CITY OF DETROIT
OFFICE OF THE CHIEF FINANCIAL OFFICER

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May 18, 2018

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

Re: Monthly Financial Report for the Nine Months ended March 31, 2018

Dear Honorable City Council Members:

The Office of the Chief Financial Officer (OCFO) respectfully submits its monthly City of Detroit Financial Report for the Nine Months ended March 31, 2018. The OCFO also publishes this report on the City's website.

The OCFO is pleased to brief the City Council on the City's finances and would like to do so at a regularly scheduled Budget, Finance and Audit (BFA) Standing Committee meeting once a month following submission of the monthly financial reports. The first meeting would be at BFA on May 23, 2018. The OCFO will also meet with the Legislative Policy Division prior to the monthly BFA meeting to further invite discussion on the reports.

Best regards,

John W. Hill
Chief Financial Officer

Att: City of Detroit Financial Report for the Nine Months ended March 31, 2018

Cc: Mayor Michael E. Duggan, City of Detroit
David P. Massaron, Chief Operating Officer and Senior Counsel to the Mayor
John Naglick, Chief Deputy CFO/Finance Director
Tanya Stoudemire, Deputy CFO/Budget Director
Christa McLellan, Deputy CFO/Treasurer
Stephanie Washington, City Council Liaison

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CITY OF DETROIT

Office of the Chief Financial Officer

Financial Report for the Nine Months ended March 31, 2018

May 18, 2018

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Executive summary

- Following the City's exit from active FRC oversight, both Moody's and Standard & Poor's issued credit positive commentary reports on the City (attached). Moody's is reviewing the City for a potential rating update.

- On May 1, the CFO issued the City's Investments and Investment Management policy, which took effect when the City Council approved it on May 15. The OCFO has also issued other major policies and will update the City Council and Legislative Policy Division in a separate report. The OCFO would also like to present the status of its policies and procedures to BFA at a later date.

- The Office of Budget is preparing a revenue update for the CFO, in coordination with other OCFO divisions, the Legislative Policy Division, and the Office of the Auditor General.

- The Office of Budget has begun the process of developing the five-year Capital Agenda, which the Mayor will submit to the City Council on November 1.

- The OCFO is working on an revised monthly financial report and will present it to the City Council's Budget, Finance and Audit Standing Committee every month.

- FY 2018 is currently projected to end with an operating surplus of approximately $36M.

    - Revenue projections reflect the February 2018 Revenue Estimating Conference results, which remain above budget. (page 3)

    - Payroll and employee benefit expenditures are trending below budget as a result of position vacancies. (page 3)

    - The General City active employee count increased in March but remains below budget. (page 4)

- As of March, the City's General City property tax current collection rate for the year was 80.5% vs. 79.7% the previous year. (page 7)

- Accounts Payable as of March had a net decrease of $6.1M compared to February. Net AP not on hold had a net decrease of $1.6M. The number of open invoices not on hold increased by 335. There were 1,466 new invoices totaling $12.2M processed in March that were not on hold. (page 8)

- Following the City's successful $42M Strategic Neighborhoods Fund (SNF) investment in 3 neighborhoods, it has announced plans to raise $130M for SNF 2.0 for 7 additional neighborhoods and $250M for the Affordable Housing Leverage Fund. These investments totaling $422M are expected to leverage $600M in private investment to provide over $1 billion in total investment.

- Within the City's active grant portfolio, the most significant new grant award in March was the announcement of the City's partnership with University of Michigan, providing up to $2M over four years towards Economic Mobility projects. (page 10)

