



# **2018 Governmental Research Association Conference in Detroit**

## **How Detroit's finances changed as a result of bankruptcy**

**July 30, 2018**



## The Bankruptcy Process and Result

- **The City filed for bankruptcy on July 18, 2013**
- **The City's accumulated general fund deficit was \$133M at June 30, 2013**
- **Until that point, the City's strategy for dealing with deficits was to issue long term debt**
- **Had City officials not issued debt, the general fund deficit would have been \$937M**
- **The City was deemed eligible to be a Chapter 9 debtor on December 3, 2013**
- **The Court ruled that the City was in a state of service insolvency as well as financial insolvency**
- **Service insolvency occurred as a result of the City having to dedicate a huge portion of its revenues to legacy costs as opposed to services to citizens**
- **Legacy costs were consuming 40% of the general fund budget in FY13 and were forecast to reach 60% by FY16**
- **Bankruptcy exit occurred on December 10, 2014 and eliminated \$7.2B in debt and unfunded liabilities**



## Financial Governance & Reform

### The City has implemented financial structures established by new State laws passed in 2014

- Established a statutory Chief Financial Officer position. CFO is vested with authority over all financial and budget activities of the City, including the authority to control department expenditures
- OCFO operates through Eight Deputy CFO positions
- (Treasury, Assessing, Procurement, Budget, Grants Management, Controller, ODFS, FPA)
- Replaced the annual budget with a new four-year financial plan, which requires the City to annually balance its budget for the upcoming fiscal year plus the three following years
- Created a budget reserve fund, with a minimum balance equal to 5% of annual expenditures
- Current reserve is approximately \$62.3M (approximately \$8.6M above requirement) and is in a segregated bank account
- Established a permanent biannual independent Revenue Estimating Conference process to set the City's official economic and revenue forecast used for the four-year financial plan
- Conferences are held in September and February
- The conference principals are the City's CFO, the State Treasurer or designee, and a forecasting expert from a public university agreed to by the City's CFO and the State Treasurer



## Financial Governance & Reform

### The City has further strengthened its financial governance and established new policies and procedures derived from the CFO's statutory authority

- Restructured all finance, budget, procurement, and grants management functions, created a new, centralized financial management organization (the OCFO) with new jobs that have higher standards, and implemented a new employee performance evaluation system
- Implemented a new grants management system, a new e-Procurement system, and a new, cloud-based financial management system. Currently implementing a new human resource system, as well as a new payroll system that will have strong position control
- Developed a ten-year financial projection and corresponding rolling model to examine the City's long-term financial position under various scenarios and to identify strategies to ensure fiscal sustainability
- Developed a financial model to estimate revenue gains from economic development projects
- Improved reporting of financial information. Monthly budget-actual meetings held with Departments and Mayor, reported to City Council and FRC, and now posted on the City's website
- Executing a long-term strategy to address legacy pension obligations
- Created a new economic and forecasting unit to focus on long-term financial sustainability. The new unit will partner with a university to prepare the City's economic forecast and report economic indicators, which will support revenue estimation, budget planning, financial strategy development, legacy pension and debt reduction strategies, economic development planning, and policy evaluation



## Financial Governance & Reform

- This was the last Four Year Financial Plan required to be approved by the Financial Review Commission
- Reflects conservative revenues approved by the Revenue Estimating Conference participants at the February conference
- FY19 Total Budget is \$2.08B which includes \$1.07B for the General Fund
- FY19 Total City Budget includes 10,014 positions
- \$100M of unassigned fund balance to fund capital projects, blight remediation and other one-time projects, a 100% increase from the prior year
- 5% budget reserve maintained for each fiscal year
  - FY19 budget reserve balance is \$62.3M (the minimum requirement is \$53.6M for FY19)



