides a detailed list of the City's claims and judgment long-term obligations by incident code. These obligations are included in the Government-wide statements of the FY 2015 CAFR.[24]

The schedule below shows the long-term obligation claims (number of incidents and total amount) by department for FY 2013 to FY 2015. The Water and Sewerage Disposal Funds' claims and judgment obligations are not included in the schedule (nor in Attachment III), as they account for them separately and we did not have access to the data. In the 2015 CAFR the Water and Sewage Disposal Funds reported $9,523,405 and $13,816,600 in long-term obligations for claims and judgments.

[24] Attachment III data from Legal Reserve file provided by the Law Department for the FY 2013 to FY 2015 CAFR.

Long-term Obligations Incidents and Total Amount by Department

Department	Pre-Bankruptcy FY 2013		Bankruptcy FY 2014		Post-Bankruptcy FY 2015	
	Incidents	Amount	Incidents	Amount	Incidents	Amount
Class 14 Claims		$ -		$ -	1	$ 20,596,747
DDOT	1,163	21,512,940	1,123	15,191,657	617	9,964,660
Office of Chief Financial Off	1,054	6,754,161	704	9,914,564	615	6,421,800
Police Department	383	14,085,999	289	14,599,559	189	6,395,269
Public Works	779	9,642,700	685	5,618,095	285	3,847,762
Fire Department	77	1,324,830	73	887,140	37	664,490
Buildings and Safety Engr	12	122,841	11	78,500	6	501,000
General Services	64	486,650	40	299,500	15	241,500
Planning & Development	3	84,500	5	1,693,500	5	193,500
City Council	5	25,000	6	105,800	7	106,250
AIRPORT	2	2,000	3	186,800	2	80,000
Public Lighting	26	250,961	28	35,000	18	75,024
Municipal Parking	12	113,997	13	102,000	7	68,314
Workforce Development			1	18,000	2	68,000
Law	3	3,130	2	3,000	3	68,000
Health	4	63,500	5	50,000	2	50,000
Mayor			2	50,000	2	50,000
Human Services	1	6,000	2	31,000	2	25,000
Omsbudperson			1	25,000	1	25,000
Housing			1	10,000	1	10,000
REC	9	63,750	8	13,750	2	8,750
Non-Departmental	2	7,500	2	7,500	2	2,500
Other					2	1,316
Water	43	411,250	35	716,250		
Sewerage Disposal	3	209,500	3	216,500		
Civic Center	5	12,000	2	2,000	1	-
Human Resources	2	28,000	1	-		
Elections	1	25,000	1	-		
Grand Total	**3,653**	**$55,236,209**	**3,046**	**$49,855,115**	**1,824**	**$ 49,464,882**

The Class 14 claims have $20.6 million set-aside to settle the claims per the Plan of Adjustment. As discussed previously, these claims are still being reviewed and resolved by the City's Law Department. DDOT had the highest number of incidents and obligations for claims as of June 30, 2015. The OCFO had the second highest number of incidents and obligations, mainly for assessment challenges. The Police Department had the third highest number of obligations at June 30, 2015. The Public Works Department had the next highest number of obligations mainly for sidewalk and street related claims.

The schedule below details the City's workers compensation obligations in the Government-wide statements for FY 2010 to FY 2015.[25]

[25] Data from workers compensation schedules prepared for FY 2013 to FY 2015 CAFRs