FY 2018 year-to-date general ledger actuals and annualized projection

GENERAL FUND	YTD ANALYSIS						ANNUALIZED PROJECTION ANALYSIS		
	BUDGET	ACTUAL + ADJUSTMENTS + ENCUMBRANCE			VARIANCE (BUDGET VS. ACTUAL)		BUDGET	PROJECTION	VARIANCE (BUDGET VS. PROJECTION)
$ in millions	YTD AMENDED (1)	ACTUAL (2)	ADJUSTMENTS + ENCUMBRANCE (3)	TOTAL	YTD		ANNUAL AMENDED	ANNUAL ESTIMATED (4)	ANNUAL ESTIMATED
	B	C	D	E = C + D	($) F = E-B	% G = (F/B)	H	I	($) J = I-H
REVENUE:									
Municipal Income Tax	$ 208.6	$ 221.0	$ -	$ 221.0	$ 12.4	5.9%	$ 283.3	$ 292.1	$ 8.9
Property Taxes (5)	109.9	89.7	7.9	97.6	(12.2)	(11.1%)	124.0	133.1	9.1
Wagering Taxes	130.1	135.2	-	135.2	5.1	3.9%	177.8	179.0	1.2
Utility Users' Tax	26.2	19.9	8.3	28.2	2.0	7.4%	35.0	40.0	5.0
State Revenue Sharing	98.5	100.8	-	100.8	2.2	2.3%	196.1	199.5	3.3
Sales and Charges for Services	93.2	61.4	-	61.4	(31.8)	(34.1%)	121.1	112.0	(9.0)
Licenses, Permits, and Inspection Charges	9.1	7.3	-	7.3	(1.9)	(20.6%)	11.7	12.4	0.7
Contributions and Transfers (6)	50.1	26.3	-	26.3	(23.8)	(47.6%)	123.1	145.2	22.0
Grants and Other Revenues	0.7	0.4	-	0.4	(0.3)	(40.6%)	1.4	1.5	0.2
Fines, Forfeits and Penalties	19.0	15.5	-	15.5	(3.4)	(18.0%)	25.3	23.6	(1.7)
Revenues from Use of Assets	2.5	2.9	-	2.9	0.4	16.4%	3.3	2.4	(0.9)
Other Taxes, Assessments, and Interest	5.4	7.9	(2.6)	5.3	(0.2)	(2.9%)	7.3	6.9	(0.4)
Sales of Assets and Compensation for Losses	4.2	3.4	-	3.4	(0.8)	(19.4%)	5.6	2.4	(3.2)
Miscellaneous	9.3	6.8	-	6.8	(2.6)	(27.5%)	12.3	6.7	(5.6)
Adjust for Prior Year Carry-forward (7)	90.6	-	120.8	120.8	30.2		120.8	120.8	-
TOTAL (L)	**$ 857.5**	**$ 698.4**	**$ 134.4**	**$ 832.8**	**$ (24.7)**	**(2.9%)**	**$ 1,247.9**	**$ 1,277.4**	**$ 29.5**
EXPENDITURES:									
Salaries and Wages	$ (313.0)	$ (296.7)	$ -	$ (296.7)	$ 16.2	5.2%	$ (428.3)	$ (413.2)	$ 15.1
Employee Benefits	(226.9)	(185.6)	-	(185.6)	41.2	18.2%	(278.6)	(271.7)	6.9
Professional and Contractual Services	(59.8)	(36.8)	(33.5)	(70.3)	(10.4)	(17.4%)	(78.5)	(80.1)	(1.6)
Operating Supplies	(30.3)	(35.5)	(5.4)	(40.9)	(10.6)	(35.0%)	(40.1)	(39.9)	0.1
Operating Services	(91.2)	(52.5)	(3.1)	(55.6)	35.6	39.0%	(120.1)	(119.2)	0.8
Capital Equipment	(1.1)	0.2	0.5	0.7	1.8	163.0%	(1.2)	(2.0)	(0.8)
Capital Outlays	(21.9)	(4.8)	(5.6)	(10.5)	11.5	52.4%	(29.1)	(28.8)	0.3
Debt Service	(45.9)	(99.1)	(12.4)	(111.5)	(65.6)	(142.8%)	(116.3)	(116.3)	-
Other Expenses	(124.7)	(89.2)	(2.5)	(91.7)	33.0	26.4%	(155.8)	(170.7)	(14.8)
TOTAL (M)	**$ (914.8)**	**$ (800.2)**	**$ (61.9)**	**$ (862.2)**	**$ 52.7**	**5.8%**	**$ (1,247.9)**	**$ (1,241.9)**	**$ 6.0**
VARIANCE (N = L + M)	**$ (57.4)**	**$ (101.9)**	**$ 72.5**	**$ (29.4)**	**$ 28.0**	**N/A**	**$ 0.0**	**$ 35.5**	**$ 35.5**

Notes

(1) Amended monthly budget assumes pro rata as well as seasonal distribution of annual amended budget.
(2) Year-to-date actuals reflect nine months ending March 31, 2018.
(3) Reflects encumbrances, pending adjustments, and the gross up of Utility Users' Tax collections to include amounts for the Public Lighting Authority.
(4) Projected revenues are based on the City's February 2018 Revenue Estimating Conference results.
(5) The property tax revenue projection now includes the recognition of revenue payable for tax increment financing distributions, which are captured within expenditures.
(6) This revenue line also includes the use of fund balance totaling $105M to support one-time spending on capital ($20M), blight ($30M), and debt restructuring ($55M).
(7) This revenue line reflects fund balance assigned to support carry-forwards, for which equivalent amounts are captured within expenditures.

Monthly active employee count compared to budget

	MONTH-OVER-MONTH ACTUAL[1]			BUDGET VS. ACTUAL		
	Actual February 2018	Actual March 2018	Change March 2018 vs. Feb. 2018	Amended Budget FY 2018[2]	Variance Under/(Over) Budget vs. February 2018	
Public Safety						
Police	3,082	3,091	9	3,121	30	1%
Fire	1,164	1,170	6	1,274	104	8%
Total Public Safety	**4,246**	**4,261**	**15**	**4,395**	**134**	**3%**
Non-Public Safety						
Office of the Chief Financial Officer	426	434	8	482	48	
Public Works - Regular	377	371	(6)	419	48	
Public Works - Seasonal	17	19	2	26	7	
Health and Wellness Promotion	79	72	(7)	104	32	
Human Resources	94	97	3	108	11	
Housing and Revitalization	85	85	0	91	6	
Innovation and Technology	97	99	2	134	35	
Law	109	110	1	118	8	
Mayor's Office (includes Homeland Security)	72	72	0	72	0	
Planning and Development	31	32	1	41	9	
Recreation - Regular	264	264	0	326	62	
Recreation - Seasonal	0	0	0	264	264	
General Services - Regular	357	356	(1)	504	148	
General Services - Seasonal	7	142	135	219	77	
Legislative [3]	223	230	7	259	29	
36th District Court	316	316	0	331	15	
Other [4]	110	111	1	110	(1)	
Total Non-Public Safety	2,664	2,810	146	3,608	798	22%
Total General City	**6,910**	**7,071**	**161**	**8,003**	**932**	**12%**
Enterprise						
Airport	4	4	0	4	0	
BSEED	212	211	(1)	230	19	
Transportation	932	904	(28)	927	23	
Municipal Parking	88	89	1	95	6	
Water and Sewerage	529	522	(7)	579	57	
Library	301	297	(4)	332	35	
Total Enterprise	**2,066**	**2,027**	**(39)**	**2,167**	**140**	**6%**
Total City	**8,976**	**9,098**	**122**	**10,170**	**1,072**	**11%**

Notes:

(1) Actuals are based on active employees only (both permanent and temporary) and include full-time, part-time, seasonal employees and PSCs if funded by vacant budgeted positions.

