

MAYOR'S PROPOSED BUDGET

Fiscal Year 2023 Budget and FY23-26 Four-Year Financial Plan

March 7, 2022

Budget Details at detroitmi.gov/budget



TAKE PART
Opportunity Rising



Economic Outlook and Risk Factors

Introduction

Our Budget is Back on Track restoring the status quo and making targeted investments, but risks remain.

- Our economy continues to recover from the pandemic, with **Opportunities Rising** for good-paying jobs for Detroiters.
- Recurring City revenues are forecasted to exceed pre-pandemic levels due to stronger income tax collections and the implementation of internet gaming and sports betting last year.
- However, risks remain from continued remote work, ongoing pandemic effects, and legacy pension liabilities.
- This **Fiscally Responsible** Budget manages these risks with contributions to reserves and spending restraint.
- Our revenue recovery puts us **Back on Track** and allows us to restore our pre-pandemic status quo budget.
- The Budget also makes targeted new investments to deliver **Opportunity, Safety, and Beauty** for Detroiters, ensure **Fiscal Stability**, and keep our promise to our **Retirees**.

Detroit Economic Forecast

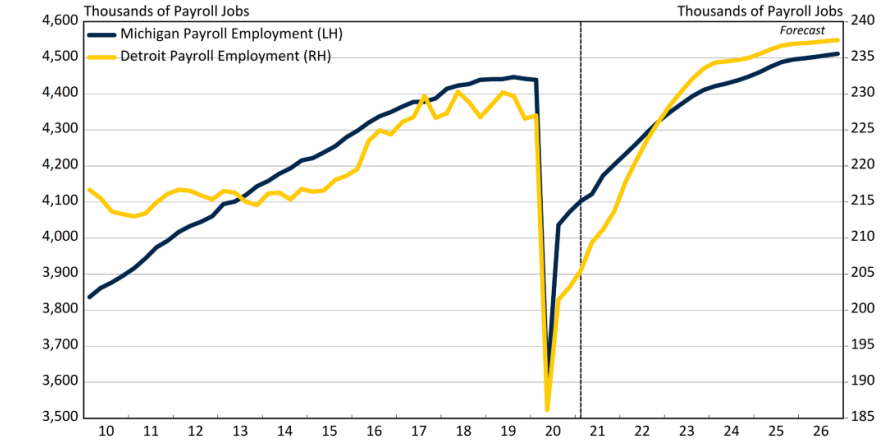
Detroit's economy continues to recover from the pandemic, with Opportunity Rising for good-paying jobs.

The [Detroit Economic Outlook for 2021-2026](#) reports that “Detroit’s economy continues to recover from the COVID-19 recession despite the Omicron variant-related resurgence in new caseloads.”

The forecast predicts a faster recovery for Detroit than the State overall. Resident employment will recover to pre-pandemic levels by the end of 2022. Meanwhile, jobs at establishments within the city boundaries will recover by early 2023.

The City’s economy continues to grow through 2026 with blue-collar jobs leading the way.

Seasonally Adjusted Quarterly Average Payroll Employment, City of Detroit and Michigan