Long-term Workers Compensation Obligations by Department

Department	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Transportation	$ 19,384,000	18,785,000	18,840,000	18,002,000	19,931,000	18,877,000
DPW	16,314,000	15,548,000	15,059,000	13,522,000	14,820,000	13,840,000
Fire	6,691,000	7,605,000	8,251,000	7,991,000	9,265,000	9,317,000
Police	6,777,000	7,290,000	7,660,000	7,433,000	8,716,000	8,524,000
Sewage Disp	3,710,000	3,542,000	3,554,000	3,293,000	3,692,000	7,764,540
Water	10,953,000	10,337,000	10,339,000	9,590,000	10,696,000	5,857,460
PLD	3,832,000	3,738,000	3,860,000	3,541,000	3,938,000	3,752,000
Recreation	3,462,000	3,292,000	3,206,000	2,887,000	3,174,000	2,972,000
Housing	1,863,000	1,764,000	1,696,000	1,509,000	1,650,000	1,538,000
Health	1,757,000	1,661,000	1,607,000	1,449,000	1,582,000	1,485,000
Const Code	998,000	973,000	985,000	925,000	1,024,000	959,000
General Services	558,000	744,000	841,000	844,000	969,000	950,000
Non-Departmental	832,000	779,000	753,000	654,000	720,000	670,000
Parking	699,000	685,000	667,000	597,000	667,000	631,000
Zoo	444,000	423,000	413,000	374,000	415,000	387,000
Finance	440,000	417,000	394,000	360,000	392,000	364,000
DWDD	422,000	398,000	382,000	334,000	368,000	344,000
Civic Center	417,000	397,000	378,000	333,000	364,000	340,000
Arts	402,000	381,000	365,000	324,000	355,000	331,000
PDD	308,000	330,000	344,000	313,000	347,000	326,000
Human Services	302,000	285,000	274,000	240,000	260,000	248,000
36th Dist Court	238,000	247,000	234,000	208,000	225,000	207,000
Law	220,000	209,000	208,000	184,000	202,000	188,000
Human Resources	196,000	193,000	189,000	165,000	180,000	175,000
Airport	103,000	97,000	92,000	81,000	88,000	82,000
Budget	49,000	57,000	67,000	63,000	71,000	66,000
City Clerk	64,000	60,000	57,000	50,000	54,000	51,000
Elections	42,000	40,000	38,000	34,000	37,000	34,000
ITS	44,000	41,000	37,000	32,000	35,000	33,000
Mayor	31,000	29,000	26,000	22,000	25,000	26,000
Ombudsman	31,000	29,000	28,000	24,000	27,000	25,000
City Council	24,000	26,000	23,000	20,000	17,000	15,000
Zoning Appeals	11,000	10,000	10,000	9,000	9,000	9,000
Human Rights	3,000	3,000	3,000	2,000	2,000	2,000
Admin Hearings	1,000	1,000	1,000	-	1,000	1,000
Auditor General	2,000	2,000	2,000	1,000	1,000	1,000
Total	**$ 81,624,000**	**80,418,000**	**80,883,000**	**75,410,000**	**84,319,000**	**80,392,000**

The schedule above does not include the worker compensation payroll costs of the fire and police uniform employees. It only includes the medical costs for the uniform (police and fire) employees. For the first year of worker's compensation, the uniformed employees are paid through the regular payroll system. After that, if they are still disabled, they are paid through disability in the Police and Fire Retirement System (PFRS) Fund. If the uniform police and fire payroll costs were included they would have the highest obligations of all the City department.

DDOT has the highest amount of non-uniform workers compensation obligations in FY 2015. This was due to the high number of injuries to bus drivers and mechanics. Public Works had the next highest amount of non-uniform workers compensation obligations in FY 2015. City employees, especially bus drivers, fire fighters and police officers are exposed to hazardous conditions in their duties and they have a high risk for injury.

The schedule below details the long-term obligations for claims and judgments for DDOT for FY 2013 to FY 2015.

