OFFICE OF THE
CHIEF FINANCIAL OFFICER

Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 1100
Detroit, Michigan 48226

Phone 313•628•2535
Fax 313•224•2135
OCFO@detroitmi.gov
www.detroitmi.gov

March 31, 2023

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

Re: FY 2023 – 2032 Long-Term Forecast Report for Legacy Pension Plans and Debt Obligations

Dear Honorable City Council Members:

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

This report is provided in accordance with the requirements included in Detroit Financial Review Commission (FRC) Resolution 2022-03, which granted the City its waiver of active FRC oversight through June 30, 2023. It includes long-term forecasts for the City's legacy pension plans, debt obligations, revenues and expenditures, and the assumptions used for the analysis.

Best regards,

Jay B. Rising
CFO

Att: FY 2023 – 2032 Long-Term Forecast Report for Legacy Pension Plans and Debt Obligations

Cc: Mayor Michael E. Duggan, City of Detroit
Brad Dick, Chief Operating Officer
Tanya Stoudemire, Chief Deputy CFO/Policy & Administration Director
John Naglick, Jr., Chief Deputy CFO/Finance Director/Interim Treasurer
Steve Watson, Deputy CFO/Budget Director
Malik Washington, City Council Liaison

Long-Term Forecast Report

FY 2023-2032

Office of the Chief Financial Officer
Office of Budget

March 31, 2023

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Executive Summary

Economic development and workforce investment have provided additional fiscal resilience, but risks remain.

- This annual Long-Term Forecast Report provides information on the City's legacy pension obligations, debt obligations, and forecast scenarios over a ten-year period.

- City-led efforts driving economic opportunity and growth for Detroiters prove to be a major factor in the City's economic resilience, with continued revenue growth despite a mild projected national recession in late 2023. Recurring revenues expectations have increased based on stronger projected income and utility tax collections.

- However, risks remain from continued remote work, casino activity, legacy pension liabilities, and the projected recession impacts that could be worse than expected.

- Under the baseline scenario, current services expenditure growth remains in line with revenue growth. Assumes February 2023 Revenue Estimating Conference and FY24-27 Four-Year Financial Plan trends continue.

- Potential upside may buffer further inflationary risks on current services costs and may create space for new initiatives in future budget cycles, but we must also protect against downside risk.

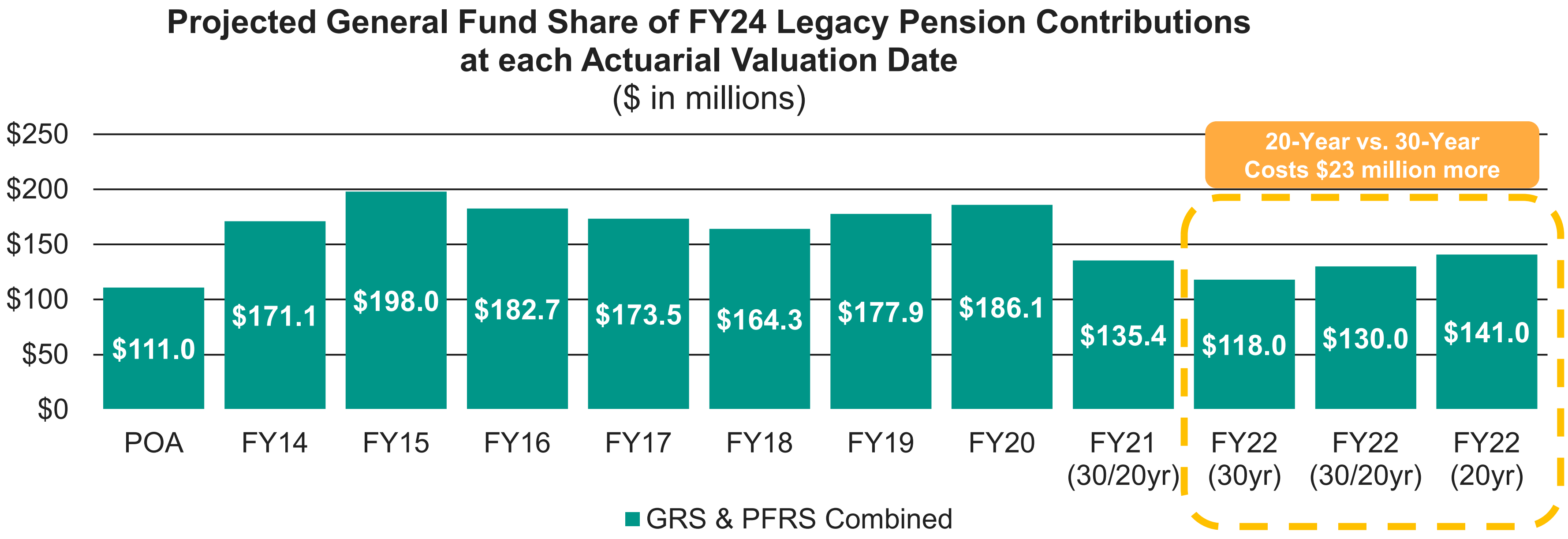
- The upside and downside scenarios presented are not intended as an exhaustive set of potential scenarios or as the likeliest of scenarios. However, they illustrate how even moderate risks can materially impact the City's budget and necessitate additional action to maintain fiscal balance.