RSQE: February 2022

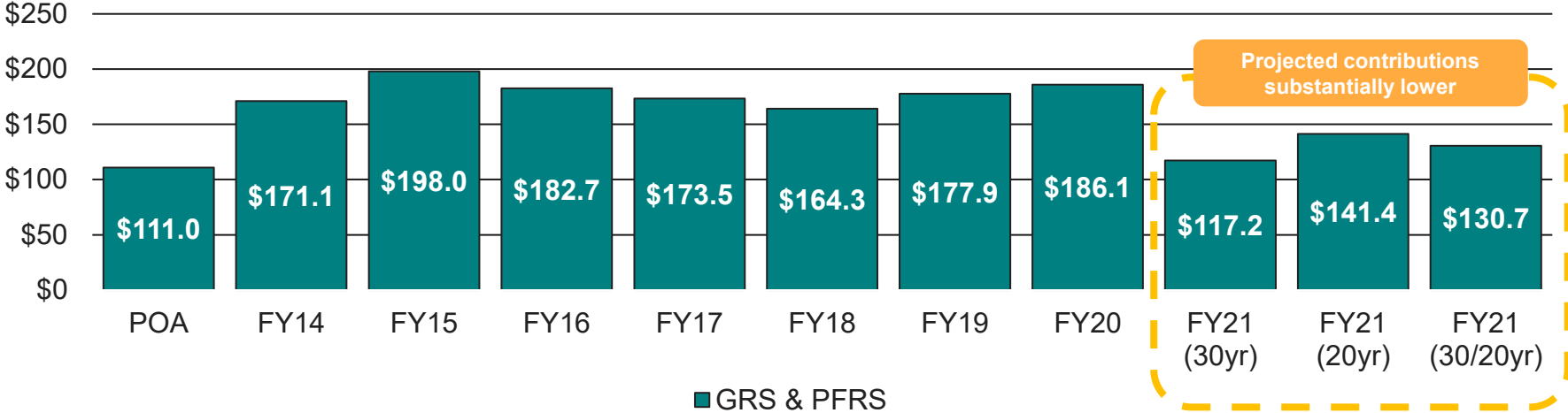
M ILSA RESEARCH SEMINAR IN QUANTITATIVE ECONOMICS UNIVERSITY OF MICHIGAN



Legacy Pension Obligations

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

Projected General Fund Share of FY24 Legacy Pension Contributions
at each Actuarial Valuation Date
(\$ in millions)



- Data from Plan of Adjustment (POA) projections and subsequent annual Actuarial Valuation reports from Retirement Systems. No asset smoothing, except PFRS starting FY21.
- POA through FY15 used a 30-year level principal amortization. FY16 through FY20 use 30-year level dollar. FY21 uses level dollar and shows multiple amortization lengths.
- FY14 and FY21 results both followed actuarial assumption changes based on experience studies and funding policy changes for PFRS in FY21.



FY 2023 Budget - Risk Factors

While our budget outlook has improved, substantial risks remain on pensions, revenues, and the economy.

1. **Pension amortization period:** subject to control of the Retirement Systems' Investment Committees
2. **Pension annual required contributions:** can vary substantially due to investment returns, investment assumptions, and mortality assumptions
3. **Revenue recovery:** risks remain from the future of remote work, changes in economic behavior, and changes in gaming behavior
4. **Economic recovery pace:** payroll employment recovery is estimated slower this year than it was last year, showing the ongoing drag from the pandemic
5. **Workforce participation pace:** payroll employment does not equal resident employment or even on-site work in Detroit, potentially limiting benefit to local economy and taxable wages
6. **Forecasted employment and wage growth:** actual results may vary or be delayed

Budget Overview

Statutory Requirements on the Budget

In addition to numerous detailed provisions, the following general requirements are imposed by law on the Budget.

- Total estimated expenditures shall not exceed the total estimated revenues, including any available unappropriated surplus. MCL 141.435(2); City of Detroit Charter Sec. 8-204
- City must adopt a financial plan covering the upcoming fiscal year and the next 3 fiscal years that includes elements established by law and which projects revenues and expenditures for each year that are balanced. MCL 117.4t; MCL 141.1637(b); MCL 141.1638(2)(c)
- City financial plan must rely upon revenue projections based upon ***reasonable and appropriate assumptions*** and methods of estimations and hold a statutorily prescribed revenue estimated conference to establish a forecast of anticipated revenues. MCL 117.4t(1)
- The City's CFO must certify that the city's annual budget complies with the Uniform Budgeting and Accounting Act. MCL 117.4s; MCL 141.1338(2)(c)

FY 2023 Budget Sources and Uses

Recurring spending must be balanced with recurring revenues, one-time resources only used for one-time needs

Sources (\$ in millions)	FY 2023 Budget
General Fund	
Recurring Revenues	
Income Tax	\$ 316.7
Wagering Tax	265.5
State Revenue Sharing	208.3
All Other	356.0
Total for Recurring Budget	\$ 1,146.5
Other Funds Revenue	\$ 1,171.4
Prior Year Fund Balance	
General Fund use	\$ 68.5
Other Funds use	66.9
Total for One-Time Budget	\$ 135.4

* An additional \$31.2 million of prior year fund balance is reserved for budgeted vehicle replacements in FY24, FY25, and FY26.

Uses (\$ in millions)	FY2022 Adopted Budget	FY2023 Proposed Budget	Change
General Fund			
Recurring Budget	\$ 1,055.1	\$ 1,146.5	\$ 91.4
One-Time Budget	83.3	68.5	(14.8)
Total	\$ 1,138.4	\$ 1,215.0	\$ 76.6
Other Funds			
Recurring Budget	\$ 1,179.5	\$ 1,171.4	\$ (8.1)
One-Time Budget	20.0	66.9	46.9
Total	\$ 1,199.5	\$ 1,238.3	\$ 38.8
All Funds			
Recurring Budget	\$ 2,234.6	\$ 2,317.9	\$ 83.3
One-Time Budget	103.3	135.4	32.1
Total	\$ 2,337.9	\$ 2,453.3	\$ 115.4
Budgeted Positions*	10,576	10,501	(75)

* FY22 adjusted for comparison purposes to FY23. Both years newly include all budgeted Administrative Special Services positions in the count.

