



Financial Services Audit Committee Communication

Date: April 29, 2024

To: Great Lakes Water Authority Audit Committee

From: Nick Fedewa, CPA, Public Finance Manager

Re: General Retirement System Financial Report and Annual Actuarial Valuation for Year End June 30, 2023 (City of Detroit Component II)

Background: The Great Lakes Water Authority (GLWA) assumed a portion of the legacy pension commitment assigned to the Detroit Water & Sewerage Department (DWSD) pursuant to the terms of the regional water and sewer system leases. For this reason, GLWA monitors activity related to the City of Detroit General Retirement System (GRS). While there are two plans managed by GRS, GLWA is impacted by only the Component II plan. Component II was closed as of June 30, 2014 under the City of Detroit bankruptcy plan of adjustment and is commonly referred to as the 'legacy plan'.

The following reports have been presented to the GRS Board and are attached.

1. Letter from the GRS external audit firm to those charged with governance for the General Retirement System of the City of Detroit for the year ending June 30, 2023
2. Audited Financial Report for the General Retirement System of the City of Detroit (dated December 7, 2023)
3. GASB Statement No. 67 and 68 Accounting and Financial Reporting of Financial Plans of Component II June 30, 2023 (dated November 1, 2023)
4. Annual Actuarial Valuation as of June 30, 2023 (dated December 22, 2023)

While the external auditor letter (#1 above) to those charged with governance did highlight areas for improvement, the overall financial audit for the GRS combined plans received an unqualified opinion for the year ending June 30, 2023. The balance of this discussion will focus on the remaining reports: the results of the Audited Financial Report (#2 above) and GASB Statement No. 67 and 68 Report (#3 above) which are based on prior year actuarial results and serve as the basis for the DWSD and GLWA pension expense and liability to be reported in FY 2024. Finally, we will address the most recent June 30, 2023 Actuarial Valuation Report (#4 above) which provides insight into future pension expense and liability expectations. We are presenting this annual communication utilizing the latest reports to provide a timely update on the Authority's pension status.

Key Updates: There are two updates related to overall pension status.

First, when GLWA staff last presented this report at the June 26, 2023 GLWA Audit Committee meeting, the June 30, 2022 GRS Actuarial report remained in draft form due to a dispute between the Police & Fire Retirement System and the City of Detroit regarding the amortization period associated with the GRS plan. In June 2023, the U.S. Bankruptcy Court granted the motion filed by the City of Detroit requiring the Police & Fire Retirement System to honor the original, 30-year amortization period. The GRS Board was presented with and approved the final June 30, 2022 actuarial report and a funding policy confirming use of the 30-year level dollar amortization upheld by the U.S. Bankruptcy Court. There were no changes between the draft report presented to this body and the final report released. As of March 12, 2024, the Police & Fire Retirement System has filed an appeal against the June 2023 U.S. Bankruptcy Court ruling requesting reinstatement of the 20-year amortization plan adopted by the Police & Fire Retirement System.

Second, fiscal year 2024 is the first year (post-bankruptcy) GLWA & DWSD will be required to make actuarially determined employer contributions (ADEC) in accordance with the terms of a pension agreement. The fiscal year 2024 employer contribution was computed in the June 30, 2022 actuarial valuation. According to the commentary on page 5 of the 2022 valuation report, “the DWSD and Library groups are projected to be more than 100% funded on June 30, 2023”, “the projected UAAL contributions for DWSD decrease to \$0 beginning in FY2024”. However, the actuarial accrued liability for DWSD will be impacted by various factors, such as a lower assumed rate of return, and may result in an unfunded actuarial accrued liability at any point in the future. Previously, GLWA & DWSD contributions to the Component II system were established as under the City of Detroit Bankruptcy Plan of Adjustment (POA) requiring combined, fixed, annual pension payments of \$45.4 million, of which \$2.5 million was specific to administrative expenses.

Analysis: This report addresses five key areas.

1. Financial Position of the GRS as a Whole
2. Financial Position of the DWSD Unit with the GRS
3. Administrative Expenses
4. Planning for the Tail Liability (Unfunded Actuarial Accrued Liability - UAAL)
5. Impact on GLWA Financial Forecast

Financial Position of the GRS as a Whole

As reported in the GASB Statement No. 67 and 68 Accounting and Financial Report, and shown below in Table 1, the June 30, 2023 Component II Net Pension Liability is \$923 million as of June 30, 2023. This is an increase of approximately 1.2% from the prior year liability of \$911.9 million. The combined DWSD/GLWA unit makes up approximately \$52.7 million or 6% of that total and will be discussed further in the next section.