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

Legacy Pension Obligations

Pension Funding Budget Risks

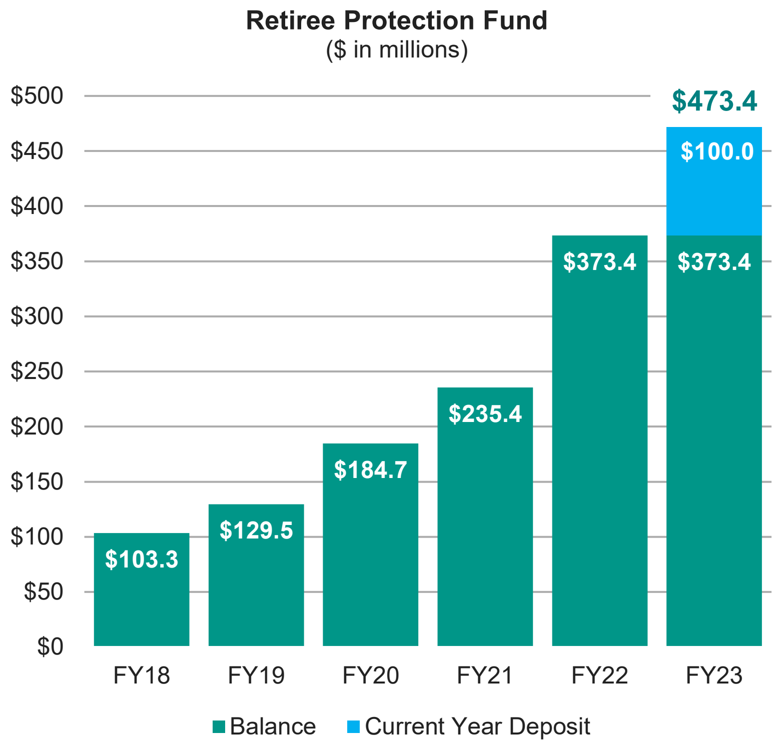
Annual Required Contributions can vary significantly due to investment returns and actuarial assumptions.



- Data from Plan of Adjustment (POA) projections and subsequent annual Actuarial Valuation reports from Retirement Systems. No asset smoothing, except PFRS starting FY21 and GRS starting FY22. The General Fund share is net of $18.7 million in annual Grand Bargain contributions and any ongoing DWSD and Library contributions.
- POA through FY15 used a 30-year level principal amortization. FY16 through FY20 use 30-year level dollar. FY21 was 30-year GRS and 20-year PFRS. FY22 shows both.
- FY14 and FY21 results both followed actuarial assumption changes based on experience studies and funding policy changes for PFRS in FY21.

Retiree Protection Fund ("RPF")

In 2017, the City created the RPF to prepare for the coming "pension cliff" and provide a smooth budget transition.