Revenue Forecast



Detroit Revenue Estimating Conference

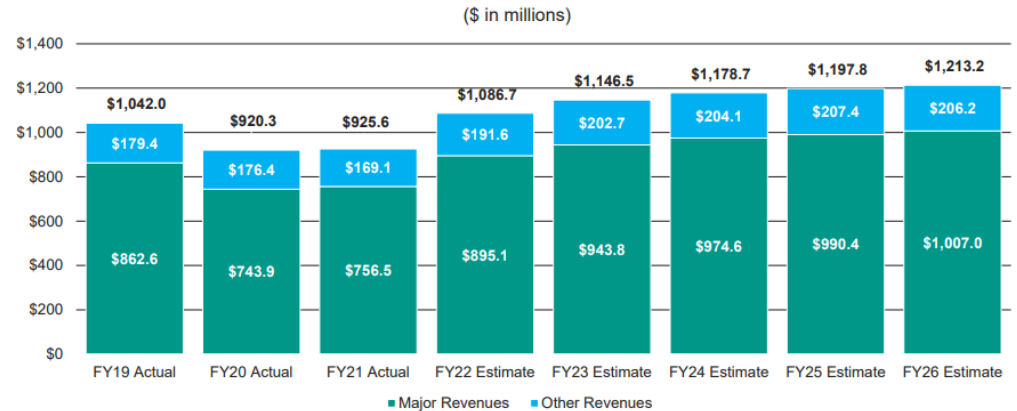
Detroit's revenue outlook continues to improve due to stronger income taxes and new gaming revenues.

On Feb 25, the [Revenue Estimating Conference](#) approved General Fund recurring revenues for FY23 at \$1.147 B, an increase of \$60 M (5.5%) over the revised FY22 estimates.

Income taxes continue to drive revenue growth in future years, in line with the City's economic recovery and despite an ongoing loss from nonresidents expected to continue working remotely through hybrid work models. Risks remain from remote work and the ongoing pandemic.

The forecast for FY24 through FY26 show continued, but modest, revenue growth of around 2% per year.

Recurring General Fund Revenue



Note that all revenue estimates exclude the use of prior year fund balance, which is used in the budget for one-time expenses.



Revenue Risks and Potential Upside

Revenue Risks

- Slower casino recovery than expected and potential substitution effects
- Slower than anticipated manufacturing and transportation sector employment growth
- Larger than anticipated nonresident remote work impact
- Longer lasting changes in economic activity due to workplace and consumer behavior changes
- Future state and federal budget pressures causing reductions in local funding
- Additional COVID-19 variants impacting visitor traffic downtown and at casinos
- Inflation impacting expenditures more than revenues
- Supply chain issues persist