Table 1: GASB Statement No. 67 and 68 Report - Executive Summary

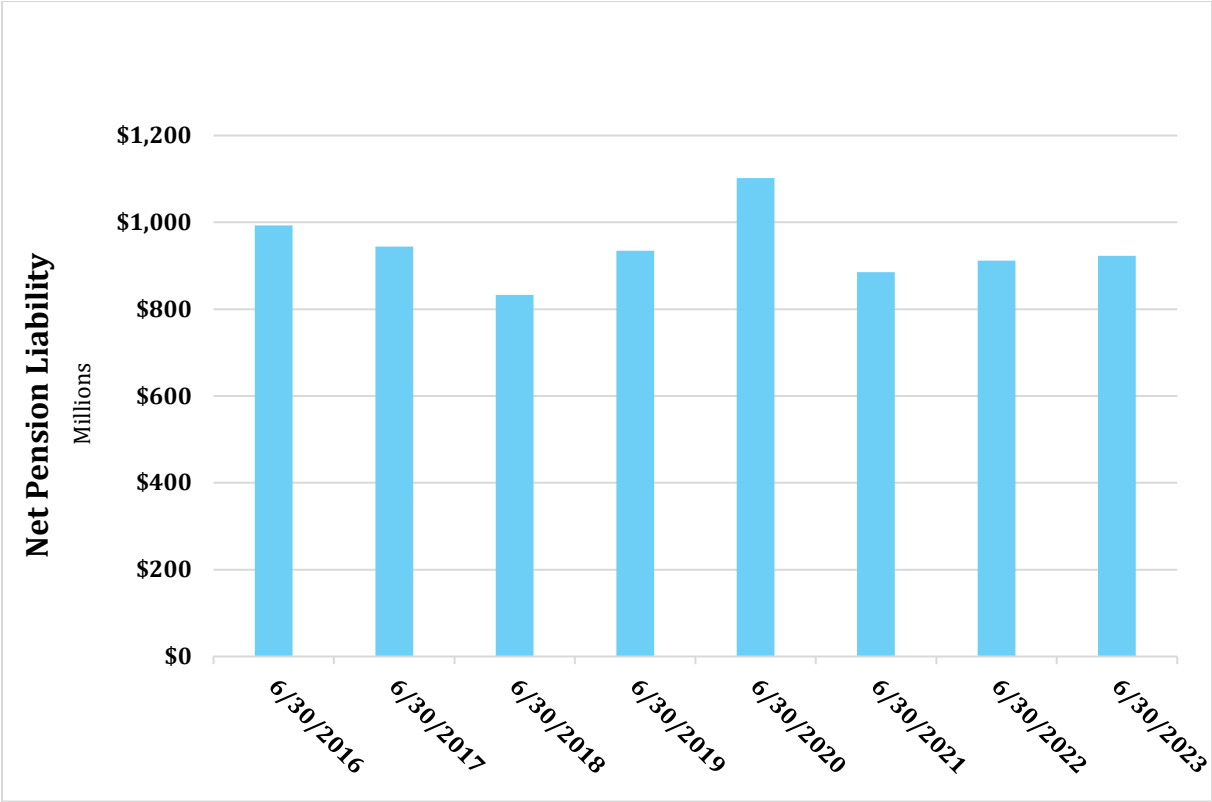
Executive Summary as of June 30, 2023

Actuarial Valuation Date	June 30, 2022
Measurement Date of the Net Pension Liability	June 30, 2023
Employer's Fiscal Year Ending Date (GASB No. 68 Reporting Date)	June 30, 2024
Membership	
Number of	
- Retirees and Beneficiaries	10,918
- Inactive, Nonretired Members	2,633
- Active Members	1,850
- Total	15,401
Covered Payroll	\$ 83,104,746
Net Pension Liability	
Total Pension Liability	\$ 2,341,573,565
Plan Fiduciary Net Position	1,418,609,280
Net Pension Liability	\$ 922,964,285
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	60.58%
Net Pension Liability as a Percentage of Covered Payroll	1,110.60%
Development of the Single Discount Rate	
Single Discount Rate	6.76%
Long-Term Expected Rate of Investment Return	6.76%
Long-Term Municipal Bond Rate*	3.86%
Last year ending June 30 in the 2024 to 2123 projection period for which projected benefit payments are fully funded	2123
Total Pension Expense	\$ 75,335,447

Source: GASB Statement Nos. 67 and 68 Accounting and Financial Reporting for Pension Plans of Component II, June 30, 2023 (dated November 1, 2023), p 1.

The June 30, 2023 actual net pension liability increase for GRS as a whole is largely attributed to a decline in other income (including Annuity Savings Fund (ASF) as compared to June 30, 2022. Chart 1 below highlights the overall net pension liability trend for the GRS since GLWA was formed in 2016.

Chart 1: Net Pension Liability Trend for GRS in Total



Source: GASB Statement Nos. 67 and 68 Accounting and Financial Reporting for Pension Plans of Component II. Multiple Years.