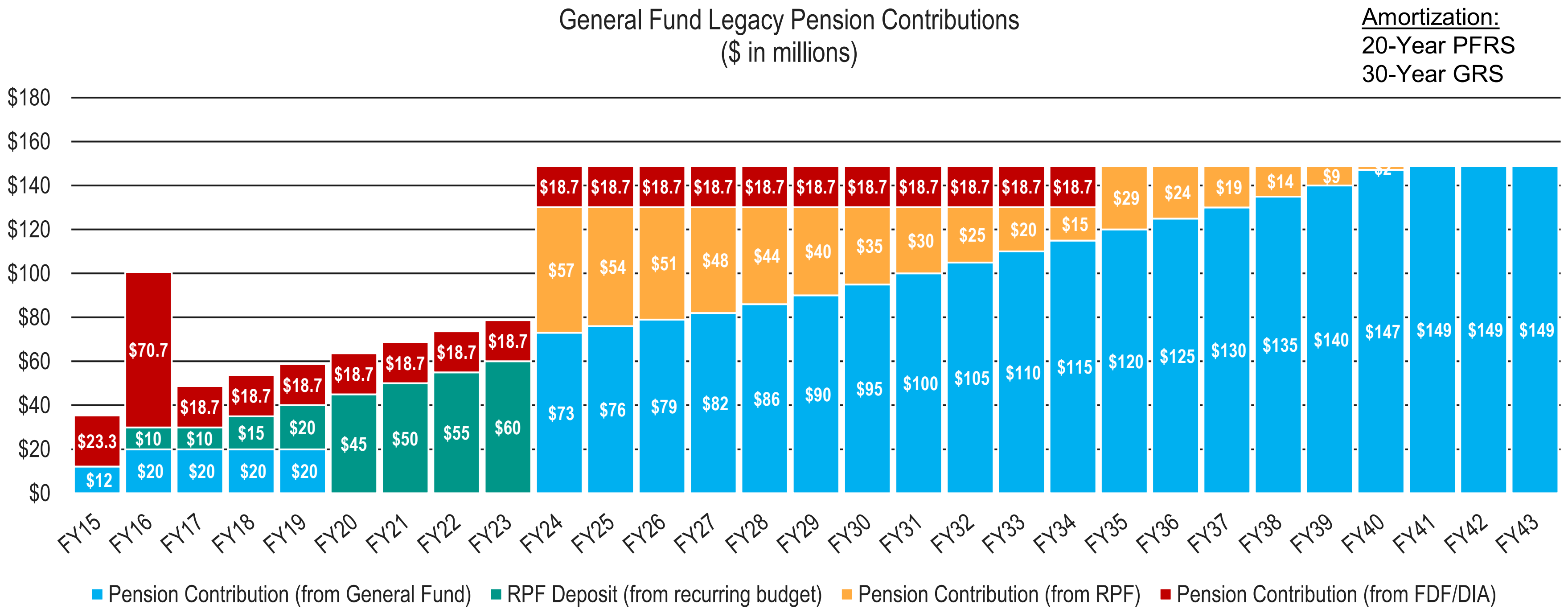


- The City has been setting aside surplus funds for 8 years to prepare for our legacy pension payments resuming in FY24
- Going beyond the POA requirements, the City has amassed over $463 million in the RPF, an irrevocable trust fund exclusively for future pension payments
- City Council approved another $10 million deposit in FY23 to bring the total to over $473 million before FY24
- The RPF strategy has always been two-fold:
  1. Build a pension funding resource to gradually draw down every year beginning in FY24
  2. Gradually build room in the recurring City budget for annual pension contributions before FY24 begins

* RPF total excludes unrealized loss reflected in FY22 audit that will be restored when investments held to maturity.

RPF Plan – Mayor's Proposed FY24 Budget

Without the RPF, the "pension cliff" would be $130 million. Instead, only $73 million will come from the budget.