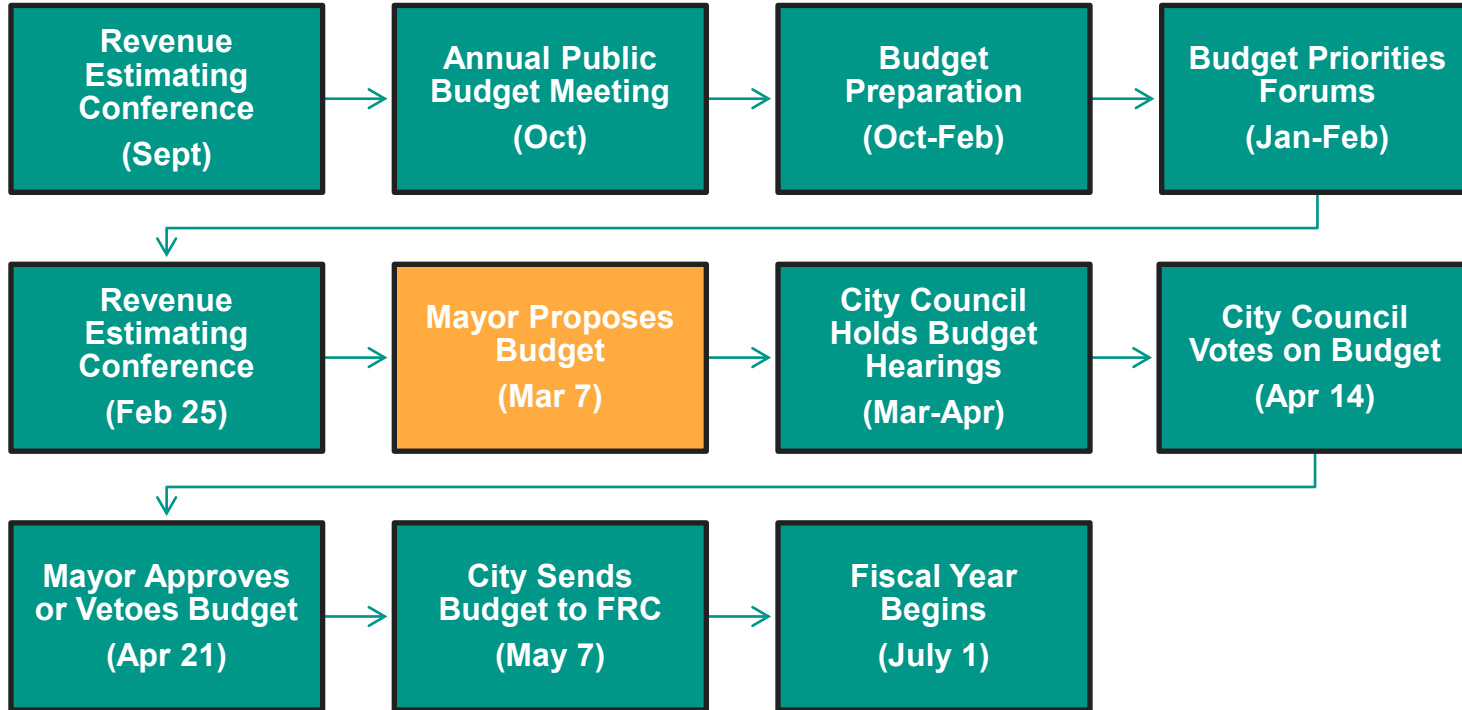
Potential Upside

- ✓ Residential, commercial, and industrial development activity throughout the City
- ✓ Workforce development and labor force participation gains
- ✓ Ongoing improvements in income tax audit and enforcement
- ✓ State-shared excise tax from adult-use marijuana (implementation pending)
- ✓ Additional state and federal fiscal relief, economic stimulus, and infrastructure investment
- ✓ Governor's Proposed Revenue Sharing Increases
- ✓ Return of conventions and other major events that benefit local economy, particularly the service sector
- ✓ Build Back Better legislation

Budget Details

Budget Calendar

Budget development is a year-long planning process with multiple points of community engagement.

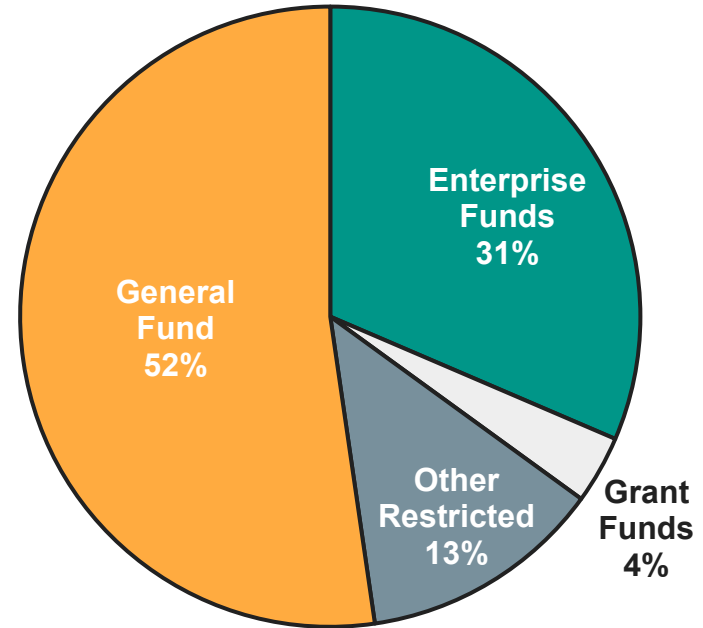


FY 2023 Budget Overview – All Funds

Half the budget is supported by general purpose taxes and other revenues, the rest is for restricted purposes.

	<u>FY2022 Adopted Budget</u>	<u>FY2023 Proposed Budget</u>	<u>Change</u>
General Fund			
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Budgeted Positions*	10,576	10,501	(75)

* FY22 adjusted for comparison purposes to FY23. Both years newly include all budgeted Administrative Special Services positions in the count.