Financial Position of the DWSD Unit with the GRS

The GASB Statement No. 67 and 68 Accounting and Financial Report also provides a breakdown by unit as shown below in Table 2. The DWSD unit reflects the combined DWSD and GLWA pension obligation. As of June 30, 2023, the DWSD Net Pension Liability is \$52.7 million. This is a decrease of 41% from \$89.9 million DWSD Net Pension Liability as of June 30, 2022 in contrast to the overall system increase of 1.2%. This decrease in the net pension liability is a result of actual net investment return 4.94% exceeding the previous year (7.27%).



Table 2: GASB Statement No. 67 and 68 Report - DWSD Changes in Net Pension Liability

**Schedule of Changes in Net Pension Liability and Related Ratios Current Period
Fiscal Year Ended June 30, 2023***

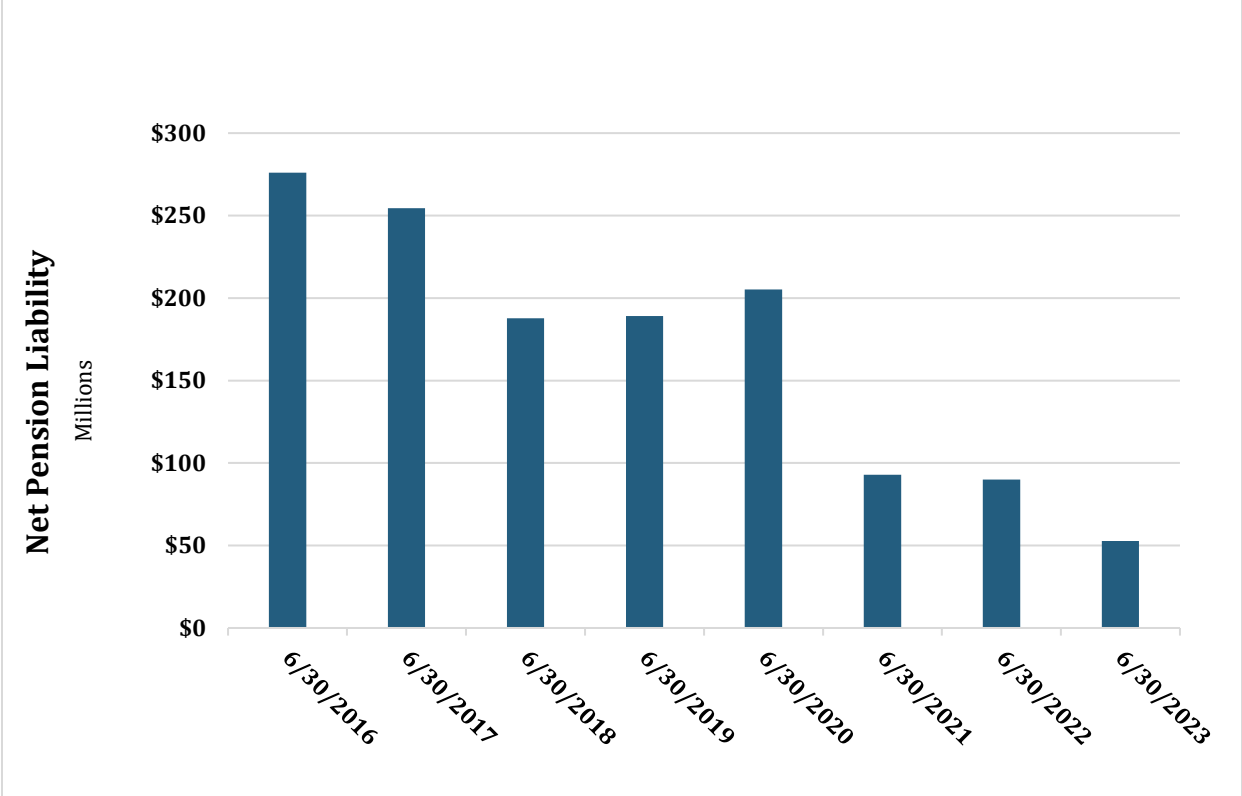
	General	DOT	DWSD	Library	Total
A. Total Pension Liability					
1. Service Cost	\$ -	\$ -	\$ -	\$ -	\$ -
2. Interest on the Total Pension Liability	84,530,943	24,338,578	43,090,051	5,146,090	157,105,662
3. Changes of benefit terms	-	-	-	-	-
4. Difference between expected and actual experience of the Total Pension Liability	(10,746,246)	(5,329,700)	(10,036,313)	(902,507)	(27,014,766)
5. Changes of assumptions	(948,846)	(285,717)	(499,568)	(55,030)	(1,789,161)
6. Benefit payments, including refunds of employee contributions	(126,614,631)	(33,743,903)	(60,802,124)	(7,278,257)	(228,438,915)
7. Net change in Total Pension Liability	\$ (53,778,780)	\$ (15,020,742)	\$ (28,247,954)	\$ (3,089,704)	\$ (100,137,180)
8. Total Pension Liability – Beginning	1,315,617,590	377,443,473	668,772,184	79,877,498	2,441,710,745
9. Total Pension Liability – Ending	\$ 1,261,838,810	\$ 362,422,731	\$ 640,524,230	\$ 76,787,794	\$ 2,341,573,565
B. Plan Fiduciary Net Position					
1. Contributions – employer	\$ 2,765,012	\$ 109,988	\$ 42,900,000	\$ 2,500,000	\$ 48,275,000
2. Contributions – employee	-	-	-	-	-
3. Net investment income	40,946,160	4,791,444	30,977,175	4,257,057	80,971,836
4. Benefit payments, including refunds of employee contributions	(126,614,631)	(33,743,903)	(60,802,124)	(7,278,257)	(228,438,915)
5. Pension Plan Administrative Expense	(2,375,122)	(165,107)	-	(140,678)	(2,680,907)
6. Other	(4,571,593)	(41,705)	(4,155,786)	(594,945)	(9,364,029)
7. Net change in Plan Fiduciary Net Position	\$ (89,850,174)	\$ (29,049,283)	\$ 8,919,265	\$ (1,256,823)	\$ (111,237,015)
8. Plan Fiduciary Net Position – Beginning	776,443,791	94,217,535	578,907,876	80,277,093	1,529,846,295
9. Plan Fiduciary Net Position – Ending	\$ 686,593,617	\$ 65,168,252	\$ 587,827,141	\$ 79,020,270	\$ 1,418,609,280
C. Net Pension Liability	\$ 575,245,193	\$ 297,254,479	\$ 52,697,089	\$ (2,232,476)	\$ 922,964,285
D. Plan Fiduciary Net Position as a percentage of the Total Pension Liability	54.41%	17.98%	91.77%	102.91%	60.58%
E. Covered-employee payroll	\$ 53,915,327	\$ 12,056,318	\$ 10,506,161	\$ 6,626,940	\$ 83,104,746
F. Net Pension Liability as a percentage of covered-employee payroll	1066.94%	2465.55%	501.58%	-33.69%	1110.60%

