CITY OF DETROIT
OFFICE OF THE CHIEF FINANCIAL OFFICER

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March 29, 2019

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

Re: First FY 2020 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 2018-13, which granted the City its waiver of active FRC oversight through June 30, 2019. The OCFO is pleased to issue this report for the first time under the FRC Resolution. 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,

David P. Massaron
Acting Chief Financial Officer

Att: City of Detroit Long-Term Forecast Report for Legacy Pension Plans and Debt Obligations

Cc: Mayor Michael E. Duggan, City of Detroit
Hakim Berry, Acting Chief Operating Officer and Labor Relations Director
John Naglick, Chief Deputy CFO/Finance Director
Christa McLellan, Deputy CFO/Treasurer
Tanya Stoudemire, Deputy CFO/Budget Director
Stephanie Washington, City Council Liaison

FY 2020 Long-Term Forecast Report

For Legacy Pension Plans and Debt Obligations

Office of the Chief Financial Officer

March 29, 2019

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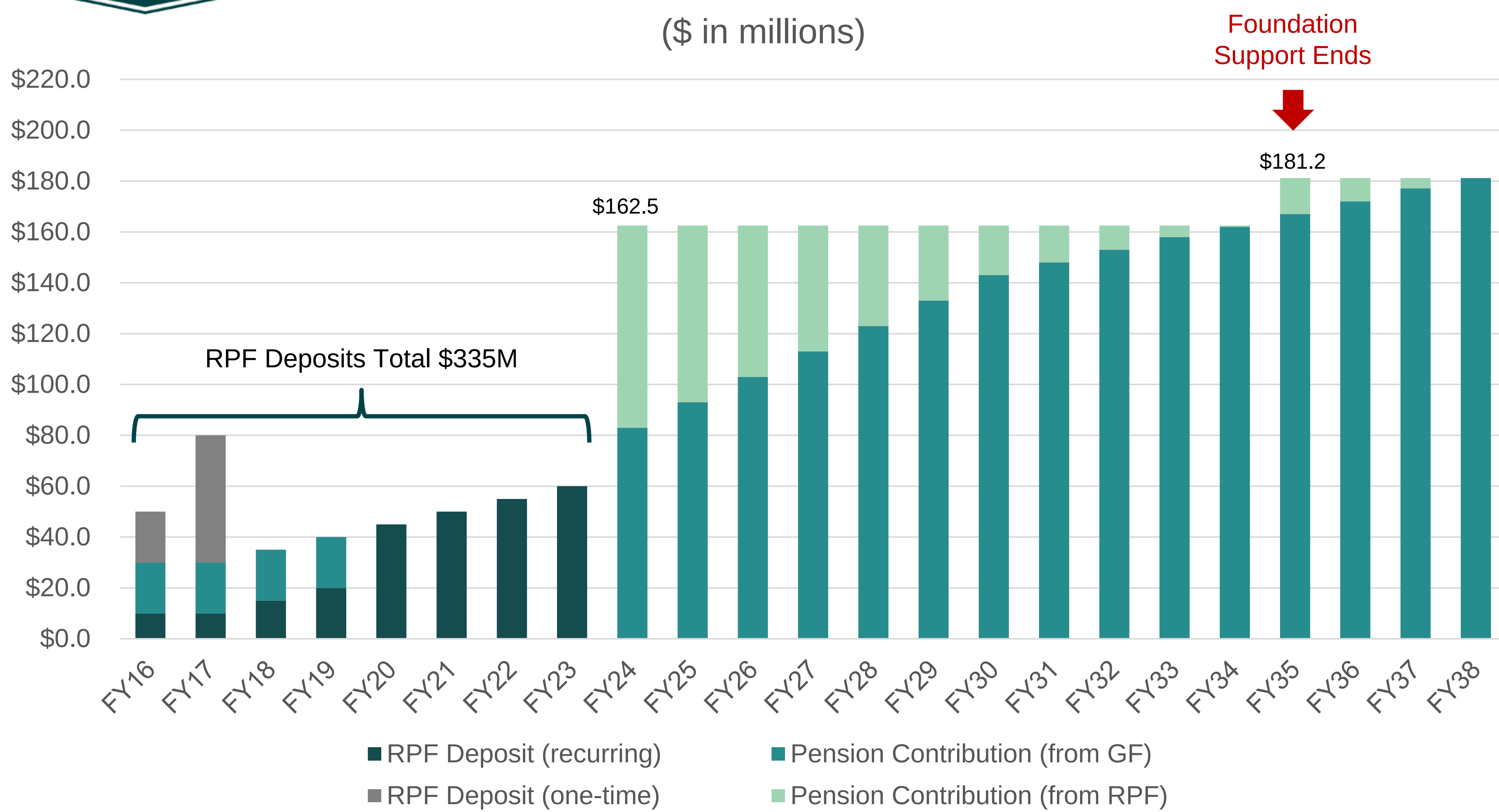
Legacy Pension Plans – Retiree Protection Fund