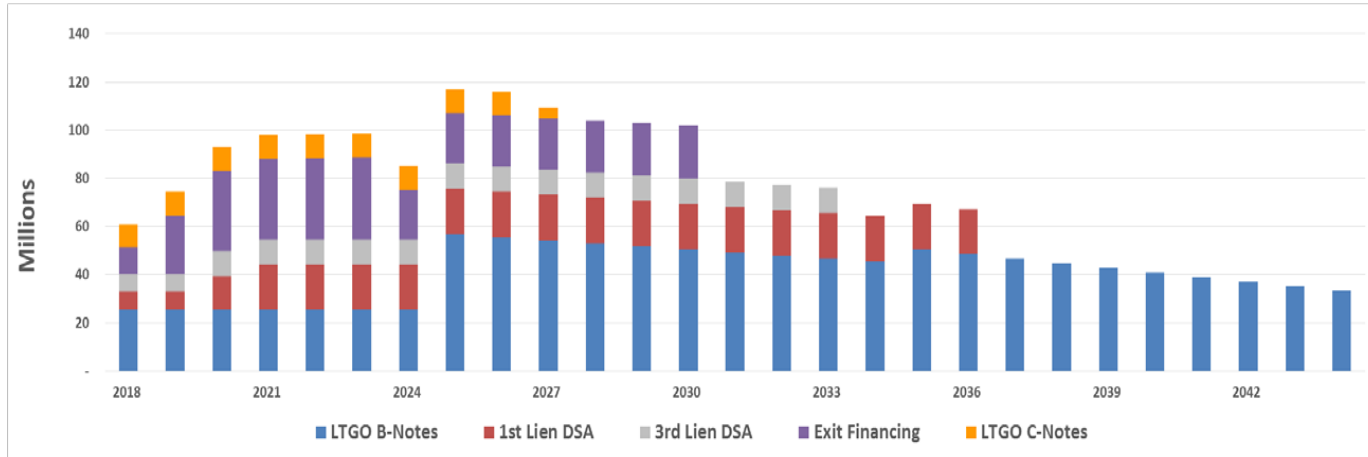
# Pension and Debt Obligations

- **Executing strategy to address legacy pension contributions that resume in FY 2024**
  - **Mayor and City Council passed new legislation to create the Retiree Protection Fund (RPF), an irrevocable IRC Section 115 trust, to gradually build up assets and budget capacity**
  - **RPF contributions total \$335M (plus interest) through FY23 with \$105M provided to date**
  - **\$170M is included in the approved FY19-FY22 Four-Year Financial Plan**
- **Began taking actions to reduce debt service expenses**
  - **Used \$30M from surplus to pay down a portion of Exit Financing debt**
  - **Achieved \$60M in net present value savings by refinancing Distributable State Aid bonds**
  - **Used \$15M from the sale of the Premier Parking Garage to redeem C-Notes**
  - **Used \$52M from surplus to redeem all outstanding C-Notes**



# LTGO Debt Obligations

## LTGO Obligation Debt Service



\* LTGO C-Notes represent the prior debt service before factoring in early redemption activity that has occurred during FY18, including the use of \$15M in proceeds from the sale of the Premier Parking Garage and \$52.3M from unassigned fund balance to redeem principal. On April 13, 2018, the City will have redeemed all of its outstanding C-Notes.

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
1st Lien DSA	\$ 7.7	\$ 7.7	\$ 14.1	\$ 18.8	\$ 18.8	\$ 18.8	\$ 18.8	\$ 18.8	\$ 18.8	\$ 18.8
3rd Lien DSA	7.3	7.3	10.4	10.4	10.4	10.4	10.4	10.4	10.4	10.4
Exit Financing	10.9	24.0	33.3	33.6	33.9	34.2	20.7	21.0	21.2	21.4
LTGO B-Notes	25.3	25.3	25.3	25.3	25.3	25.3	25.3	56.9	55.6	54.3
<b>LTGO C-Notes</b>	<b>9.7</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>4.3</b>
<b>Total</b>	<b>\$ 60.9</b>	<b>\$ 74.3</b>	<b>\$ 93.1</b>	<b>\$ 98.1</b>	<b>\$ 98.4</b>	<b>\$ 98.7</b>	<b>\$ 85.2</b>	<b>\$ 117.1</b>	<b>\$ 116.0</b>	<b>\$ 109.2</b>



## Conclusion

- **Improved services across all neighborhoods and implementing an aggressive blight remediation program**
- **Continued economic development in the neighborhoods and downtown with further growth projected**
- **Corporate headquarters, Fortune 500 companies, and national retailers are moving to Detroit, the economy is becoming stronger and increasingly diverse, and there are programs and services to train Detroiters for good-paying jobs**
- **Investing nearly \$345M over the next 5 years into the sidewalks, streets and roads and implemented a new capital strategy process to further capital improvements**
- **Strong financial governance, all financial functions have been restructured, and there is a centralized financial management organization reporting to the CFO with authority derived from State law**
- **Finances have been strengthened, conservative expenditures and revenues, balanced budgets that are resulting in surpluses, and a strong cash position**
- **Proactively addressed its legacy pension obligations and executing a plan to provide \$335M thru FY 2023, with \$125M already transferred to the RPF**
- **Implementing plan to address debt obligations**