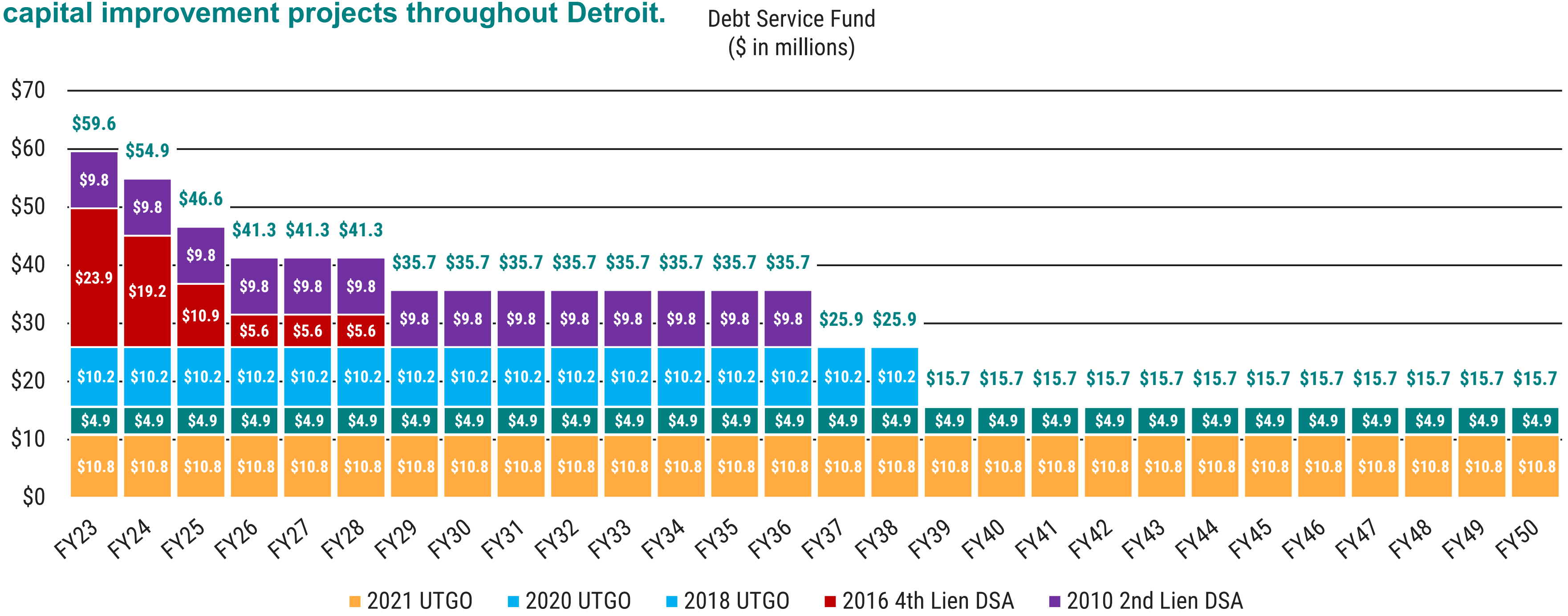


- Projections of annual legacy pension contributions based on FY22 Actuarial Valuations. "Grand Bargain" contributions from the Foundation for Detroit's Future and the Detroit Institute of Arts (FDF/DIA) continue through FY34.
- Excludes $190 million of RPF deposits from one-time funds. Excludes $194.8 million "Grand Bargain" contribution from State of Michigan in FY15. DWSD and Library liabilities and contributions are separate.

Debt Obligations

Unlimited Tax General Obligation Debt Service

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

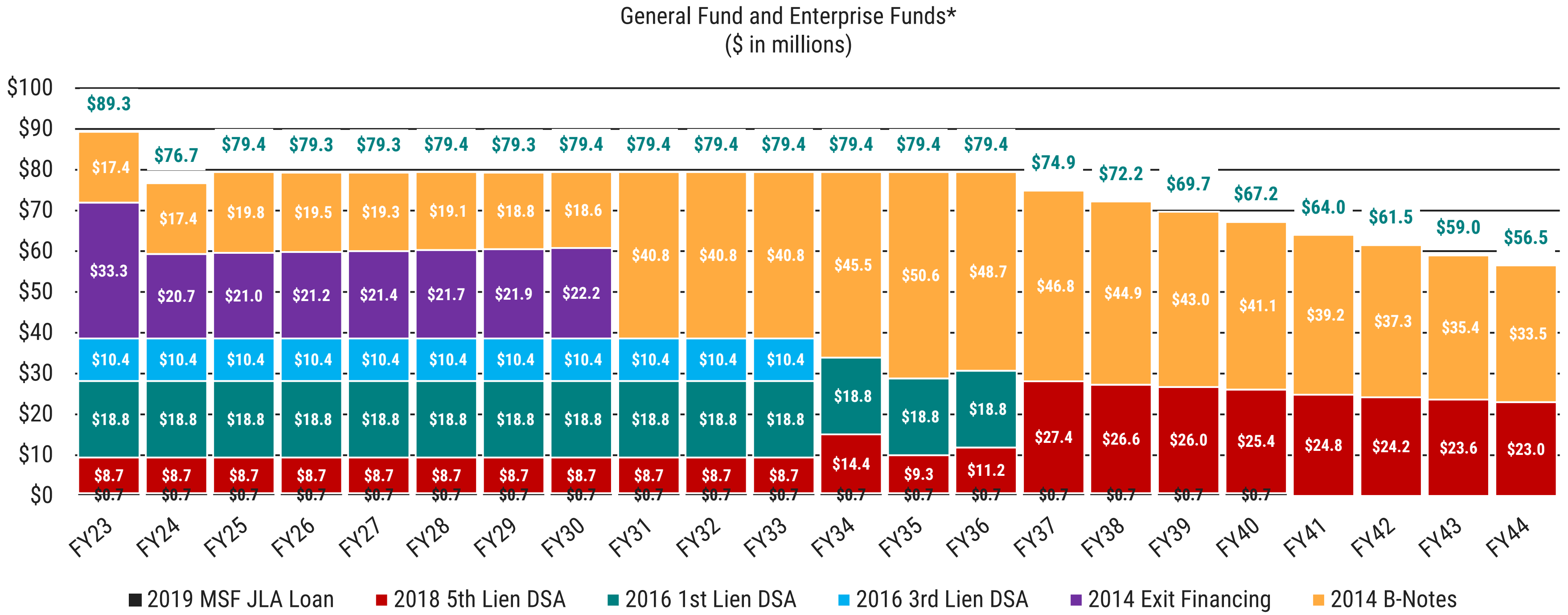


* Does not include projected debt service for remaining authorizations for unissued $40M in Capital Improvement UTGO bonds and $75M in Neighborhood Improvement Plan UTGO bonds.