(2) Amended Budget reflects amendments and other adjustments impacting approved position counts compared to the original budget. It excludes personal services contractors (PSCs).

(3) Includes: Auditor General, Inspector General, Zoning, City Council, Ombudsperson, City Clerk, and Elections.

(4) Includes: Civil Rights Inclusion & Opportunity, Administrative Hearings, Public Lighting Department, and Non-departmental.

FY 2018 year-to-date net cash flows

For 9 Months Ending March 31, 2018

$ in millions

Cash Flows - General Pool Cash	FY18 Actual 9 Months		FY17 Actual 9 Months	Variance	
Property Taxes	$ 105.7		$ 101.8	$ 3.9	
Municipal Income Taxes	217.9		208.2	9.7	(1)
Utility Users Taxes	20.1		17.7	2.4	
Wagering Taxes	134.7		134.7	0.0	
State Revenue Sharing	134.1		163.7	(29.6)	(2)
Other / Misc.	188.4		140.7	47.7	(3)
Total Receipts	**800.9**		**766.8**	**34.1**	
Salaries and Wages	(323.1)		(301.2)	(21.9)	(4)
Employee Benefits	(82.0)		(76.6)	(5.4)	(5)
Materials, Contracts & Other	(277.2)		(283.4)	6.2	
Total Disbursements	**(682.3)**		**(661.2)**	**(21.1)**	
Operating Surplus (before Reinvestment)	**118.6**		**105.6**	**13.0**	
Debt Service	(54.3)		(63.1)	8.8	(6)
Debt Redemption	(69.8)		0.0	(69.8)	(7)
Non-Financing Adjustments	0.0		3.4	(3.4)	(8)
Total Adjustments to arrive at Net Cash Flow	**(124.1)**		**(59.7)**	**(64.4)**	
Net Cash Flow	**$ (5.5)**		**45.9**	**$ (51.4)**	
Beginning cash balance	**$ 186.3**	(9) (10)			
Net Cash Flow	(5.5)				
Ending cash balance	**180.8**	(9)			
Budget Reserve Fund	**62.3**	(11)			
Total Cash Balance	**$ 243.1**				

Notes:
This schedule represents cash inflows and outflows during the fiscal period. It is not intended to tie to revenues and expenditures recorded in the general ledger due to accrual accounting and non-cash transactions.

(1) Increase is due to a reduction in the amount of refunds processed offset by an increase in revenue.
(2) The June 2016 State Revenue Sharing payment was received in July 2016 whereas the June 2017 payment was received in June 2017.
(3) FY18 includes $19.5m MDOT receipt for G. Howe Bridge Project, $15m Premier Garage sale to redeem C Note principal in January & additional $11.8m in Grant receipts over FY17.
(4) Increase in FY18 payroll attributed to salary increases and additional positions filled.
(5) Increase in FY18 due to increased benefits expense compared to prior year and quarterly payment of pension contributions (v. annual), partially offset by a reduced contribution to the Retiree Protection Trust Fund ($15m in FY18 v. $30m in FY17).
(6) The August 2016 refunding of State Revenue Sharing notes resulted in reduced outflow offset by increased Pledged Income Tax interest payments
(7) Partial redemption of Note C done in January 2018 for $15.4m. Final redemption amount of $54.5m sent to trustee March 2018.
(8) In FY17 the General Fund received a $3.4m inflow of excess self-insurance dollars.
(9) The main operating pool contains cash balances of the Risk Management Fund, Street Fund, Solid Waste Fund, General Grants and Motor Vehicle Fund.
(10) Beginning balance has been reduced to reflect the removal of Fund 7003 (Prop Tax Distributions) and State of MI Trust Fund balance.
(11) The Budget Reserve Fund is in excess of 5% of the annual budget and in a segregated account.