- In 2017, the City adopted a funding strategy for its frozen legacy pension plan obligations
  - Set aside $335M more in funding by FY 2023 than required by the Plan of Adjustment
  - Deposit funding into an irrevocable trust (the Retiree Protection Fund, "RPF")
  - Build up RPF assets plus investment earnings to be used to partially offset annual required legacy pension contributions that resume in FY 2024
  - Allows the City to begin gradually building up its budget capacity now to meet the annual required contributions in the future
  - Review the funding plan annually based on updated information and revise if needed during the annual budget and planning process

- In 2017, the City enacted an ordinance to establish the RPF as an irrevocable Internal Revenue Code Section 115 trust fund exclusively for satisfying its legacy pension obligations.

- As of June 30, 2018, RPF assets totaled $103.3M. The City deposited an additional $20M appropriated in FY 2019 as planned.

FY 2020 RPF Funding Recommendation



FY 2020 RPF Funding Recommendation

- Maintain FY 2019 funding plan's recurring RPF deposits from General Fund:
  - FY 2020 - $45M
  - FY 2021 - $50M
  - FY 2022 - $55M
  - FY 2023 - $60M

- Increase General Fund share of FY 2024 pension contribution by an extra $13M, for a $23M year-over-year increase
  - Debt service decreases by $13M in FY 2024 and became an ongoing savings once FY 2025 debt cliff was eliminated by refunding bonds issued in December 2018
  - FY 2024 already included a $10M increase in last year's funding plan

- General Fund share of ongoing pension contributions continues to grow $5M to $10M per year until General Fund covers the full contribution in FY 2038 without RPF or foundation support