DDOT Long-term Obligation Claims by Claim Type

Claim Description	FY 2013 Pre-Bankruptcy Incidents	FY 2013 Pre-Bankruptcy Amounts	FY 2014 Bankruptcy Incidents	FY 2014 Bankruptcy Amounts	FY 2015 Post-Bankruptcy Incidents	FY 2015 Post-Bankruptcy Amounts
DDOT Bus Collision	749	$ 10,889,367	745	$ 6,673,401	403	$ 5,280,553
City vehicle collision	35	709,067	33	1,444,067	32	1,126,623
Person injured on bus	88	1,579,250	81	1,103,107	46	1,108,761
DDOT Bus Collision with Pedestrian	36	4,270,000	33	3,809,731	20	759,731
Personal or Property damage from bus	109	1,476,451	100	720,333	44	579,820
DDOT Other	11	71,716	13	65,423	20	401,250
Other Vehicle Collision accidents not classified	89	1,903,412	84	777,595	28	332,922
Breach of Contract	31	521,500	20	463,000	17	240,000
Labor Claim	2	-	3	75,000	3	75,000
Other	1	25,000	1	25,000	1	25,000
City vehicle accident with pedestrians	2	15,000	1	15,000	1	15,000
Sidewalk injury claim	3	30,000	3	10,000	1	10,000
Personal injury or property damage on City prop	4	16,800	4	10,000	1	10,000
Street injury claim	1	5,000	1	-		
Other	1	377	1	-		
Police Misconduct Claim	1	-				
DDOT Total	**1,163**	**$ 21,512,940**	**1,123**	**$ 15,191,657**	**617**	**$ 9,964,660**

DDOT incurs the most incidents and claims than any other City department. The largest number of incidents and claim's amounts were from bus collisions. Also significant, were claims for persons injured on the bus from starting and stopping and boarding with 46 incidents and $1.1 million in claim obligations for FY 2015.

The schedule below details the long-term obligations for claims and judgments for the police Department for FY 2013 to FY 2015.

Police Long-term Obligation Claims by Claim Type

Claim Description	FY 2013 Pre-Bankruptcy Incidents	FY 2013 Pre-Bankruptcy Amount	FY 2014 Bankruptcy Incidents	FY 2014 Bankruptcy Amount	FY 2015 Post-Bankruptcy Incidents	FY 2015 Post-Bankruptcy Amount
Police Misconduct Claim	202	7,357,763	131	8,732,488	75	2,738,638
Police Shooting - fatal	4	1,000,000	1	1,000,000	1	1,000,000
DPD Other	16	724,700	16	857,065	32	876,815
City vehicle collision	72	3,761,250	61	2,984,250	31	693,960
City vehicle accident with pedestrians	12	275,000	9	223,323	5	223,323
Labor Claim	7	125,000	10	200,000	8	200,000
Other	5	79,800	3	79,800	3	182,300
Police Shooting - non-fatal	5	137,500	3	137,500	3	137,500
Property damage resulting from police pursuit	2	135,000	2	85,504	2	85,504
FOIA Claim	19	68,650	17	71,150	16	57,500
Police Other	2	55,000	2	55,000	2	55,000
Police towing property damage	6	40,000	6	42,000	4	42,000
Wrongful death other than shooting	1	25,000	1	25,000	1	25,000
Other Vehicle Collision accidents not classified	14	215,500	12	50,000	1	21,250
Breach of Contract	2	15,000	1	15,000	1	15,000
Contractor vehicle collision	1	15,000	1	15,000	1	15,000
Property Claim	1	15,000	1	15,000	1	15,000
Personal injury or property damage on City prop	11	39,294	11	9,937	1	9,937
DDOT Bus Collision	1	1,542	1	1,542	1	1,542
DPD Total	**383**	**14,085,999**	**289**	**14,599,559**	**189**	**6,395,269**

The Police Department has a high number of incidents and claims. Alleged police misconduct is the largest number of incidents and amount of claims obligations. Police misconduct includes violation of constitutional rights, false arrest and assault by police officers (see Attachment III "P" incidents for the breakdown). Fatal police shootings result in high potential obligations per incident. Also, police vehicle collisions result in a large number of incidents and amount of claims obligations.

The schedule below details the long-term obligations for claims and judgments for the Public Works Department (DPW) for FY 2013 to FY 2015.