FY 2018 year-to-date cash flow to general ledger reconciliation

For 9 Months Ending March 31, 2018
$ in millions

	Cash Activity				General Fund General Ledger			
Cash Flows	**General Pool**	**Adjustments**	**General Fund**		**Posted**	**To Be Posted (1)**	**Total**	**Difference**
Property Taxes	$ 105.7	$ (8.1)	$ 97.6	(2)	$ 89.7	$ 7.9	$ 97.6	$ 0.0
Municipal Income Taxes	217.9	3.1	221.0	(3)	221.0	-	221.0	0.0
Utility Users Taxes	20.1	(0.2)	19.9	(4)	19.9	-	19.9	0.0
Wagering Taxes	134.7	0.5	135.2	(5)	135.2	-	135.2	0.0
State Revenue Sharing	134.1	(33.3)	100.8	(6)	100.8	-	100.8	0.0
Other / Misc.	188.4	(56.6)	131.8	(7)	131.8	-	131.8	0.0
Total Receipts	**800.9**	**(94.6)**	**706.3**		**698.4**	**7.9**	**706.3**	**0.0**
Salaries and Wages	(323.1)	26.4	(296.7)	(8)	(296.7)	-	(296.7)	0.0
Employee Benefits	(82.0)	(103.6)	(185.6)	(9)	(185.6)	-	(185.6)	0.0
Materials, Contracts & Other	(277.2)	58.5	(218.7)	(10)	(218.7)	-	(218.7)	0.0
Total Disbursements	**(682.3)**	**(18.7)**	**(701.0)**		**(701.0)**	**-**	**(701.0)**	**0.0**
Operating Surplus (before Reinvestment)	**118.6**	**(113.3)**	**5.3**		**(2.6)**	**7.9**	**5.3**	**0.0**
Debt Service	(54.3)	12.6	(41.7)	(11)	(29.3)	(12.4)	(41.7)	0.0
Debt Redemption	(69.8)	-	(69.8)	(12)	(69.8)	-	(69.8)	0.0
Non-Financing Adjustments	-	-	-		-	-	-	-
Total Adjustments to arrive at Net Cash Flow	**(124.1)**	**12.6**	**(111.5)**		**(99.1)**	**(12.4)**	**(111.5)**	**0.0**
Net Inflows /(Outflows)	**$ (5.5)**	**$ (100.7)**	**$ (106.2)**		**$ (101.7)**	**$ (4.5)**	**$ (106.2)**	**$ 0.0**

Notes:

(1) To be posted amounts represent collections and disbursements that were not recorded as of March 31, 2018.
(2) $26m pertains to FY17 offset by $17.9m of revenue pending distribution to the General Fund.
(3) Differences due to changes in refund liability.
(4) $0.2m of Utility Users Tax collected in FY2018 pertained to FY17.
(5) $1.0m of Wagering Taxes collected in FY2018 pertained to FY17 offset by $1.5m collected in April.
(6) $33.3m State Revenue Sharing receipt pertained to FY17.
(7) $23.8m non-General Fund 1000 receipts, $12.1m cash specific (loans & grants), $1.7m undistributed revenue timing adjustment and $19m pertained to prior year activity.
(8) Approximately $18.3m of the difference relates to FY17 activity and the balance is non-General Fund disbursements.
(9) Approx. $1.4m is FY17 activity, $20.3m attributed to timing of payments offset by $90m related to prior years RPTF set aside & $35.3m FY18 Pension obligation.
(10) Approx. $43.9m of disbursements are non-General Fund, $38.7m related to FY17 offset by $24.1m Risk Management & insurance premium non-cash book transfers.
(11) Difference is debt set aside at Trustees: $3.1m Income Tax and $5m State Revenue Sharing and $4.5m of non-cash book transfers.
(12) Partial redemption of Note C done in January 2018 for $15.4m. Final redemption amount of $54.5m sent to trustee March 2018.

FY 2018 year-to-date property tax collections

For 9 months ended March 31, 2018

$ in millions

	FY 2018			FY 2017		
	Adjusted Tax Roll	Collections YTD (1)	Collection Rate YTD	Adjusted Tax roll	Collections YTD (1)	Collection Rate YTD
General Ad Valorem		$ 90.1			$ 93.5	
General Special Acts		2.6			2.7	
General Total	**$ 115.2**	**$ 92.7**	**80.47%**	**$ 120.7**	**$ 96.2**	**79.70%**
Debt Service Total	**$ 50.9**	**$ 41.6**	**81.73%**	**$ 62.0**	**$ 50.2**	**80.97%**
Solid Waste Total	**$ 52.4**	**$ 30.3**	**57.82%**	**$ 54.8**	**$ 31.2**	**56.93%**

		FY 2018	FY 2017
General City Ad Valorem Collections YTD	(2)	$ 90.1	$ 93.5
Delinquent Tax Revolving Fund (DTRF) Collections YTD	(3)	7.5	8.8
Total Property Tax Collections (Ad Val + DTRF)		$ 97.6	$ 102.3
Admin Fee, Interest, Penalty YTD	(4)	$ 6.3	$ 6.8

Notes:

(1) Amounts do not include collections from Wayne County settlement checks as a result of foreclosure and auction activity.

(2) Amounts are net of property taxes collected by the City on behalf of DPS, State Education Trust, Wayne County and other non-City taxing authorities.

(3) Wayne County monthly DTRF settlement checks.

(4) Special Act, Admin Fee, Interest and Penalty are recorded in Budget's Other Taxes, Assessments, and Interest category.

Accounts payable summary

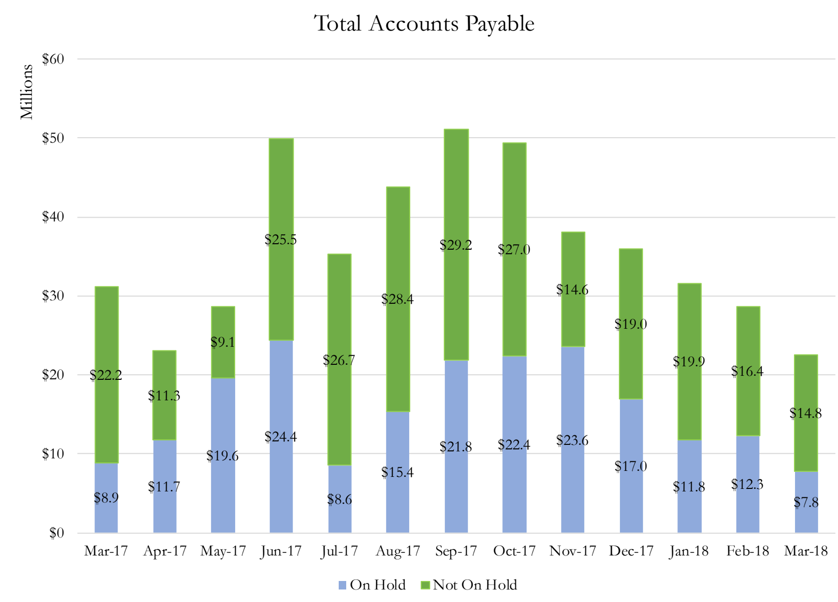
- Accounts Payable as of March had a net decrease of $6.1M compared to February. Net AP not on hold had a net decrease of $1.6M. The number of open invoices not on hold increased by 335. There were 1,466 new invoices totaling $12.2M processed in March that were not on hold.