RPF Updated Assumptions / Inputs

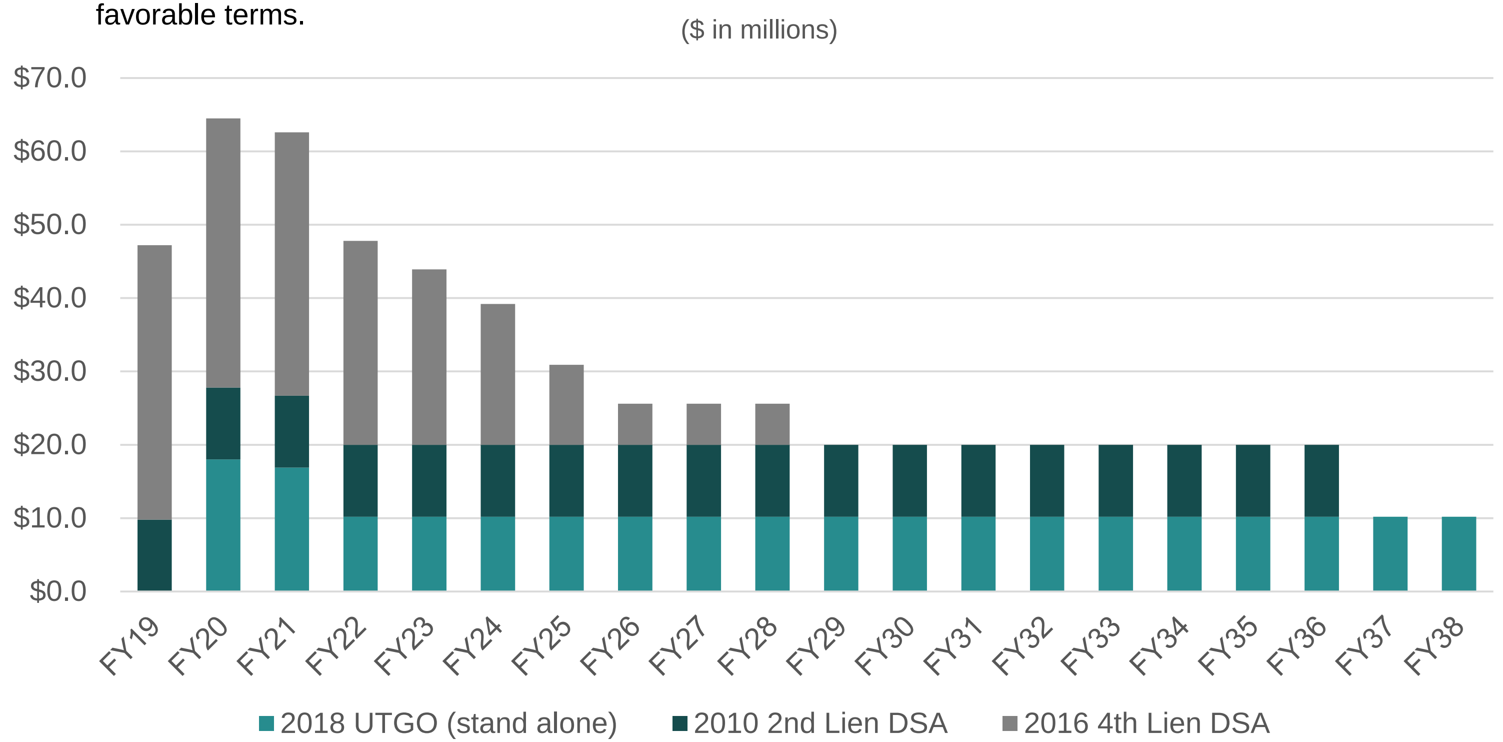
Input	FY 2019 Funding Plan	FY 2020 Funding Plan
Actuarial Valuation	FY 2016	FY 2017
Latest Plan Returns	FY 2017 (14.1% GRS, 12% PFRS)	FY 2018 (6.5% GRS, 8.2% PFRS)
Future Plan Returns	6.75%	6.75%
Amortization(1)	30-year level dollar	30-year level dollar
FY 2024 Contribution	$166.6M gross ($23.2M) foundations/non-GF $143.4M net from GF	$188.0M gross ($25.5M) foundations/non-GF $162.5M net from GF
Latest RPF Returns	Not yet established	FY 2018 (-1.8%)(2)
Future RPF Returns	3%	3%

(1) The Retirement Systems have not yet established funding policies for the annual required contributions that resume in FY 2024.

(2) Portfolio repositioned during FY 2018 to achieve 3% future returns, resulting in initial loss.