DPW Long-term Obligation Claims by Claim Type

	FY 13 Pre-Bankruptcy		FY 2014 Bankruptcy		Post-Bankruptcy	
Claim Description	**Incidents**	**Amount**	**Incidents**	**Amount**	**Incidents**	**Amount**
Sidewalk injury claim	481	$ 6,232,765	398	$ 3,462,750	160	$ 2,523,626
Street injury claim	182	1,559,753	179	812,885	72	567,128
City vehicle collision	33	466,352	26	300,852	14	298,700
DPW Other	13	111,308	14	154,308	14	270,558
Weather caused injury/damage on streets/sidewalk	8	374,000	10	355,750	7	41,750
Other Vehicle Collision accidents not clas	4	316,000	3	316,000	3	41,000
Other	1	15,000	2	40,000	2	25,000
Police Misconduct Claim	2	50,000	1	25,000	1	25,000
City vehicle accident with pedestrians	2	25,000	1	25,000	1	25,000
Fall into manhole	26	345,500	26	70,000	5	20,000
Personal injury or property damage on City property	17	49,295	15	30,000	3	10,000
Fall into excavation	1	550	2	15,550	2	-
DDOT Bus Collision	1	10,000	2	10,000	1	-
Demolition claim	1	25,000	1	-		
Water Claim	1	25,000	1	-		
Personal or Property damage from bus	1	20,000	1	-		
PLD physical injury or property damage	1	10,000	1	-		
Tree Fall claim	3	5,000	1	-		
Property Claim	1	2,177	1	-		
DPW Total	**779**	**$ 9,642,700**	**685**	**$ 5,618,095**	**285**	**$ 3,847,762**

DPW also has a high number of incidents and claims. Alleged sidewalk caused injuries are the highest number of incidents and amount of claims obligations for DPW. Defects in the street causing injury are the second highest number of incidents and amount of claims obligations for DPW.

Questions for OCFO on Risk Management

1. What is the time table for the Administration to meet the Charter and City Code requirements for the Risk Management Council and reporting requirements for the Risk Management Council and Risk Management Fund?

2. Does the City have a comprehensive data base for claims against the City? Please provide us with a copy of all claims paid out in FY 2015 and FY 2016. Include the matter number, caption, incident code, responsible agency, incident date, JCC date, date paid and amount paid.

3. Please provide us with a copy of all pending litigation as of June 30, 2016. Include the matter number, caption, incident code, responsible agency, incident date.

4. Please provide us with a copy of all workers compensation open cases as of June 30, 2016. Include the matter number, caption, incident code, responsible agency, incident date, and amount paid for FY 2016.

5. Why doesn't the Solid Waste and Street Funds pay a premium to the Risk Management Fund for the Claims and judgments and workers compensation costs generated from their operations? Why aren't legal and worker compensation costs allocated to City Departments such as the Street and Solid Waste Funds?

6. Has the OCFO given any consideration to creating an Internal Service Fund for Risk Management whereby all City departments would have budgets for their claims and be charged directly for them?

7. How many cases were taken to court in lieu of settlement in FY 2016?

8. Does the City countersue, subrogate, and collect from responsible third parties? Has the City filed subrogation lawsuits to recover from defendant's insurer for damage to City property?

9. Are claims filed against responsible parties where possible for demolitions of abandoned property by City contractors?

10. Does the City file lawsuits against those who file frivolous lawsuits against the City? If so how many were filed in FY 2016?

11. Why hasn't the Risk Management Council met in FY 2015 and FY 2016?

12. Why hasn't the Risk Management Council filed the required quarterly and annual reports?

13. Since the State requires $18.2 million held in escrow for self-insurance, can the City lower the $20.0 million Fund Balance requirement for the Risk Management Fund?

14. What is the City doing to prevent, avoid and mitigate risk?

15. What is the City doing to limit its liability for damages and frivolous awards?

16. Does the City publicize incidents where it catches fraudulent workers compensation claims?

17. Does the City have a process for City employees to report hazards such as potholes, damaged sidewalks, faulty equipment, malfunctioning traffic lights, etc... to enable the City to eventually address these hazards?