Source: OCFO – Office of the Treasury

Limited Tax General Obligation Debt Service

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



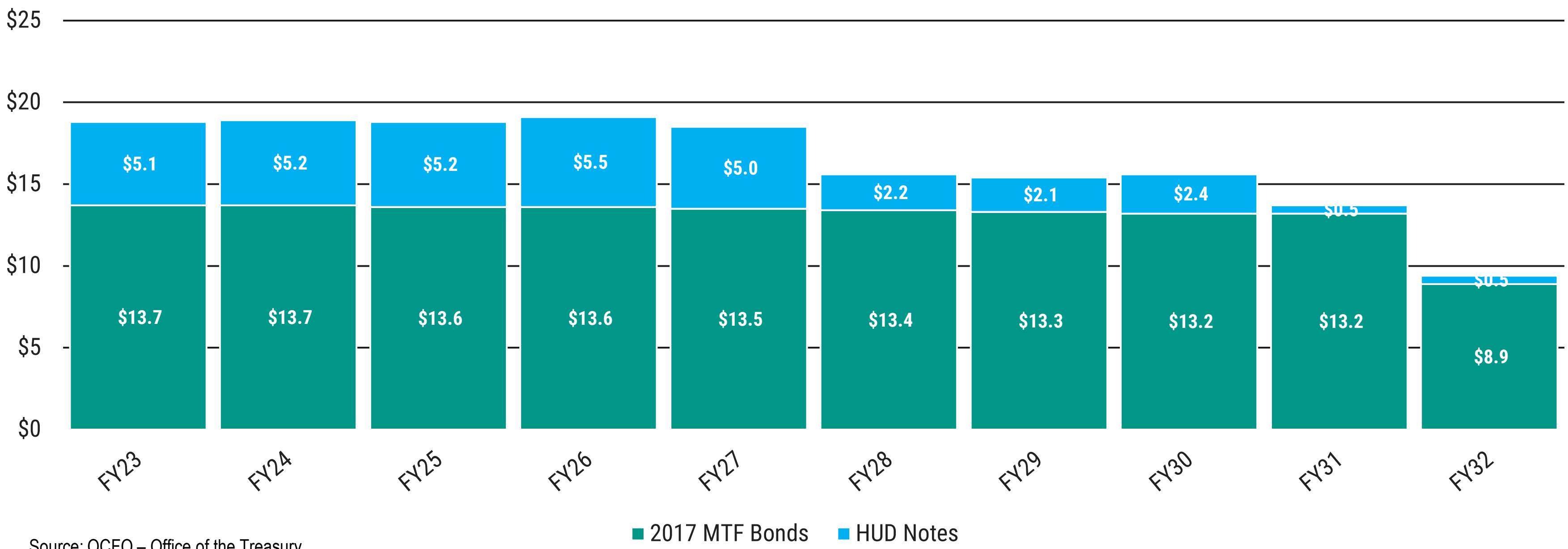
* 2014 B-Notes are split approximately 80% General Fund and 20% Enterprise Funds.