Additional grants are added to the budget throughout the year when received and approved by City Council

FY 2023 Budget Overview – General Fund

Nearly two-thirds of the budget supports Safer Neighborhoods and Government Operations.

General Fund: \$1.215 billion

Safer Neighborhoods: \$422.6 million

Government Operations: \$361.9 million

Fiscal Stability Reserves: \$120.7 million

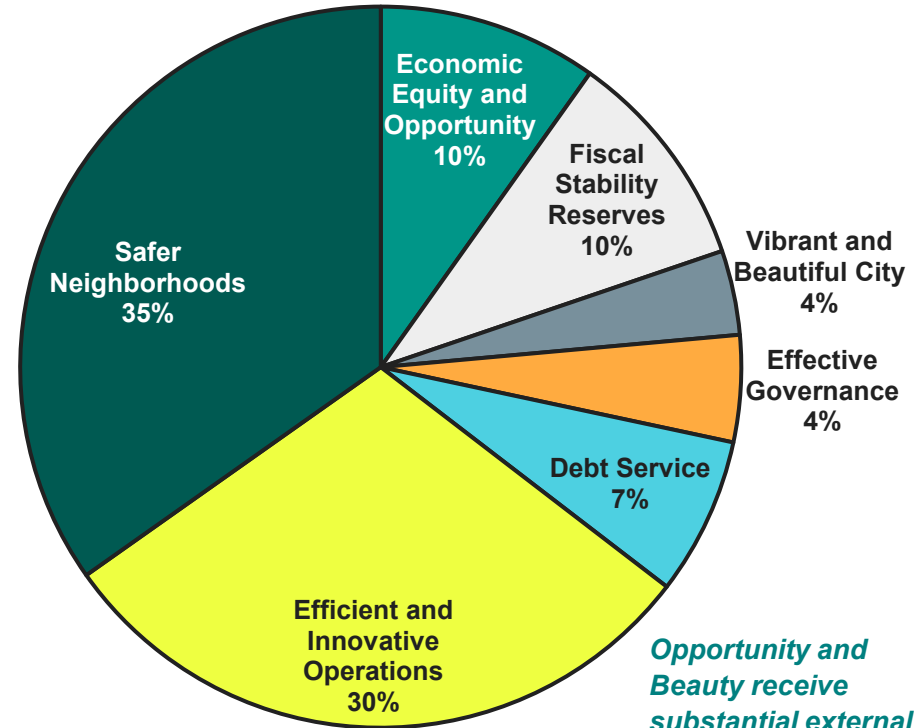
Economic Equity and Opportunity: \$119.6 million

Debt Service: \$85.9 million

Effective Governance: \$58.1 million

Vibrant and Beautiful City: \$46 million

Supports 7,090 of our 10,501 FTE



Opportunity and Beauty receive substantial external and non-GF funding

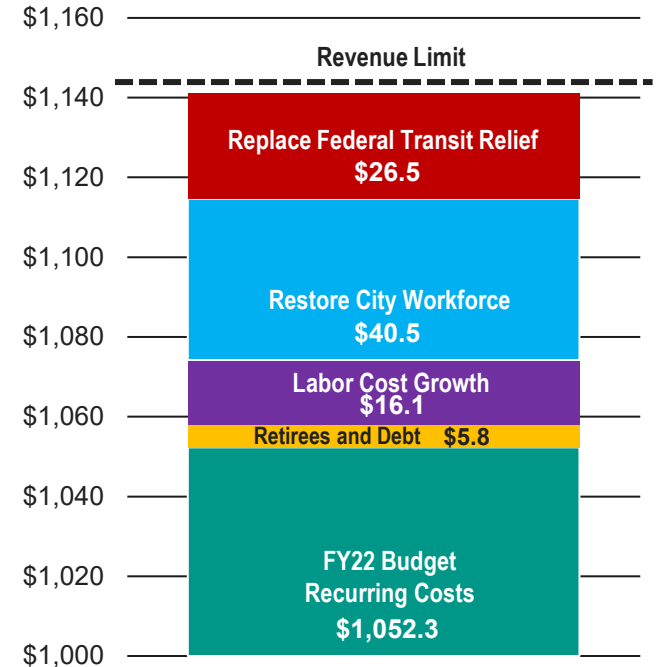
Building the FY23 Budget

Restoring budgets to pre-pandemic status quo cost \$67M, little room for growth after mandatory cost drivers

- Stronger income taxes and new gaming revenues provide substantial relief for the FY23 Budget, but nearly all of it goes to mandatory cost growth and restoring our budget from pandemic cost-cutting.
- First comes scheduled increases in City employee salaries (\$16.1M), debt service (\$0.8M), and the Retiree Protection Fund (\$5M).
- Second comes the cost from returning employees to full-time status and lifting the pandemic hiring freeze (\$40.5M)
- Third comes replacing federal transit grants with General Fund support in lieu of diverting road funding as previously anticipated (\$26.5M)

That left \$5 million for new investments.