All Funds
$ in millions

Accounts Payable (AP) as of Mar-18		
Total AP (Feb-18)	$	28.7
Plus: Mar-18 invoices processed		69.3
Less: Mar-18 Payments made		(75.4)
Total AP month end (Mar-18)	$	22.6
Less: Invoices on hold (1)	$	(7.8)
Less: Installments/Retainage Invoices(2)		-
Net AP not on hold	$	14.8

AP Aging
(excluding invoices on hold)

	Net AP	Current	Days Past Due 1-30	Days Past Due 31-60	Days Past Due 61+
Mar-18. Total	$ 14.8	$ 9.4	$ 1.7	$ 1.6	$ 2.1
% of total	*100%*	*64%*	*11%*	*11%*	*14%*
Change vs. Feb-18	*$ (1.6)*	*$ (4.1)*	*$ 0.4*	*$ 1.4*	*$ 0.7*
Total Count of Invoices	1566	1022	264	94	186
% of total	*100%*	*65%*	*17%*	*6%*	*12%*
Change vs. Feb-18	*335*	*136*	*78*	*42*	*79*
Feb-18. Total	$ 16.4	$ 13.5	$ 1.3	$ 0.3	$ 1.3
% of total	*100%*	*82%*	*8%*	*2%*	*8%*
Total Count of Invoices	1231	886	186	52	107
% of total	*100%*	*72%*	*15%*	*4%*	*9%*



Notes:
(1) Invoices with system holds are pending validation. Some reasons include: pending receipt, does not match purchase order quantity/price and legal holds
(2) Invoices on retainage are on hold until the supplier satisfies all contract obligations
(3) Invoices are processed and aged based on the invoice date. If the invoices were aged based on the date received the aging would show improved current category values
(4) DWSD payable to Great Lakes Water Authority (GLWA) shown separately for reporting purposes

Exit financing utilized to jump start technology, neighborhoods, and public safety improvements

- In March, no new projects were approved using Exit Financing.

$ in millions	Open and Closed Projects: Number of Projects	Amount of Approved and Authorized Projects	Total Amount Expensed
Available Exit Financing Proceeds		**$233.2**	
Project Allocation:			
Department of Innovation and Technology	6	(39.4)	(37.1)
Blight	9	(29.3)	(25.4)
Police	7	(25.3)	(21.6)
Fire	9	(36.0)	(29.6)
General Services	14	(27.6)	(26.7)
Office of the Chief Financial Officer	13	(25.4)	(18.8)
Building, Safety Engineering & Environmental Department	1	(4.4)	(2.8)
Law	1	(1.1)	(1.1)
Detroit Department of Transportation	1	(1.8)	(1.8)
Recreation	1	(1.2)	(1.2)
Human Resources	2	(0.7)	(0.7)
Other	5	(0.5)	(0.3)
Subject to Reconciliation	–	–	(0.0)
Subtotal Projects	**69**	**($192.7)**	**($167.1)**
Post-Petition Financing Interest and Other Fees	–	(2.8)	(2.8)
Debt Service Reserve	–	(27.5)	(27.5)
Totals	**69**	**($222.9)**	**($197.3)**
Remaining Amount Reserved		**$10.2**	

Notes:

50 Closed Projects. Unaudited amounts subject to reconciliation.

Change in Approved and Closed totals reflect reconciliation of FY17 expense based on internal review/audited expenses.

No new business cases approved in March 2018.

The City is leveraging funding from external sources

- The most significant new grant award in March was the announcement of the City's partnership with University of Michigan, providing up to $2M over four years towards Economic Mobility projects.

$ in millions	Amount Awarded (1)				
		Appropriation Approved (2)		Appropriation Pending (2)	Number of Grants
Department/Agency					
Transportation		351.5		-	14
Housing & Revitalization		249.7		-	20
Fire		30.4		-	8
Health		28.8		-	4
Public Works		28.6		-	14
Police		18.1		-	25
Homeland Security and Emergency Management		2.7		-	7
Recreation		2.5		-	8
Other (3)		1.8		-	6
Active Federal/State grants	**$**	**714.1**	**$**	**-**	**106**
Active private grants and donations		**99.6**		**-**	**140**
Total active grants and donations (4)	**$**	**813.7**	**$**	**-**	**246**

Notes:

(1) Reflects original amounts awarded and amendments for active grants as of March 31, 2018. Remaining amount available t be spent will be lower for most departments.

(2) The amounts awarded as of March 31 are separated between grant appropriations already approved and any that may be pending approval as of the date this report is presented.