Source: OCFO – Office of the Treasury

MTF Bonds and HUD Notes Debt Service

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

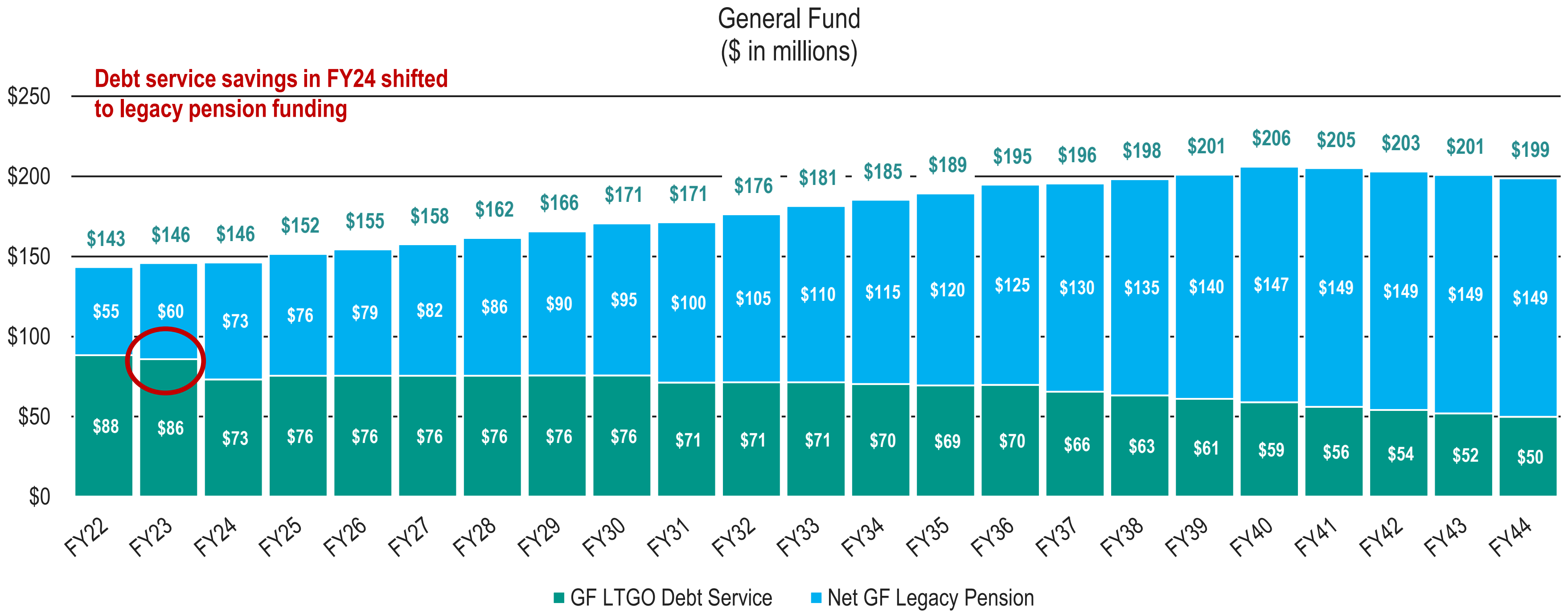
Street Fund and Block Grant Fund
($ in millions)



Source: OCFO – Office of the Treasury

General Fund Debt Service and Legacy Pension

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

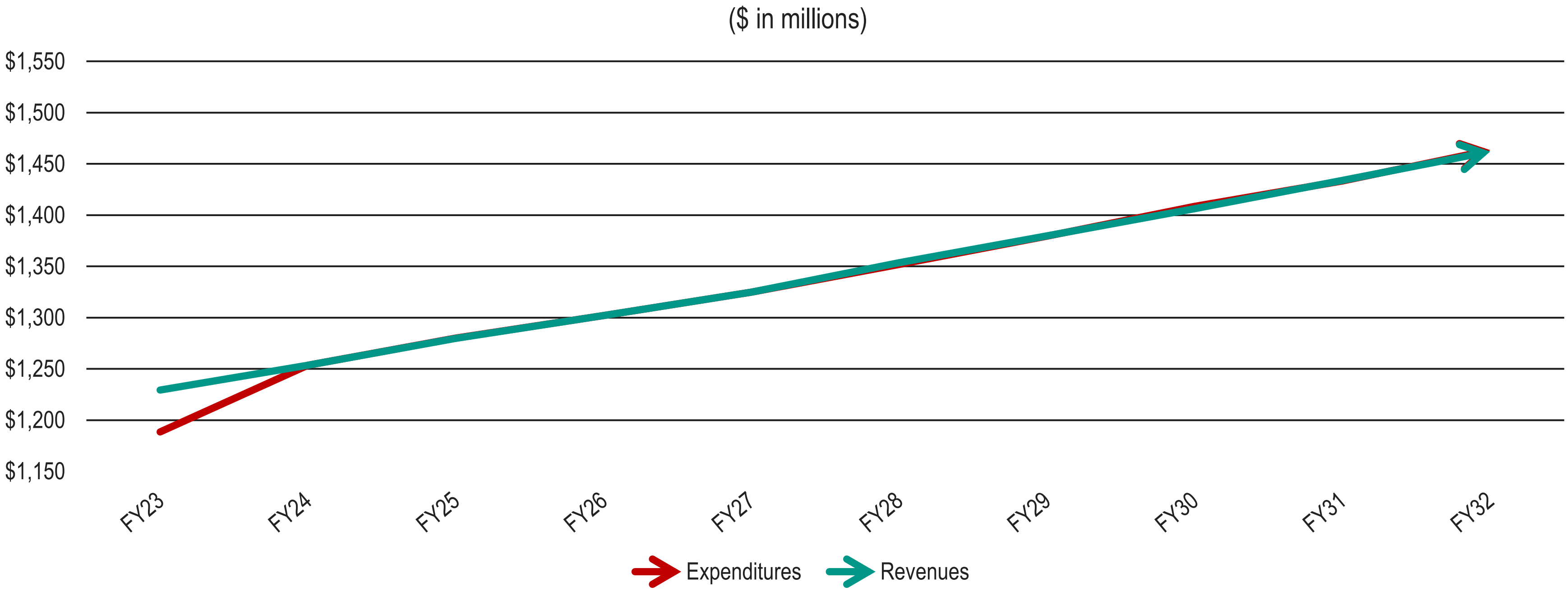


* GF LTGO Debt Service is General Fund share only (excludes enterprise fund share of B-Notes). Net GF Legacy Pension means the General Fund share, net of Retiree Protection Fund (RPF) use and Foundation for Detroit's Future contributions, both of which are shown on RPF slide.