FY23 Recurring Cost Growth
(\$ in millions)



FY23 Budget Highlights

The Budget prioritizes Fiscal Stability and Opportunity, Safety, and Beauty for Detroiters

- \$90 million for Retiree Protection Fund (\$5 million recurring increase, \$30 million one-time)
 - Brings total balance to \$460 million for annual pension contributions in FY2024
- \$30.7 million deposit into the Rainy Day Fund, for a total balance of \$138 million
 - Plus \$20 million in additional deposits planned after FY2023 to maintain reserve rate
- \$72.3 million in General Fund support for DDOT transit service and the People Mover
 - \$5.8 million increase, on top of \$26.5 million restoration, to improve Paratransit Service and Vehicle Operations
- \$14.3 million to administer the 2022 Elections (\$2.2 million increase)
- \$17.5 million for Blight Remediation and Beautification Programs



FY23 Budget Highlights

Prior year fund balance allows us to fund additional one-time investments

- \$14 million for Municipal Facilities Improvements
- \$10.7 million for Parks and Recreation Improvements
- \$10.4 million per year for Public Safety, Parks, and General Vehicle Replacements
- \$2.7 million extra for the Charles H. Wright Museum of African American History
- \$1.5 million extra for the Detroit Historical Museum
- \$2.3 million for Coleman A. Young International Airport Improvements
 - Plus \$1 million increase in operations to implement Airport Layout Plan
- \$5 million for match funds to leverage new state, federal, and private grant opportunities
- \$2 million for Neighborhood Planning Studies



FY23-26 Four-Year Financial Plan

Ongoing Spending must be Balanced with Ongoing Revenues. Legacy Pension phases in with declining RPF use.

Recurring revenues and expenditures are balanced over four years with Retiree Protection Fund (“RPF”) used to phase in legacy pension contributions beginning in FY24. Includes forecasted wage growth and other cost inflation.

Three items provide substantial relief in FY24:

1. Income Tax remote work loss drops from 30% to 20% ongoing
2. Actuarially set hybrid pension contribution rates decrease
3. Scheduled debt service decreases, savings rolled into legacy pension budget (net of RPF use)

Forecast includes non-recurring excess revenues in FY24 and FY25 that will be deposited in Rainy Day Fund to maintain 12% level (long-run goal is 15% per GFOA Best Practice).

General Fund (\$ in millions)

Recurring Revenues

	FY23	FY24	FY25	FY26
Income Tax	\$ 316.7	\$ 342.3	\$ 351.0	\$ 360.5
Wagering Tax	265.5	268.1	270.8	273.6
State Revenue Sharing	208.3	209.4	210.6	211.7
All Other	356.0	358.9	365.4	367.4
Total	\$ 1,146.5	\$ 1,178.7	\$ 1,197.8	\$ 1,213.2

Retiree Protection Fund Use	\$ -	\$ 57.7	\$ 54.7	\$ 51.7
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Recurring Expenses

Salaries and Wages	\$ 516.7	\$ 529.0	\$ 542.5	\$ 551.1
Employee Benefits	165.1	157.6	160.2	162.7
Other Operating	222.2	232.6	237.7	242.5
Legacy Pensions	60.0	130.7	130.7	130.7
Debt Service	85.9	73.5	75.7	75.7
DDOT Contribution	65.8	67.1	69.7	71.2
Other Contributions	30.8	30.9	31.0	31.0
Total	\$ 1,146.5	\$ 1,221.4	\$ 1,247.5	\$ 1,264.9