(3) Other includes departments and agencies totaling less than $1M.

(4) The City also partners with third-party agencies to directly pursue and implement grants aligned with the City's priorities. Such grants are included above for private funds but not federal/state grants.

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City of Detroit, MI

Detroit emerges from state oversight better prepared for upcoming challenges, a credit positive

From Credit Outlook

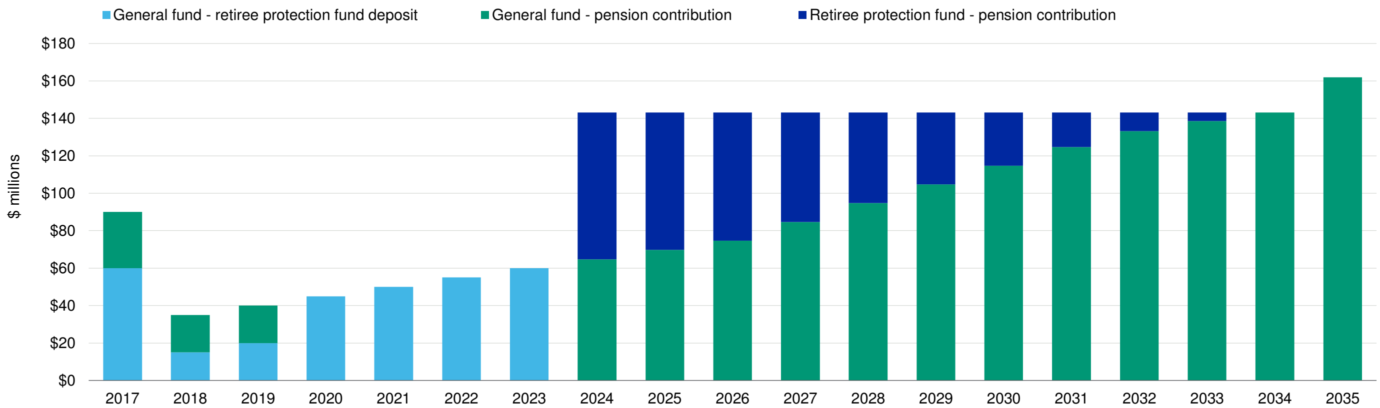
On Monday, Detroit's (B1 positive) Financial Review Commission (FRC) voted to waive oversight of the city, ending more than three years of supervision of the city's finances following its emergence from bankruptcy in December 2014. The waiver follows passage last month of the city's four-year financial plan, which projects a continuation of positive financial operations. The action reflects the credit-positive strengthening of Detroit's financial operations and position in preparation for challenges ahead, including critical improvements to city services and infrastructure, potential revenue volatility and a significant $140 million increase in pension contributions starting in fiscal 2024 (which ends 30 June 2024).

The city has been subject to FRC oversight since its emergence from bankruptcy. Michigan Public Act 181 of 2104 requires 13 years of oversight, but allows for scaled back oversight when the city meets certain benchmarks. The board was responsible for monitoring the city's compliance with the bankruptcy plan of adjustment (POA) and provided general oversight of financial operations. While under oversight, the city implemented substantial improvements in financial practices, including a revenue-estimating conference, use of four-year operating forecasts and conservative budgeting of revenue and expenses. We expect strong financial management to continue because of continuity in city leadership. The FRC will continue to meet regularly and can rescind the waiver should it determine that Detroit's progress has faltered. The FRC's ability to reassert its oversight should reduce the risk of a reversal of the city's strong financial trends.

City management has set aside funds in preparation for a fiscal 2024 pension contribution spike of $140 million (equal to 14% of fiscal 2017 operating revenue) in an irrevocable trust dedicated to its pension system. Detroit's bankruptcy POA requires it to contribute just $20 million per year from its general fund to the pension system through fiscal 2019, but the city has made additional contributions of $105 million to date (see Exhibit 1) with the goal of amassing at least $335 million in assets in the irrevocable trust by 2023. With the monies accumulated in the irrevocable trust, Detroit will only need to increase its recurring general fund contribution by $5-$10 million per year during fiscal 2024-34 if actuarial assumptions are met.

Exhibit 1

Detroit has amassed an irrevocable pension trust to prepare for a large contribution spike