Long-Term Forecast

Baseline Forecast

Under the baseline scenario, current services expenditure growth remains in line with revenue growth. Assumes February 2023 Revenue Estimating Conference and FY24-27 Four-Year Financial Plan trends continue.



* Expenditures are presented with legacy pensions net of Retiree Protection Fund use, consistent with prior Long-Term Forecast Reports. The City budget presents it on a gross basis with RPF as a resource.

Baseline Forecast Assumptions

Revenues

- Based on the approved February 2023 Revenue Estimating Conference results for FY 2023 – FY 2027
- Revenue growth generally continues along revenue conference trends after FY 2027
- Assumes remote work liability is 16% of non-resident withholding from FY24 through the FY31
- Assumes mild recession, based on Detroit Economic Outlook (Feb 2023), impacting FY24 income tax revenues

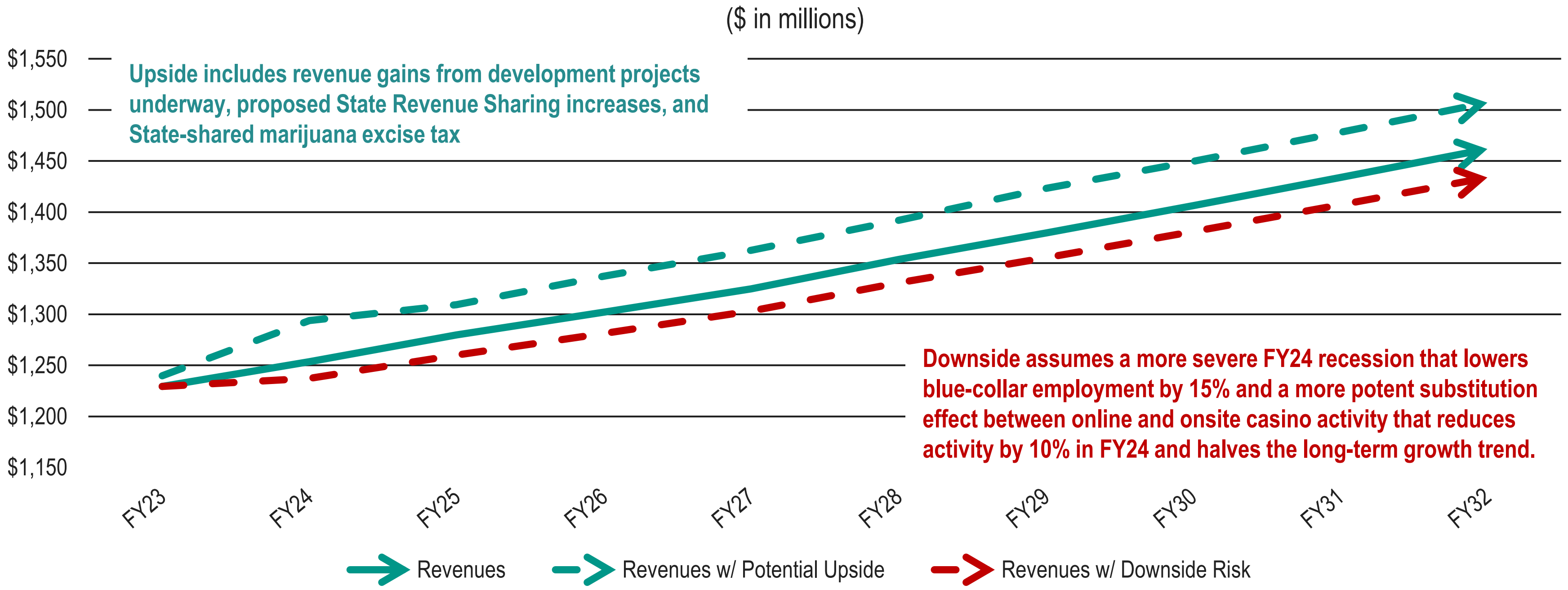
Expenditures

- Based on Mayor's proposed FY 2024 – FY 2027 Four-Year Financial Plan with similar trends continuing going forward
- Legacy Pension cost based on FY 2022 Actuarial Valuation projections
    - GRS: 30-year level dollar amortization
    - PFRS: 20-year level dollar amortization (per adopted funding policy)*
- Debt service based on existing debt service schedules
- Forecast does not include one-time spending from fund balance (e.g., blight, capital)