*Totals may not add due to rounding.

Source: GASB Statement Nos. 67 and 68 Accounting and Financial Reporting for Pension Plans of Component II, June 30, 2023 (dated November 1, 2023), p 22.

Chart 2 below highlights the overall net pension liability trend for the DWSD unit since GLWA was formed in 2016.

Chart 2: Net Pension Liability Trend for DWSD Unit



Under a pension reporting agreement established on January 24, 2017, the parties of DWSD and GLWA agreed that 70.3 percent of the liability allocated to the DWSD unit in the table above was attributable to GLWA regional operations and 29.7 percent to DWSD. This is the basis of allocation for future pension contributions with additional allocation within each entity between Water and Sewer funds. This is summarized in Table 3 below and applied to the current June 30, 2023 liability.

Table 3: Liability Allocation Between GLWA and DWSD as of June 30, 2023

Entity	Percent	Liability Allocation
DWSD - Water	17.80%	\$ 9,380,082
DWSD - Sewer	11.90%	6,270,954
GLWA - Water	25.20%	13,279,666
GLWA - Sewer	45.10%	23,766,387
	100.00%	\$ 52,697,089



Administrative Expenses

Through June 30, 2023, as part of the City of Detroit bankruptcy plan of adjustment (POA), GLWA and DWSD contribute \$2.5 million annually towards administrative expenses for the combined plan. GRS allocates 60% of overall administrative expenses to Component II and 40% to Component I. An allocation of overall pension administrative expense is provided in the GRS Annual Financial Report Statement of Changes in Fiduciary Net Position by Division shown in Table 4 below.

As of June 30, 2023, the aggregate excess of administrative expenses paid by GLWA and DWSD are approximately \$13 million shown in Table 5 below. Per the audited General Retirement System of the City of Detroit audit report (p 38):

During the fiscal year beginning on July 1, 2023, the parties to the pension reporting agreement are to mutually determine and resolve whether any aggregate excess or shortfall of administrative expenses as of June 30, 2023 shall have any effect on the obligation of GLWA or DWSD to make payments to the GRS of the City of Detroit under the pension reporting agreement. To date, no decisions have been made related to how this aggregate excess of administrative expenses paid by GLWA and DWSD are to be treated going forward.