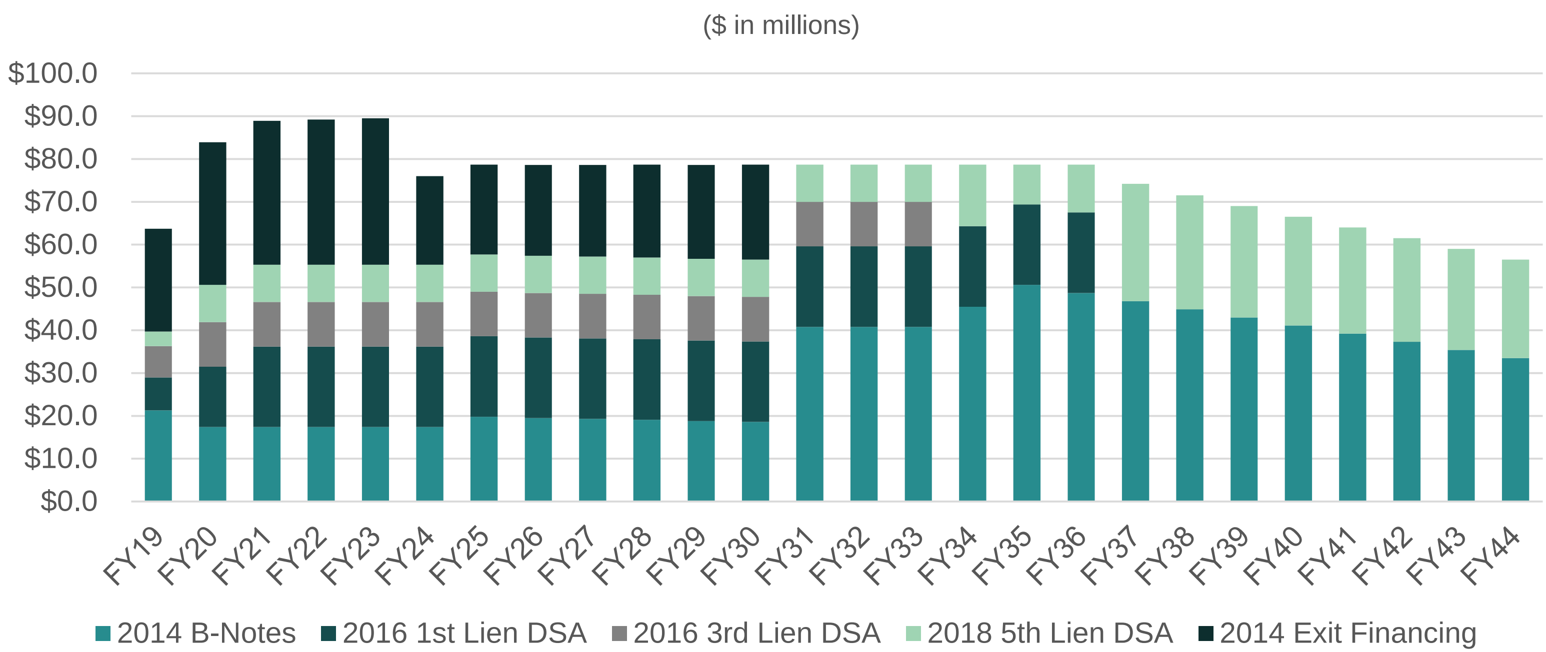
UTGO Debt Service

- Unlimited Tax General Obligation (UTGO) bonds are backed by the full faith and credit of the City of Detroit.
- The UTGO bonds are authorized by the voters through ballot proposals
  - UTGO debt service is repaid from dedicated property taxes from the City's debt millage (Debt Service Fund).
  - The 2010 and 2016 Distributable State Aid (DSA) bonds are secured by State Revenue Sharing payments.
  - The 2018 UTGO bonds were the first issued solely against the City's own credit in over 20 years.
- The UTGO bonds support capital improvements throughout Detroit and the refunding of prior indebtedness at more favorable terms.