18. Has the City conducted risk assessments for all City Departments? Has a risk profile been done for the City? If so could we obtain a copy?

19. Where is the $18.2 million in the DIFS escrow account recorded in the City's books? What Fund and object is this recorded in? Is the $18.2 million reserved in the Fund Balance of the responsible Fund?

20. Please provide us with a list of the number of small miscellaneous claims under $2,500 by department along with the total amount of the claims for that department for the fiscal years 2013 to 2015.

Attachment I
Detroit City Charter – Risk Management

CHAPTER 7. - RISK MANAGEMENT

Sec. 9-701. - Risk Management Council.
The Risk Management Council is an advisory body to the Mayor comprised of:

1. A chairperson, appointed by the Mayor, who shall be an appropriately qualified Mayoral cabinet-level official, which may not be any person identified in this section;
2. The Corporation Counsel;
3. The Chief of Police;
4. The Finance Director;
5. The Human Resources Director;
6. The Auditor General;
7. A City Council designee who is a city employee, other than a member of City Council;
8. The Inspector General; and
9. The Transportation Director.

Sec. 9-702. - Duties.
In addition to their regular duties, members of the Risk Management Council shall have the following duties:

1. The Risk Management Council shall make recommendations to the Mayor, and shall have authority to implement the Mayor's directives concerning implementation of policies, programs and activities to minimize exposure or liability of the City to claims and damages.
2. The Risk Management Council shall produce, with the assistance of the Finance Department, a quarterly report that summarizes its evaluation, monitoring and coordination of the City's comprehensive risk management strategy.
3. The Risk Management Council shall prepare for the Mayor and City Council an annual strategic risk management report, in conjunction with the Finance Department, which evaluates the effectiveness of risk management functions within the City. Included in the report shall be recommendations on, and identification of, city-wide and agency and department specific, risk reduction strategies and projected savings from implementation of these strategies.
4. The Risk Management Council and Finance Department shall formulate a cost system to monitor, control and report on all potential risk and liability costs to the City of Detroit.
5. Assisted by the Finance Department, the Risk Management Council shall provide an annual report to the Mayor and City Council summarizing claims that have been paid by the City on risk related matters including, but not limited to, the settlement of lawsuits, pre-litigation claims and worker's compensation claims. The report shall provide recommendations for risk avoidance and liability exposure reduction measures related to these claims. Release of the report shall coincide with the Mayor's annual submission of the proposed budget to City Council.

Annually the Risk Management Council shall assess the administration and effectiveness of safety, liability and risk reduction functions in each city agency, and report findings and recommendations to the Mayor and City Council. The City shall make an annual appropriation for the operation of the Risk Management Council that is adequate to perform its duties.

Attachment II
Detroit Municipal Code – Risk Management Fund

ARTICLE VIII. - SELF-INSURANCE BY CITY
DIVISION 1. - GENERALLY

Secs. 18-8-1—18-8-15. - Reserved.
DIVISION 2. - RISK MANAGEMENT FUND

Sec. 18-8-16. - Applicability.

The term "city" used in this division shall include the City of Detroit, a Michigan Municipal Corporation, including, without limitation, any and all departments, agencies and other entities thereof, hereinafter in this division collectively called "the departments."

(Ord. No. 16-95, § 1, 6-28-95)

Sec. 18-8-17. - Created.

A separate fund within the general fund class shall be provided by the city, to be designated "Risk Management Fund of the City of Detroit," hereinafter in this division called "Risk Management Fund."

(Ord. No. 16-95, § 1, 6-28-95; Ord. No. 40-95, § 1, 12-6-95)

Sec. 18-8-18. - Initial and permanent funding; use; minimum balance.

(a) There shall be initially deposited into the risk management fund a sum not to exceed one hundred million dollars ($100,000,000.00), provided that an amount not to exceed seventy million dollars ($70,000,000.00) shall be used to reimburse the general fund of the city for: (i) the payment of losses as defined by this division accruing payable by the city for the period commencing July 1, 1994 and ending June 30, 1995 and (ii) the payment of the cost of issuance of the self-insurance bonds and credit enhancement as authorized by resolution adopted by the city council on May 17, 1995.