Table 4: Statement of Changes in Fiduciary Net Position by Division

		General Retirement System - Divisions						
		DWSD Subdivisions		General Division			Library	
		GLWA	DWSD-R	DWSD - Division Total (all DWSD Subdivisions)	General Division	DOT	Library	Total - General Retirement System (all Divisions)
Beginning Net Position - July 1, 2022		408,872,233	171,835,643	578,807,876	776,443,791	64,217,535	80,277,093	1,529,846,265
Additions:								
Investment income (loss):								
Interest, dividends, and other income		9,132,208	3,868,131	12,990,339	17,775,851	2,396,031	1,831,458	35,069,479
Net increase in fair value of investments		14,823,480	6,282,551	21,086,031	27,191,803	2,807,530	2,728,073	53,781,537
Net unrealized loss on collateralized securities		(14,875)	(6,200)	(20,875)	(26,064)	(2,250)	(2,488)	(51,987)
Investment related expenses		(2,164,059)	(814,281)	(3,078,320)	(3,865,330)	(409,887)	(397,976)	(7,851,483)
Net investment income		21,776,854	9,200,221	30,877,175	40,946,160	4,791,444	4,257,057	80,871,938
Contributions:								
Employer contributions:								
Originating from DWSD:								
Regular pension contribution		30,168,700	12,741,300	42,900,000	-	-	-	42,900,000
Contribution for administrative expenses		1,757,500	742,500	2,500,000	-	-	-	2,500,000
DWSD transfer to General Division for administrative expenses		(1,757,500)	(742,500)	(2,500,000)	2,500,000	-	-	-
Total contributions originating from DWSD		30,168,700	12,741,300	42,900,000	2,500,000	-	-	46,400,000
Employee contributions - military service purchase		-	-	-	-	6,252	-	6,252
Contributions from other divisions		-	-	-	-	-	2,500,000	2,500,000
Total employer contributions		30,168,700	12,741,300	42,900,000	2,500,000	6,252	2,500,000	47,908,252
Foundation for Detroit's Future		-	-	-	265,012	109,888	-	375,000
Total contributions		30,168,700	12,741,300	42,900,000	2,765,012	116,240	2,500,000	48,281,252
ASF recoupment interest		1,080,790	466,807	1,537,397	2,848,883	1,006,388	115,431	5,509,069
Other income		543,248	229,508	772,754	1,065,819	139,985	113,450	2,092,008
Total additions - net		53,559,690	22,827,638	76,187,328	47,628,854	6,054,037	6,885,938	136,854,155
Deductions:								
Member refunds and withdrawals		806,188	382,833	1,289,001	5,798,776	3,040,273	743,347	10,869,387
Retirees' pension and annuity benefits		41,837,725	17,875,388	59,613,123	120,817,855	30,703,630	6,534,910	217,569,518
General and administrative expenses		713,179	301,301	1,014,480	1,390,842	185,107	140,078	2,880,907
ASF Recoupment Write-off		397,878	188,008	585,884	573,726	234,041	5,638	1,379,089
Transfer of general and administrative expenses to General Division		(713,179)	(301,301)	(1,014,480)	1,014,480	-	-	-
Transfer to Component 1 (Transition Cost)		4,147,878	1,752,375	5,900,253	7,913,549	980,269	818,188	15,592,259
Total deductions		47,289,447	19,878,614	67,268,061	137,477,028	35,103,320	8,242,761	248,091,170
Net Increase (Decrease) in Net Position		6,270,243	2,649,022	8,919,265	(89,850,174)	(29,049,283)	(1,258,823)	(111,237,015)
End of Year Net Position Restricted for Pensions - June 30, 2023		413,247,476	174,584,655	587,827,141	686,593,617	65,168,252	79,020,270	1,418,609,280

Source: Audited Financial Report for the General Retirement System of the City of Detroit (dated December 7, 2023), p 51.

Of the \$2.5 million paid by GLWA and DWSD, \$1.0 million is attributable to the current year and is transferred to the General Division. The remainder is recorded as a prepaid toward future administrative expenses after June 30, 2024 summarized in Table 5 below.



Table 5: Schedule of DWSD/GLWA Contributions Toward Administrative Expenses

Combined Plan for the General Retirement System of the City of Detroit		
Schedule of DWSD/GLWA Contributions Toward Administrative Expenses as Compared to Actual DWSD/GLWA Allocable Administrative Expenses		
For the Year Ended June 30, 2023		
	DWSD Division Total	
	GLWA	DWSD-R
Amount Paid in Excess of Administrative Expenses		
Otherwise Allocable - June 30, 2022	\$ 8,067,659	\$ 3,408,388
DWSD/GLWA contribution for administrative expenses in accordance with plan of adjustment and bankruptcy order	1,757,500	742,500
Administrative expenses otherwise allocable to DWSD/GLWA	<u>(713,179)</u>	<u>(301,301)</u>
Cumulative Amount Paid in Excess of Administrative Expenses		
Otherwise Allocable - June 30, 2023	<u>\$ 9,111,980</u>	<u>\$ 3,849,587</u>

Source: Audited Financial Report for the General Retirement System of the City of Detroit (dated December 7, 2023), p 52.

