Detroit: Lessons in Post Bankruptcy

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DETROIT BANKRUPTCY BACKGROUND
City of Detroit Bankruptcy
Background (2013)

• $18 billion in estimated liabilities
  – $3.5 billion in unfunded pension liabilities
  – $3.5 billion in enterprise fund liabilities (water and sewer)
  – $1.1 billion in GO debt (secured and unsecured)
  – $1.5 billion in pension bonds
  – $6 billion in retiree health care liabilities
## Detroit Balance Sheet
### (pre and post bankruptcy)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>Total Capital</strong></td>
<td>$1.5 billion</td>
<td>$5.2 billion</td>
<td>$1.4 billion</td>
<td>$5.2 billion</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>3.1 billion</td>
<td>$6.7 billion</td>
<td>$2.8 billion</td>
<td>$6.5 billion</td>
</tr>
<tr>
<td><strong>Net Pension</strong></td>
<td>N/A</td>
<td>N/A</td>
<td>$2.0 billion</td>
<td>$800 million</td>
</tr>
<tr>
<td><strong>Liability</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$3.9 billion</td>
<td>$6.6 billion</td>
<td>$4.2 billion</td>
<td>$7.5 billion</td>
</tr>
<tr>
<td><strong>Net Position</strong></td>
<td>-$800 million</td>
<td>$100 million</td>
<td>-$1.4 billion</td>
<td>-$700 million</td>
</tr>
<tr>
<td><strong>Unrestricted Net</strong></td>
<td>-$1.7 billion</td>
<td>-$600 million</td>
<td>-$3.0 billion</td>
<td>-$1.1 billion</td>
</tr>
<tr>
<td><strong>Deficit</strong></td>
<td></td>
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## Detroit Income Statement (govt. activities)

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</thead>
<tbody>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$717 million</td>
<td>N/A</td>
<td>$748 million</td>
<td>$300 million</td>
</tr>
<tr>
<td><strong>Extraordinary Items</strong></td>
<td>--</td>
<td>--</td>
<td>$1.7 billion</td>
<td>$211 million</td>
</tr>
<tr>
<td><strong>Net Expenses</strong></td>
<td>$844 million</td>
<td>N/A</td>
<td>$822 million</td>
<td>$91 million</td>
</tr>
<tr>
<td><strong>Change in Net Position</strong></td>
<td></td>
<td></td>
<td>+1.5 billion</td>
<td>+300 million</td>
</tr>
</tbody>
</table>
# City of Detroit General Fund

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2015</th>
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</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>$1.05 billion</td>
<td>$1.05 billion</td>
</tr>
<tr>
<td><strong>Expenditures</strong></td>
<td>$790 million</td>
<td>$1.2 billion</td>
</tr>
<tr>
<td><strong>Other Financing</strong></td>
<td>-$55 million</td>
<td>+$529 million</td>
</tr>
<tr>
<td><strong>Fund Balance</strong></td>
<td>-$72 million</td>
<td>$437 million</td>
</tr>
<tr>
<td><strong>Unassigned FB</strong></td>
<td>-$133 million</td>
<td>+$70 million</td>
</tr>
</tbody>
</table>
DETROIT FINANCIAL REVIEW
COMMISSION
Detroit Financial Review Commission (FRC)

• Ongoing oversight of City of Detroit and Detroit Public School District

• Responsibilities include:
  – Budget and contract approval
  – Oversight of long-term facility and capital planning
  – Oversight of financial leadership
Detroit FRC Members

- State Treasurer
- Director of State Department of Technology, Management, and Budget
- Three gubernatorial appointments with business or finance expertise (one has to be a resident)
- Mayor / local legislative leader
- One gubernatorial appointee nominated by Senate Majority leader and House leader
FRC Requirements and Powers

• Ensure compliance state budget and debt laws
• Approving 4-year city financial plan
  – Failure will allow FRC to impose a 4-year plan on city
• Compliance with plan of adjustment
• Contract approval over $750,000
• Provisions for managerial accountability, streamlining of services, improved collection of revenues
• Approve all collective bargaining agreements
• Review and revise revenue estimates
FRC Additional Powers.....

• Require CFO to attend all meetings of FRC and provide information to FRC
  – May require removal of CFO
• Review and approve issuance of debt
• Approve appointment of CFO
Current Status

• City of Detroit government is on track to enter FRC dormancy in early 2018

• Detroit Public Schools is just entering process but first audit has some improvements
  – Balanced budget and surplus available
FRC Dormancy is Based on:

• City or school district adopt three consecutive years of deficit free budgets
• Ability to sell all necessary debt in capital markets
• Projects a balanced budget four years into the future
• No violation of plan of adjustment
• Transparency of contracts approved
• City or school district is in compliance with local budgeting law
KEY LESSONS
Detroit Pension Challenges, Post-Bankruptcy

- Two tiered management system in place
  - General employee pension board and police & fire pension board
  - Investment boards

- Post-bankruptcy, Detroit was to forego pension payments until 2024
  - Soon realized that due to computational errors, pension problems were larger than expected
KEY LESSONS
Future Detroit Pension Management

- A ramp-up system was developed to address pension problems
- Detroit would begin funding a new pension trust now for increased payments in 2024
Key Lessons from Detroit

• State oversight works in combination with a comprehensive (and flexible) long-term plan
  – Detroit Future City as example
  – Capital plan, operations plan, economic plan
• Strong financial leadership
• Commitment from private and not for profit sector to economic revitalization
• Getting the basics of running government right