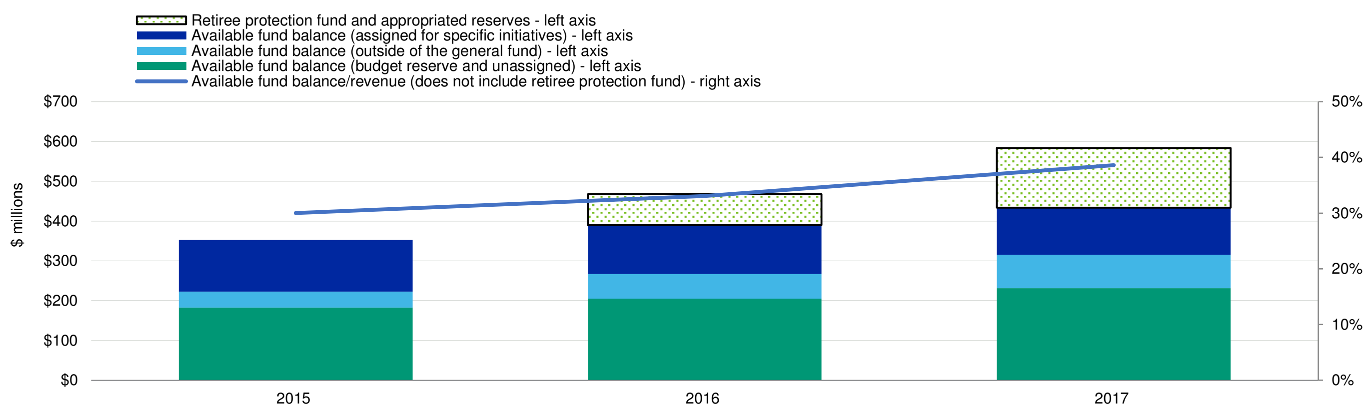


Source: Detroit Financial Review Commission

In addition to an irrevocable trust, the city's positive financial operations have allowed for a rapid accumulation of general reserves. Since emerging from bankruptcy, the city increased its reserves to healthy levels, with an available fund balance of nearly $600 million, or approximately 40% of revenue (see Exhibit 2), at the close of fiscal 2017. The reserves are critical given that the city's top revenue source, mainly income taxes (25% of fiscal 2017 operating revenue), tends to fluctuate with the economy. Another key revenue source, state shared revenue (18% of revenue), is also sensitive to volatility, as shown by significant cuts during the last economic downturn. Although slightly more stable, property taxes (17% of fiscal 2017 operating revenue) decline with reductions in taxable valuation drops under Michigan's system of tax caps. We expect that reserves will remain sound but grow more slowly because city staffing and investment spending likely will increase.

Exhibit 2

Detroit has accumulated healthy reserves



Sources: City of Detroit comprehensive financial reports and Moody's Investors Service

Despite positive momentum, Detroit has significant credit challenges, including a weak tax base and economic profile. The city's long-term liabilities were drastically lowered in bankruptcy, but remain high. The city and Detroit Public Schools (B2 stable) have substantial capital needs that will need to be addressed in the next few years. The city does not control the schools, but the school system's performance affects the city's ability to grow its tax base.

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Detroit's Momentum Continues With Latest Fiscal Plan And Financial Review Commission Oversight Waiver

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CHICAGO (S&P Global Ratings) May 2, 2018--Following recent approval of Detroit's (B+/Stable ICR) latest four-year plan, the state-appointed Financial Review Commission (FRC) voted on April 30 to waive significant portions of its oversight powers. This action marks a major achievement for the city and serves as a good measuring stick for how far it has come on its long road to stability.

We consider the waiver a positive step for Detroit, although the reduced oversight in and of itself is unlikely to have a major effect on day-to-day operations, or a direct effect on the city's long-term financial trajectory. This is based on our opinion that the city's return to balanced operations is more a result of improved management and cost controls, along with reduced fixed costs coming out of bankruptcy, as opposed to direct oversight from the FRC. Given the city's recent financial performance and the terms under which a waiver could occur, we anticipated the FRC's action. In our view, the course Detroit takes going forward will continue to depend on effective city management and disciplined spending, and likely ongoing economic growth.

The FRC's decision to scale back oversight was triggered by three consecutive years of balanced budgets along with three years of projected balanced operations (as found in the latest four-year plan), among other areas. Despite the waiver, the FRC will remain in place for at least another 10 years, though in an effectively dormant state. Should Detroit revert to deficit spending, fail to meet outlined pension contributions, or show signs of fiscal distress (among other things), the FRC would have the authority to rescind its waiver. We believe the FRC's continued presence (albeit dormant) and its ability to return to full oversight will encourage continued balanced budgets and ongoing improvement to management practices.

We note that much of Detroit's improved budgetary performance was made possible by shedding some fixed costs during bankruptcy, including debt service and retiree costs for pensions and other postemployment benefits (OPEBs). While some of those costs are gone forever, the upward slope of debt service and pension contributions could pressure operations. From now on, the city's challenge will be to manage these rising costs in relation to economic growth, and the costs the city incurs to support growth. Post-waiver, the city reports its focus will remain on its long-term plan to prepare for increasing debt and pension obligations. It also plans to improve and update policies for budget reporting and monitoring, as well as those for debt, investment, and pension funding.

FINANCIAL PROGRESS REMAINS ON TRACK; PROJECTIONS REMAIN CONSERVATIVE

As dictated by the Home Rule City Act, Detroit is required to conduct biannual revenue estimating conferences and to annually adopt a four-year financial plan, the first year serving as the adopted budget (these requirements remain in place, regardless of the FRC). The fiscal 2019 general fund operating budget is balanced and totals $1.071 billion, a 4.6% increase from the $1.024 billion fiscal 2018 budget. Projections for fiscal 2020 through 2022 are balanced, with appropriations increasing to $1.114 billion.

Detroit's revenue forecasts remain conservative, without assuming increases from economic expansions which have been announced or are already in progress. Major components of fiscal 2019 general fund revenues include income taxes (28%), state-shared revenues (generated from Detroit's proportionate share of a statewide sales tax (19%); wagering taxes (generated from three local casinos (17%); and property taxes (12%).

The city forecasts income taxes to grow 2.5% annually through fiscal 2022, which is conservative when compared to the 3.5% average annual growth the past five years. Projections take into account modest increases in salary and wages along with improved collection methods, as the state completes its transition to processing the income tax on behalf of the city. With the ongoing employment growth in Detroit, these revenues should continue to increase.