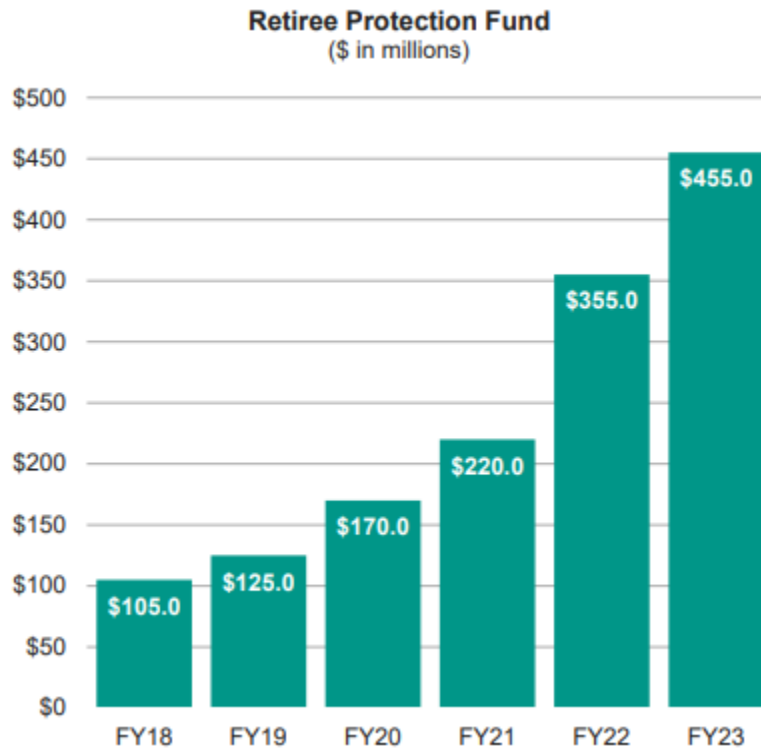
Planning for the Tail Liability (UAAL)

Under the POA, GLWA and DWSD make combined, Component II annual pension payments of \$45.4 million, of which \$2.5 million is specific to administrative expenses discussed above. Those fixed payments are reduced after June 30, 2023 based upon the terms of a pension agreement that addresses the tail liability. The GRS Component II Annual Pension Report presented to the GLWA Audit Committee by GLWA staff next year will include the June 30, 2024 actuarial report and reflect the first actuarially determined employer contributions (ADEC) payment rather than fixed payments to be made by the combined GLWA and DWSD GRS unit. The actual amount of this remaining, unfunded liability and associated ADEC will vary based upon plan performance and the outstanding liability at that time.

The current June 30, 2023 Actuarial Report estimates the total Component II projected unfunded actuarial accrued liability (UAAL) for the GRS as a whole to be \$779.1 million as of June 30, 2024. The DWSD-GLWA share of the projected UAAL amount is \$16.1 million with an estimated actuarial determined employer contribution of \$1.6 million plus \$0.6 million administrative expense contribution, total \$2.3 million for FY 2025.

The City has been setting funds aside outside of the GRS in a “Retiree Protection Fund” (RPF) via an Internal Revenue Code Section 115 Trust. The balance in the RPF by year is shown in Chart 3 below. The chart was obtained from the FY 2024-2025 proposed budget presented by the Financial Review Commission and presents the current value of that fund as of June 30, 2023. As noted in the City presentation, “To protect retirees, the Mayor and City Council deposited \$455 million in the RPF”.

Chart 3: City of Detroit Retiree Protection Fund



Source: [Mayor's Proposed Budget \(detroitmi.gov\)](https://www.detroitmi.gov/mayors-proposed-budget)

Funded ratio is a metric used to measure a plan's ability to cover future obligations based on projected contributions. The Component II funded ratio for the period ending June 30, 2023 is 60.6% (as shown in Table 1 on page 3 of this memo) down from 62.7% the prior year with best practice benchmarks being a 75% minimum and 100% maximum funded ratio. As stated previously, this decrease is largely attributed to the decline in the actual net investment return.

As noted above, the POA established a funding policy for GLWA and DWSD. However, fiscal year 2024 is the first year (post-bankruptcy) the City is required to make ADEC payments annually in accordance with the plan document. The June 30, 2023 valuation computes the employer contribution as a forecast for the 2025 fiscal year. Table 6 below summarizes this ADEC by unit and provides a range for annual contribution requirements beginning in FY 2025.