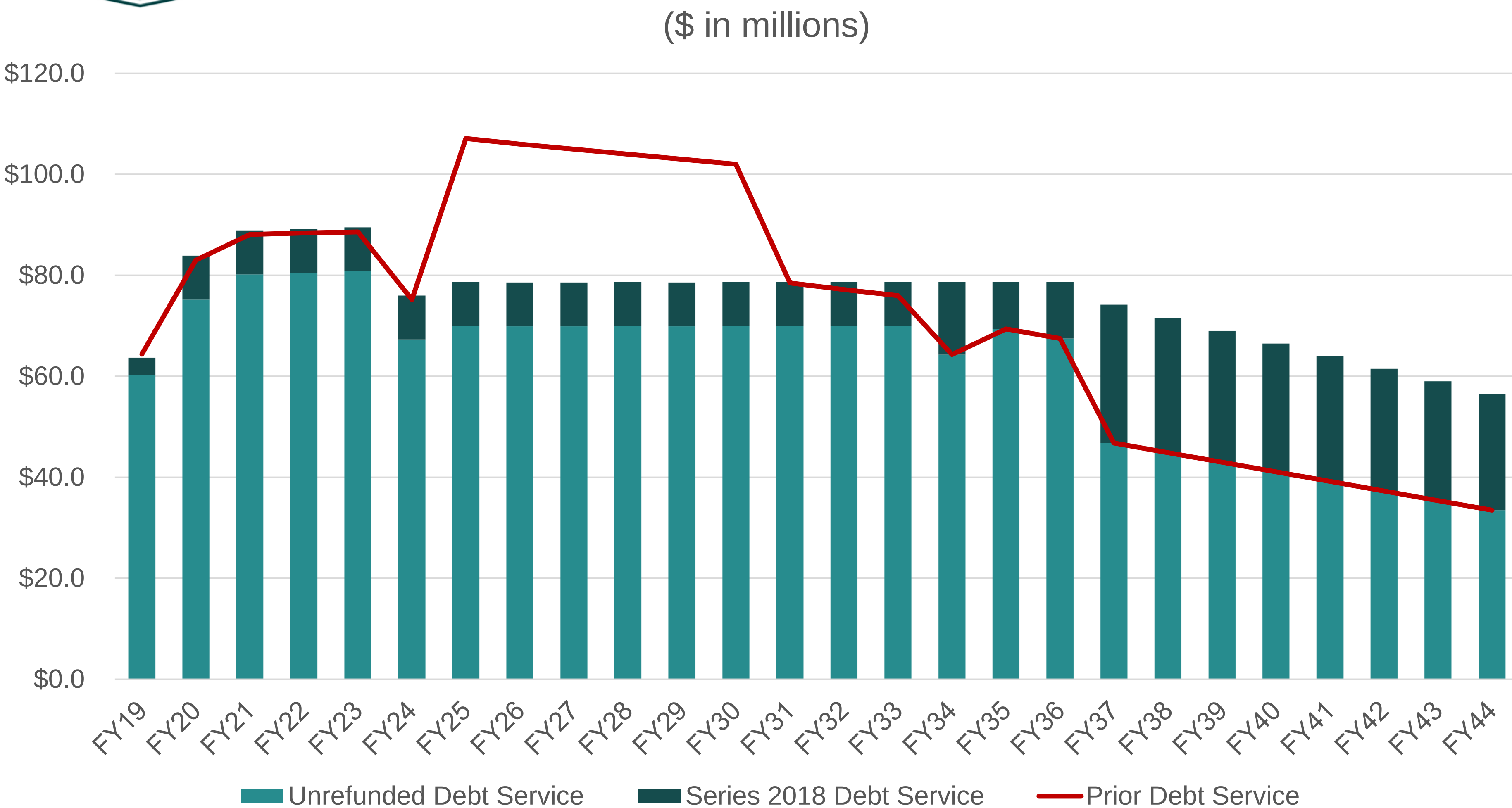


LTGO Debt Service

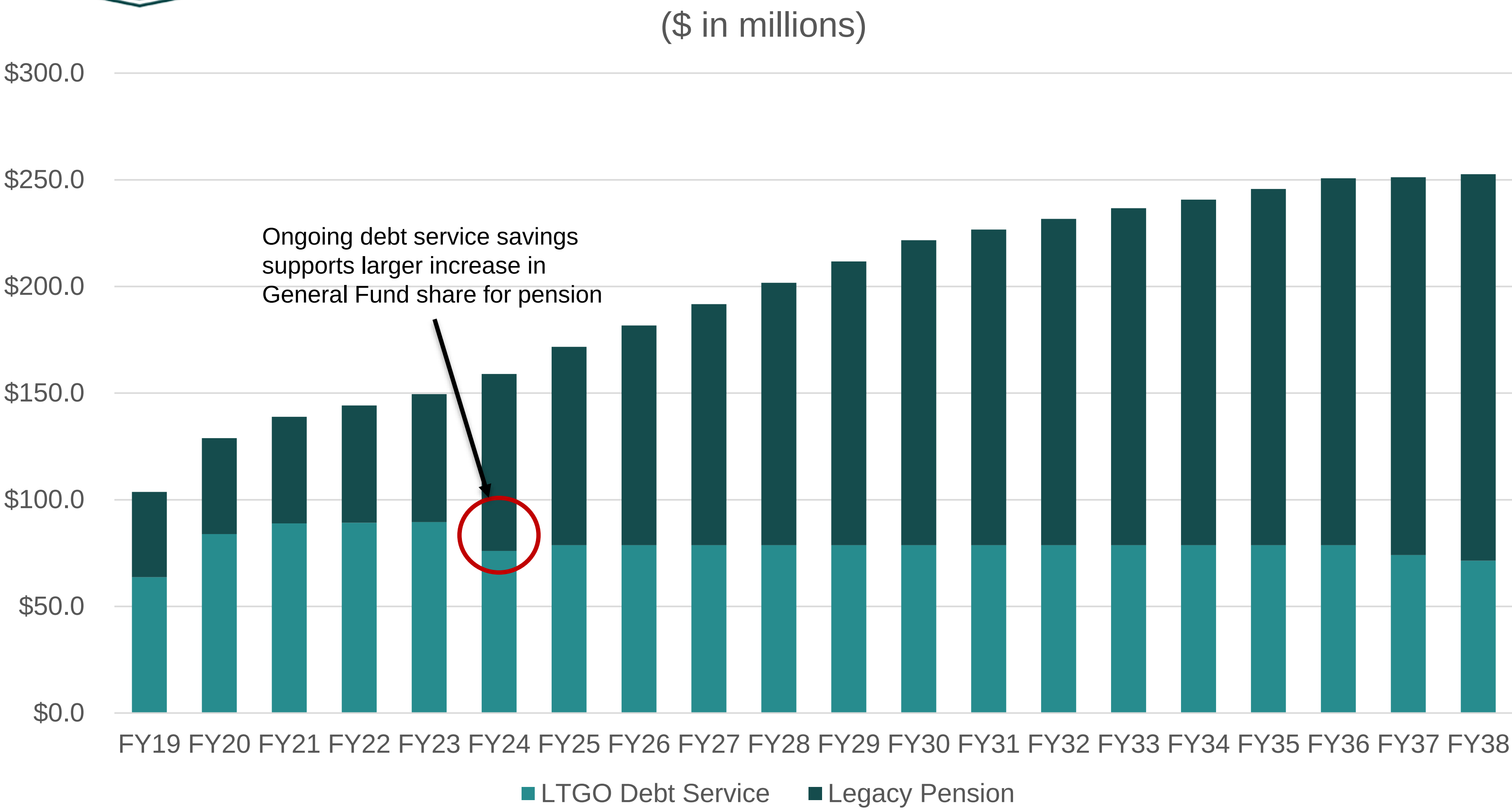
- Limited Tax General Obligation (LTGO) bonds are backed by the full faith and credit of the City of Detroit.
  - LTGO debt service is primarily repaid from the City's General Fund revenues (approx. 20% of B-Notes are repaid from Enterprise Fund revenues).
  - The 2014 Exit Financing bonds are secured by the City's Income Tax revenue.
  - The 2016 and 2018 Distributable State Aid (DSA) bonds are secured by State Revenue Sharing payments.
- The LTGO bonds supported payments to creditors and the funding of reinvestment projects upon the City's exit from bankruptcy. They also supported the restructuring of prior indebtedness at more favorable terms and capital improvements throughout Detroit.
  - The City used the 2018 DSA bonds to refinance debt to achieve savings and eliminate a debt cliff in FY 2025.