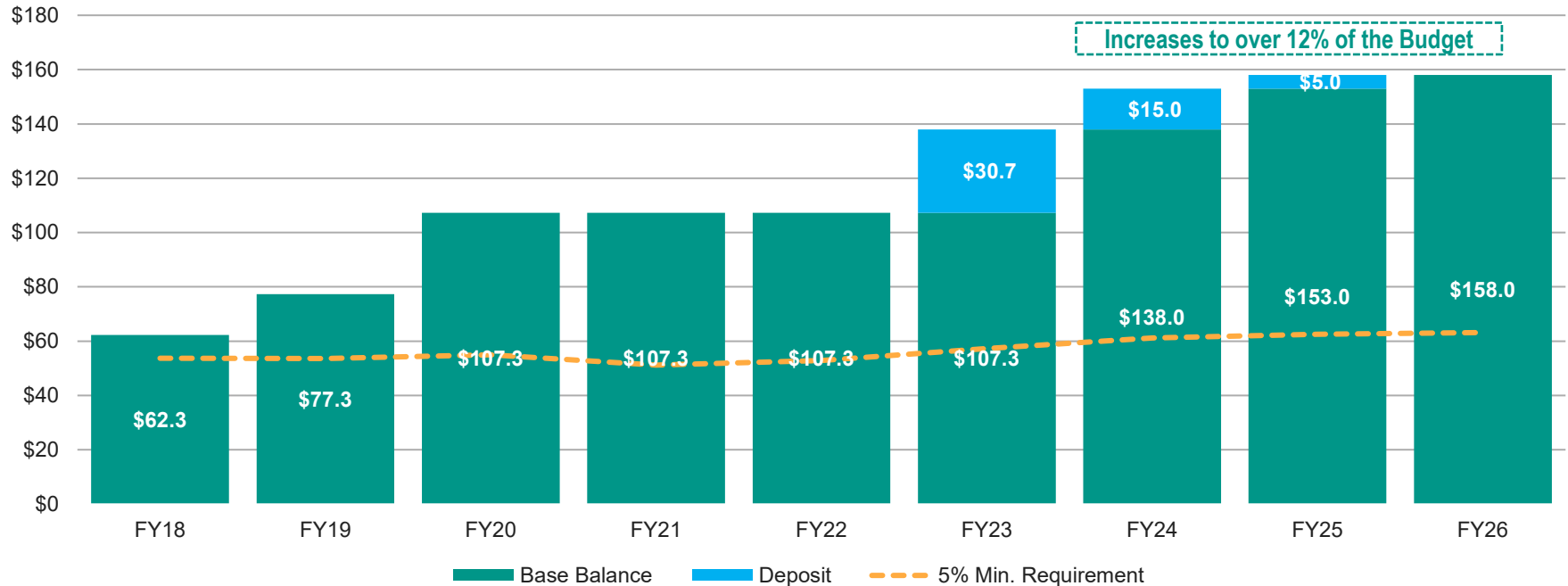
Excess Revenue to Rainy Day	\$ -	\$ 15.0	\$ 5.0	\$ -
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Balance	\$ -	\$ -	\$ -	\$ -
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Budget Reserve (“Rainy Day Fund”)

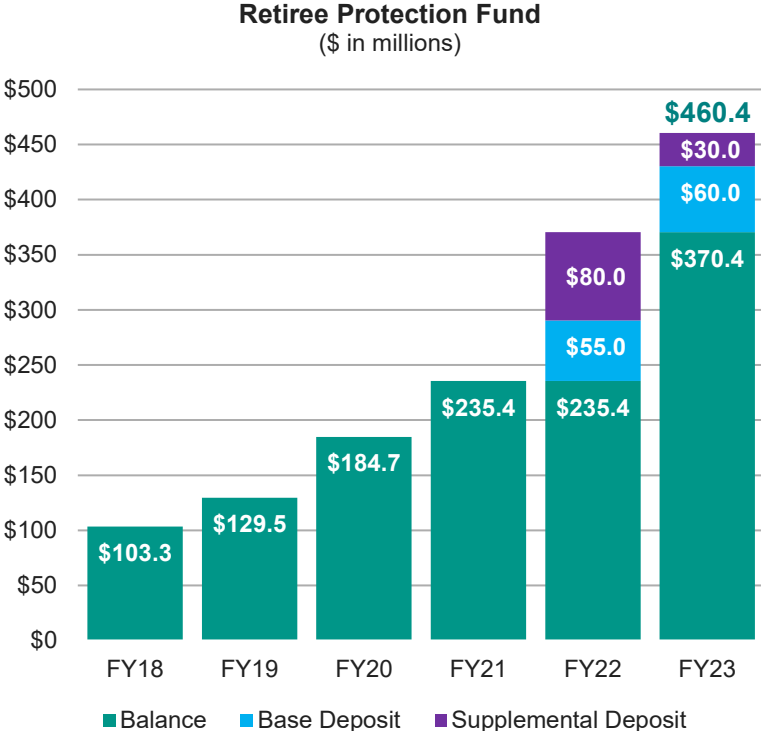
No Draw on Rainy Day Fund during Pandemic, and one-time surpluses will increase it to over 12% of the budget.