Table 6: Projected Actuarially Determined Employer Contributions & UAAL/Tail Liability

Actuarially Determined Employer Contributions (ADEC)

	(\$ Millions)				
	General City	D.O.T.	DWSD	Library	System Total
Actuarial Accrued Liability	\$ 1,258.8	\$ 355.7	\$ 637.0	\$ 75.9	\$ 2,327.5
Funding Value of Assets (FVA)	726.5	69.0	622.0	83.6	1,501.0
UAAL ¹ as of June 30, 2023	\$ 532.3	\$ 286.8	\$ 15.1	\$ (7.7)	\$ 826.5
Expected Contribution (EOY) ²	(67.6)	(37.3)	(0.7)	(0.1)	(105.6)
Assumed Expenses ³	1.3	0.3	0.6	0.1	2.3
Interest at 6.75%	36.0	19.4	1.0	(0.5)	55.9
Projected UAAL as of June 30, 2024	\$ 502.1	\$ 269.2	\$ 16.1	\$ (8.2)	\$ 779.1
Actuarially Determined Employer Contribution (ADEC) for FY 2025⁴					
Remaining Amortization Years	29	29	29	29	29
UAAL Contribution	\$ 51.2	\$ 27.5	\$ 1.6	\$ (0.8)	\$ 79.5
\$0 Minimum UAAL Contribution	51.2	27.5	1.6	-	80.3
Administrative Expense Contribution ³	1.3	0.3	0.6	0.1	2.4
Total Contribution	\$ 52.5	\$ 27.8	\$ 2.3	\$ 0.1	\$ 82.7

Totals may not add due to rounding.

¹ Unfunded Actuarial Accrued Liability in accordance with the Funding Policy including the use of the Funding Value of Assets (FVA) shown in Section G.

² Includes one-time grant proceeds of \$15.8 million for General City and \$7.4 million for D.O.T.

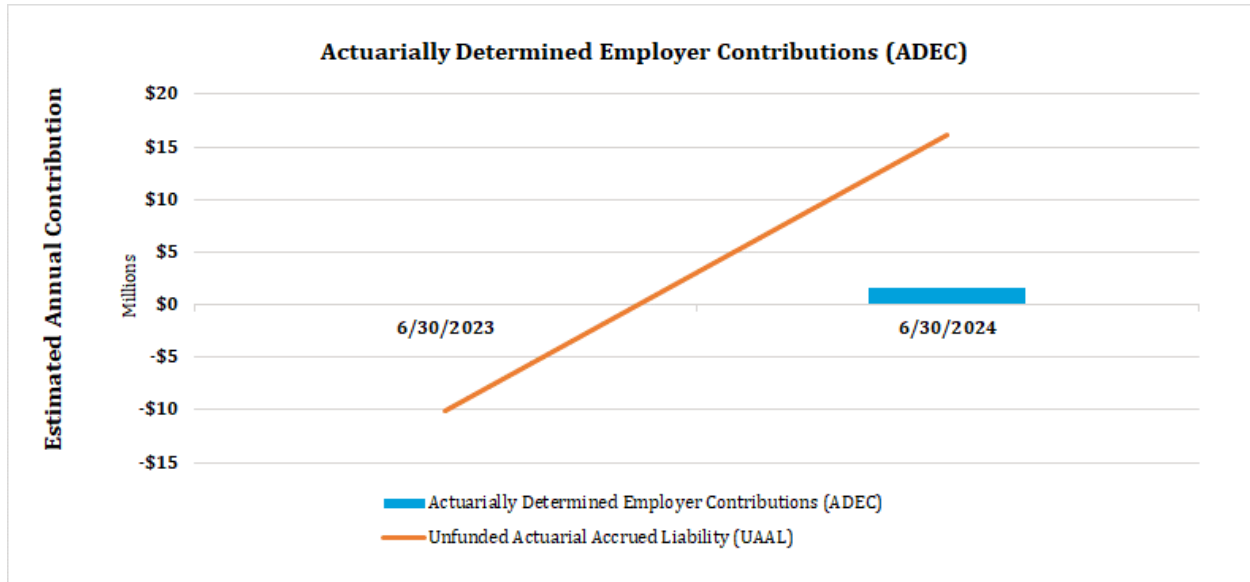
³ Administrative expenses were allocated (see Section D of the report) and assumed to be paid by the individual units.

⁴ Total employer contributions, including amounts paid by the employer but funded from other sources as required by POA, if any. Employer contributions are assumed to be made at the end of the fiscal year.

The Level Principal amortization method is used to systematically eliminate (pay off) the Unfunded Actuarial Accrued Liability (UAAL) over a closed period of 30 years from July 1, 2023 (29 years remaining for the fiscal year ending June 30, 2025 contribution).

Source: Annual Actuarial Valuation of Component II, June 30, 2023 (dated December 22, 2023), p 3.