Debt Restructuring Eliminated Prior Debt Cliff

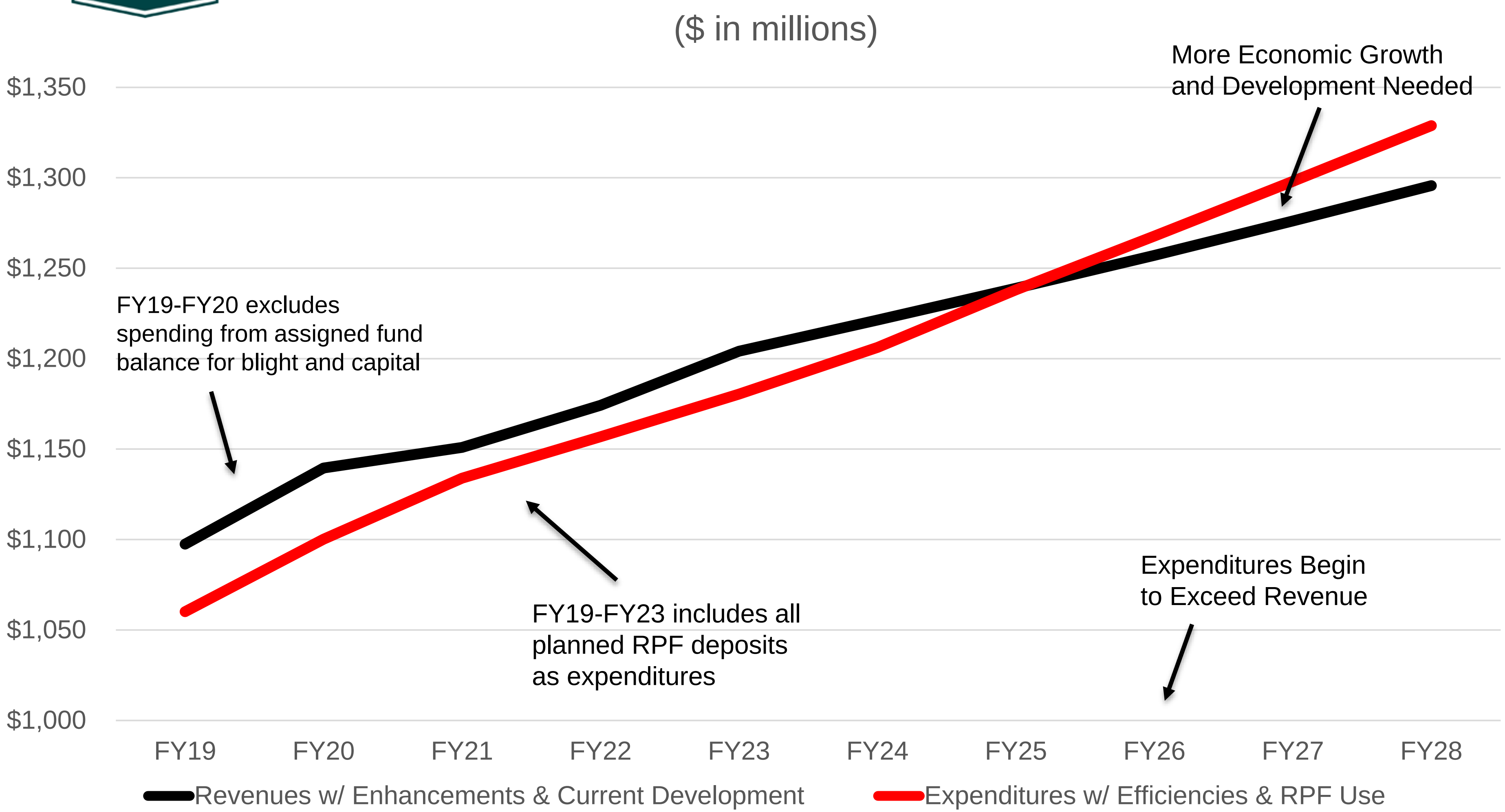


LTGO Debt Service and Legacy Pension



* Includes LTGO debt service paid by enterprise funds (approx. 20% of B-Note debt service).

Long-Term Forecast



Long-Term Forecast Baseline Assumptions

Revenues

- February 2019 Revenue Conference results through FY 2023
- Major revenue growth continues along revenue conference trends after FY 2023
- Other revenue growth generally held at 2% after FY 2023

Expenditures

- Based on current workforce with ramp-up through FY 2021
- Annual wage increases consistent with current labor agreements and inflationary increases thereafter
- Legacy Pension is based on FY 2020 Retiree Protection Fund plan
- Debt Service based on current schedule (includes 2018 restructuring)
- Other operating expenditures include 2% inflationary growth
- Does not include additional blight and capital beyond recommended FY 2020 appropriations (contingent on available fund balance)

Potential Opportunities Added to Forecast

- **The forecast includes potential revenue and expenditure opportunities above the baseline for long-term planning and potential targets for action.**

- **Due to their uncertainty, these opportunities are not included in the City budget and four-year financial plan until achieved in the actuals.**

- **Economic Growth and Development**
  - Construction and ongoing jobs from current projects announced and underway
    - e.g., Flex-N-Gate, Hudson’s Site, Monroe Blocks, Ford Corktown Campus, Fiat Chrysler Assembly Plants (preliminary)
  - Does not assume population growth or potential future development projects

- **Revenue Enhancements**
  - Proposed statutory State Revenue Sharing increase, State-shared marijuana excise taxes
  - EMS billing improvements, metered parking initiatives

- **Operational Reform and Efficiencies**
  - Overtime management, savings to offset future labor contracts (per current policy)