(b) An amount equal to not less than twenty million dollars ($20,000,000.00), hereinafter in this division called the "minimum required balance", shall be maintained in the risk management fund as permanent fund equity for the payment on behalf of the city of all sums which the city shall become legally obligated to pay as losses as defined in this division accruing payable for the period commencing July 1, 1995 and thereafter. The finance director may recommend, from time to time, subject to city council approval by resolution, an increase or reduction in the minimum required balance. The finance director shall immediately advise the city council of any event or circumstance which would cause or result in a reduction of the balance in the risk management fund to an amount less than the minimum required balance during any fiscal year, hereinafter in this division called the "deficiency". In such event, the finance director shall also include in the annual report to the city council required by section 18-8-24, a recommendation of the amount of any appropriations necessary to eliminate such deficiency by not later than the end of the fifth succeeding fiscal year following the fiscal year in which such deficiency shall arise.

(c) Accumulations to the risk management fund by virtue of contributions made by departments as provided under section 18-8-19 may be used to pay the cost of third party liability insurance premiums to insure against losses as defined in this division and administrative costs incurred in connection with the payment of such losses, or the procurement of third party liability insurance premiums to insure against such losses.

(Ord. No. 16-95, § 1, 6-28-95)

Sec. 18-8-19. - Contributions and adjustments.

The finance director shall annually make a recommendation for inclusion in the budget, subject to the normal budget process as defined in the Charter and applicable ordinances, of the amounts to be contributed to the risk management fund by the departments, respectively, to the end that such contributions will be sufficient to carry out the purposes of the risk management fund. Adjustments to such contributions may be made annually pursuant to the recommendations of the finance director, provided that in recommending adjustments that are necessary or appropriate, prior losses of the respective departments shall be taken into consideration. In the event that the losses of any department in any fiscal year do not exceed any such department's contribution to the risk management fund for that year, contributions by such department in future years may be increased to such amounts as the finance director may recommend to be appropriate or necessary to reflect fully the losses incurred. Subject to applicable laws, the finance director is authorized to develop and administer guidelines, policies and procedures for risk management by the departments, which guidelines, policies and procedures shall be applied in a nondiscriminatory manner to, and shall be adhered to by, the departments, so as to carry out the provisions of this division in as cost effective a manner as possible and to preserve the risk management fund for the purposes for which it has been established. In making the recommendations as called for under this section 18-8-19, the finance director shall take into account actuarial determinations based on the loss experiences of the departments.

(Ord. No. 16-95, § 1, 6-28-95)

Sec. 18-8-20. - Investment of funds.

The finance director, subject to applicable laws, may from time to time invest, sell and reinvest the monies of the risk management fund in investments. Earnings from such investments shall be credited to the risk management fund. Solely for the purposes of investment, the monies of the risk management fund may be commingled with the monies of the general fund, provided that the finance director shall account separately for the monies of the risk management fund in commingled investments and the earnings thereon.

(Ord. No. 16-95, § 1, 6-28-95)

Sec. 18-8-21. - Losses covered.

(a) Losses shall be paid from the risk management fund. Should any loss or losses exceed the accumulation in the risk management fund, any such deficiency in the risk management fund shall be satisfied in accordance with applicable laws.

(b) The risk management fund shall cover liability to third parties for any loss or damage whatsoever whether arising out of negligence, tort, contract or otherwise accruing payable by the city from and after July 1, 1994, and for which insurance coverage could be provided by a third party insurer, but for which the city has determined to self-insure, including, without limitation, any obligation for which the city may be held liable under Worker's Compensation or Disability Benefits Law, or under any similar laws, or for damage to property or personal injury, in accordance with applicable law. The risk management fund may be used to defray losses accruing payable prior to July 1, 1994, but only to the extent that sums available in the public liability insurance reserve fund created under section 18-8-40, are depleted or not sufficient to fully pay such losses.