Compared to fiscal 2018 estimates, the city budgeted each of the next three largest sources of general fund revenue to grow by only 1% or less. The projections show 0.5% annual growth in state-shared revenues. These projections are based on the state Treasury Department's most recent estimates. Growth in statewide sales taxes and moderation in the city's population decline should support steady state-shared revenues. Wagering taxes, which declined by 1.7% in fiscal 2017 before recovering for an estimated 1% increase in fiscal 2018, are projected to grow 1% annually. The city monitors gross receipts at the three casinos as part of its forecasting. Lastly, the budget includes a return to growth in property taxes, as the taxable values for fiscal 2019 collections increased for the first time in years. This is a significant indication of the ongoing development and stabilization of the tax base. It also follows the city's significant efforts to reassess properties to more accurately reflect true value.

The budget funds all debt service requirements and continues to fund the Retiree Protection Fund (RPF) as scheduled, which includes a voluntary contribution of $20 million, up $5 million from fiscal 2018. The RPF currently totals $105 million, and the city estimates it will grow to $125 million (plus interest) by the end of fiscal 2019. The city expects to continue funding the RPF at an incrementally increasing level throughout the four-year plan and thereafter, effectively setting aside dollars that will assist in phasing in a return to actuarially driven pension contributions beginning in fiscal 2024. Salaries and wages are the largest general fund cost, and are budgeted for a 6.7% increase, which reflects scheduled wage increases and additions to staff. Citywide, the total staff headcount is budgeted to increase 5% as the city works to fill vacant positions.

RESERVES REMAIN VERY STRONG, AMID FOCUS ON CAPITAL

The city's available reserves increased significantly in recent years following operating surpluses, and while the city anticipates balanced results to continue, these reserves are likely to decline due to targeted spending on rebuilding and revitalizing the tax base, particularly through blight removal, capital spending, and public safety.

The city projects a general fund operating surplus of $35.8 million in fiscal 2018, and balanced operating results for fiscal 2019. These results will be offset by one-time spending, however, and likely lead to declines in the available fund balance. The city estimates spending $50 million in accumulated general fund surplus dollars on one-time blight removal and capital spending in fiscal 2018, and another $100 million in fiscal 2019. This follows $68 million of one-time spending on these purposes in fiscal 2017. Additionally, in fiscal 2018, Detroit used $54 million of fund balance for early debt redemption on a portion of its Financial Recovery Bonds issued in 2014. One of the pending budget pressures is increasing annual debt service costs, and by using fund balance to pay off this debt, the city freed up about $10 million in annual spending. Currently, combined debt service and pension expenditures paid from the general fund account for about 10% of its expenditures, and these costs are projected to increase by $24 million in fiscal 2020 and by another $10 million in fiscal 2021. This amount remains manageable within the current plan, but the increases will continue to present future challenges. Aside from using accumulated fund balance, the city's remaining capital budget is almost entirely funded through annual operating revenues. Subsequently, as annual surpluses lessen, Detroit's ability to fund one-time capital spending with these dollars may lessen.

In our view, continued maintenance of very strong reserves will be a significant credit factor for the city. We also view Detroit's reinvestment in the tax base as an important generator of its economic recovery. Continued revenue growth will be important so that the city can address looming increases in debt and pension expenditures, along with routine capital needs. A very strong reserve position will provide the city additional cushion, if needed, as costs escalate, and if there is economic stagnation.

Detroit ended fiscal 2017 with a general fund available balance of $389 million, or about 44% of general fund operating expenditures. This balance includes $169 million in unassigned reserves, $62 million in the (required 5%) budget reserve, and $158 million in other assigned reserves. Comparatively, the fiscal 2016 available balance was $356 million (40%). Neither of these amounts include the city's RPF, which grew to $90 million in fiscal 2017, from $30 million in 2016. The RPF will be used solely for future pension contributions.

FINANCIAL REVIEW COMMISSION AND OVERSIGHT

Created in 2014, the FRC was tasked with providing oversight for the city, including review and approval of budgets and the long-term financial plan; review of revenue estimates; approval of contracts and collective bargaining agreements; monitoring the issuance and payment of debt; and ensuring adherence to the POA, statutory requirements, and overall sound fiscal practices.

On April 30, 2018, the FRC commission voted to scale back most of its oversight by eliminating the requirement for it to approve the budget, long-term plan, contracts, and collective bargaining agreements, in addition to other requirements. This follows the city meeting certain conditions, including three years of deficit-free budgets, a balanced four-year plan, adherence to all statutes and provisions of the POA, and timely servicing of debt.

Under the terms of the waiver, the FRC will continue to meet monthly to review city reports, and it will annually have to vote on the oversight waiver. Ongoing reporting requirements to the FRC will include budget-to-actuals, cash flows, and debt and pension status updates. The city will need to continue to meet the requirements that led to the waiver for 10 consecutive years before the FRC can completely dissolve. We understand that an added requirement for the continued oversight waiver is that the city adhere to its planned RPF funding strategy, specifically the voluntary contributions.

The FRC may rescind the waiver at any time if any of these requirements are not met, or if it determines the city is returning to fiscal distress; if the waiver is rescinded, the FRC will resume full oversight. Should that happen, the city would need to meet these conditions again for at least three consecutive years, after which the reduced oversight would return for 10 more years. We view the addition of the RPF funding plan to the waiver determination as a positive development, as even though the RPF funding is still not legally required, failure to adhere to the plan could trigger a return to full oversight.

Only a rating committee may determine a rating action and this report does not constitute a rating action.