Chart 4: Estimated Annual Contribution Trends for DWSD Unit based on Actuarially Determined Employer Contributions



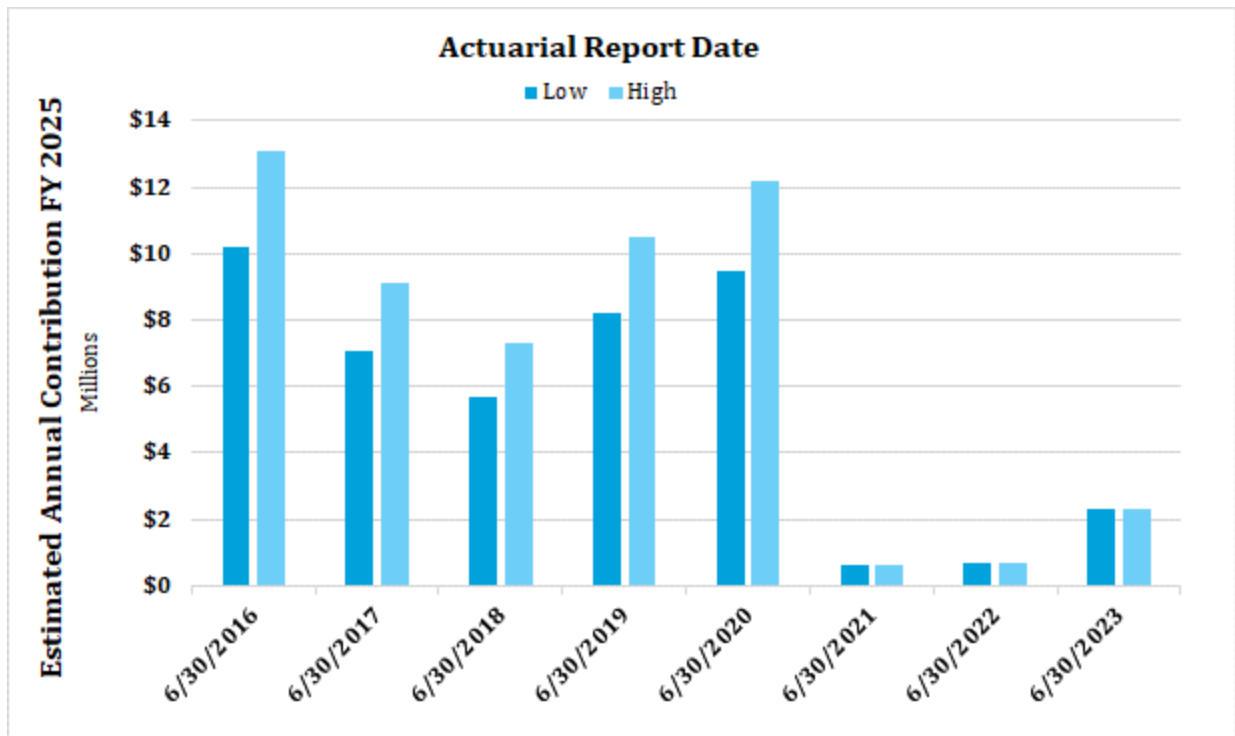
Source: Annual Actuarial Valuation of Component II.

According to the Pension Agreement, “If the Authority Pension Pool is less than 100% funded, then the Authority shall make such level annual contributions to the GRS as necessary to amortize such shortfall over five (5) years (or such greater period not to exceed ten (10) years as agreed upon by GRS and the Authority) at an interest rate equal to the then current GRS investment return assumption. For each Fiscal Year commencing from and after July 1, 2023, on its normal schedule for determining the current Fiscal Year’s contributions to the GRS, the GRS shall provide the Authority with a determination of the UAAL for the Authority Pension Pool using the market value of assets for the Authority Pension Pool and whether the Authority Pension Pool is funded at 100%.” Chart 4 tracks the ADEC contributions based on the UAAL since the first year of this requirement. If the UAAL is less than zero, no annual contribution is required and only administrative expense is paid. This was the case as of June 30, 2023. Chart 4 reflects a zero contribution accordingly.

Impact on GLWA Financial Forecast

Budget Impact: Based on the funding policy currently proposed to the City of Detroit for FY 2025, the annual contribution for GLWA and DWSD is \$0.6 million for administrative expense contribution, and \$1.6 million for ADEC contribution. The prior year actuarial placed that range as \$0.6 million for administration only for FY 2024. The current annual estimated contribution based on the tail liability is summarized in Chart 5 below.

Chart 5: GLWA and DWSD Estimated Annual Contribution for FY 2025



Source: Annual Actuarial Valuation of Component II, June 30, 2023 (dated December 22, 2023), p 3.

GLWA will continue to monitor and report on Component II activity, specifically as it relates to funding policy actions taken by the City of Detroit. GLWA has engaged an independent consultant to review the current valuation and the impacts of any funding policy actions taken by the City and GRS. In addition, GLWA staff continues to attend the monthly GRS Board meetings to monitor and report on the current events and impact on the Plan's investment assets.

Proposed Action: Receive and file this report.