Budget Reserve (Rainy Day Fund)
(\$ in millions)



Retiree Protection Fund (“RPF”)

The City has never wavered from our promise to our retirees.

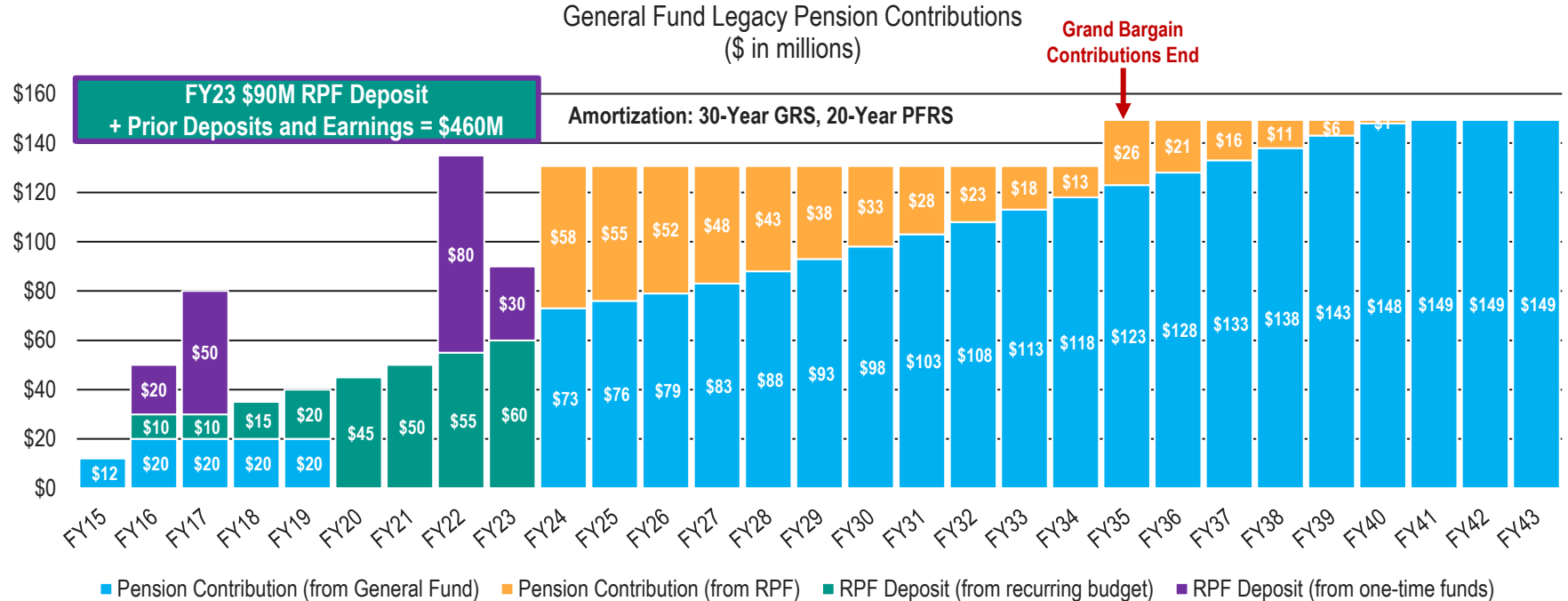


- Beginning in FY24, the City will resume annual pension contributions, totaling between \$130M and \$200M every year (up to 20% of the budget) for its closed and frozen legacy pension plans per the bankruptcy Plan of Adjustment
- The City has prepared for a return to actuarially based funding of its pension obligations by analyzing the projected future contribution requirements and setting aside funds into the RPF, an irrevocable IRC Section 115 Trust
- The proposed FY23 Budget includes our scheduled \$60M deposit into the RPF, plus another \$30M in supplemental deposits, for a **total of \$90M in FY23**
- All in, RPF assets will total at least **\$460M by the end of FY23** in advance of annual pension contributions resuming in FY24



Retiree Protection Fund (“RPF”)

FY21 actuarial gains and RPF deposits provide a sustainable path, but downside investment risk remains.



- Projections of annual legacy pension contributions based on FY21 Actuarial Valuation w/ Experience Study Changes
- Excludes “Grand Bargain” contributions from State of Michigan, Foundation for Detroit’s Future (FDF), and Detroit Institute of Arts (DIA). DWSD and Library liabilities and contributions are separate.



Questions?