(Ord. No. 16-95, § 1, 6-28-95)

Sec. 18-8-22. - Payment.

The finance director shall in a manner consistent with applicable laws pay losses from the risk management fund, except for losses resulting from a consent judgment or decree. For the purpose of this section a consent judgment or decree means an order or judgment issued by a judge based on a agreement between the parties to a lawsuit to settle the matter aimed at ending the litigation with a judgment or order that is enforceable.

Whenever any loss accrues payable from the risk management fund as result of a consent judgment or decree, payment shall be made therefrom, subject to approval of the city council. Whenever any loss accrues payable from the risk management fund as result of a claim of ($25,000) twenty-five thousand dollars or greater such payment shall be made therefrom, subject to approval of the city council.

(Ord. No. 16-95, § 1, 6-28-95; Ord. No. 02-04, § 1, 1-14-04)

Sec. 18-8-23. - Additional insurance.

The risk management fund shall be the sole provider of coverage for losses as defined in this division, provided that any department may petition the finance director for exception, which petition may not be unreasonably denied. No payment shall be made from the risk management fund for losses covered by any purchased insurance within the limits of such insurance.

(Ord. No. 16-95, § 1, 6-28-95)

Sec. 18-8-24. - Appropriations; quarterly reports.

The finance director shall make an annual report for the most recently completed fiscal year to the city council before the twentieth day of January of each year regarding the performance and the fiscal status of the risk management fund. The annual report shall include the loss experiences of the departments, respectively, as well as investment earnings with respect to the risk management fund, together with a recommendation thereon as to the appropriations necessary to carry out the provisions of this division. Such recommended appropriations may be included in the budget for the ensuing fiscal year, subject to the normal budget process as defined in the Charter and applicable ordinances, provided that such appropriations shall be prorated among the departments, respectively, on the basis of loss experiences. The law department corporation counsel shall make a risk management fund report in each quarter of the fiscal year to the city council containing the following information:

(1) Plaintiff's name and case number.

(2) Date of payment.

(3) Claim, arbitration, settlement or judgment amount paid.

(4) Arbitration amount paid including the city council authorized arbitration settlement range.

(5) City agency number involved in the case.

(6) Plaintiff's legal representation.

(7) Type of incident.

(8) Final arbitration payments where city council has pre-approved an arbitration settlement range.

(Ord. No. 16-95, § 1, 6-28-95; Ord. No. 2-04, § 1, 1-14-04)

Secs. 18-8-25—18-8-38. - Reserved.

DIVISION 3. - PUBLIC LIABILITY INSURANCE RESERVE FUND[10]

Footnotes:

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Editor's note—Ord. No. 02-04, § 1, adopted Jan. 14, 2004, repealed former sections 18-8-40—18-8-48 of Div. 3 in their entirety. These former sections derived form the Code of 1964 and the following: Ord. No. 266-H, § 1, 7-5-78; Ord. No. 466-H, § 1, 9-16-81; Ord. No. 5-86, § 1, 6-18-86.

Sec. 18-8-39. - Applicability.

The term "city" used in this division shall include all general fund departments of the city, the parking enforcement division of the municipal parking department, airport department, and the department of transportation, but shall not include the housing, library, municipal parking (other than the parking enforcement division) or water and sewerage departments. The term "city" shall include the department of hospitals, for liabilities arising out of the operation of Detroit General Hospital (a/k/a Receiving Hospital) located at 1326 St. Antoine, up to and including February 1, 1981.

(Code 1964, § 21-6-11; Ord. No. 266-H, § 1, 7-5-78; Ord. No. 466-H, § 1, 9-16-81; Ord. No. 5-86, § 1, 6-18-86; Ord. No. 17-95, § 1, 6-28-95)

Secs. 18-8-40—18-8-48. - Reserved.