*** DISCLAIMER: The City's proposed FY 2023-2024 budget and FY 2024-2025 through FY 2026-2027 forecast for legacy pension obligations uses a 20-year amortization for the Police and Fire Retirement System (PFRS) only because that is the funding policy approved by the PFRS. The budget uses a 30-year amortization for the General Retirement System, which has not approved a funding policy. The City is challenging the PFRS funding policy in litigation currently pending in the United States Bankruptcy Court for the Eastern District of Michigan. The City seeks an Order that 30-year amortization is required by the Plan of Adjustment. The City reserves all rights and remedies to enforce the Plan of Adjustment and nothing in this budget should be construed to the contrary.**

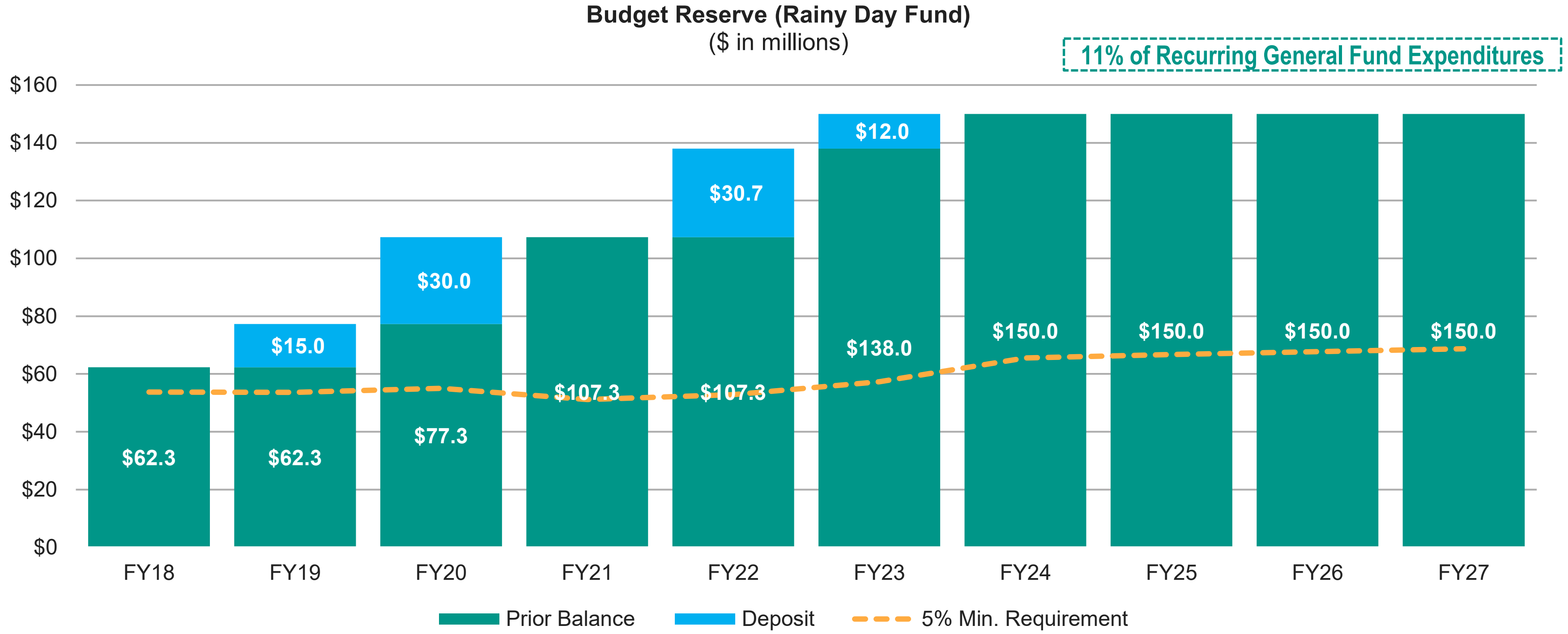
Revenue Forecast w/ Upside and Downside Risk

Potential upside may buffer further inflationary pressures and create space for new initiatives in future budget cycles, but we must also protect against downside risk.



Budget Reserve ("Rainy Day Fund")

The budget continues to build up our Rainy Day Fund to protect City services against downside risks.



* $12 million increase included in Mayor's proposed FY24 budget, as a FY23 year-end increase, pending City Council approval.

Long-Term Forecast Report