



City of Detroit Revenue Estimating Conference

September 11, 2019



September 2019 Revenue Estimating Conference

Overview:

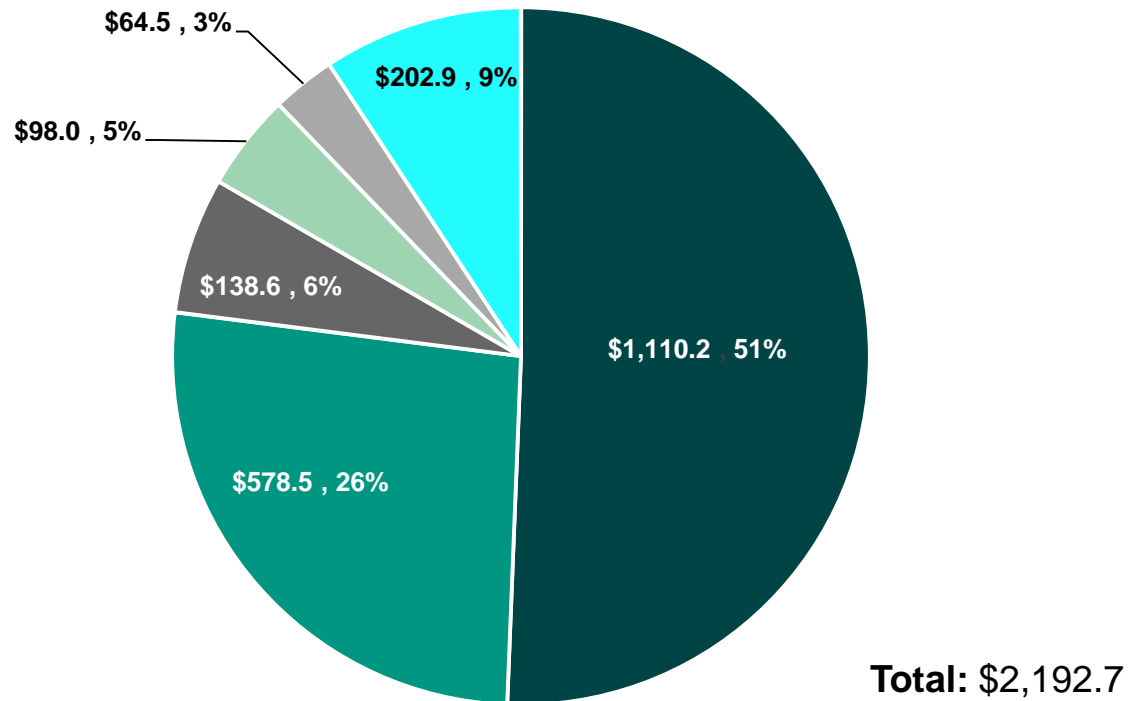
- Michigan PA 279 of 1909, Section 117.4t(1)(d), as amended by PA 182 of 2014, states the City of Detroit shall hold biannual revenue estimating conferences that establish the official economic forecast and forecast of anticipated City revenues.
- Revenues are established independently by the following voting principals:
 - **David P. Massaron:** Chief Financial Officer, City of Detroit
 - **Eric Bussis:** Chief Economist, Director, Office of Revenue and Tax Analysis, Michigan Department of Treasury
 - **George Fulton, PhD:** Director Emeritus, Research Professor Emeritus, Research Seminar In Quantitative Economics (RSQE), Department of Economics, University of Michigan

The approved estimates that follow include the current fiscal year (FY 2020) and the four succeeding fiscal years (FY 2021 – FY 2024).



FY 2020 Revenue Summary, All Funds

FY 2020 September 2019 Estimates (in millions)



- General Fund
- DWSD
- Transportation
- Major Street
- Debt Service
- Other Non-General Fund



Proposed Revenue Estimates

General Fund Revenue Estimates (in millions)

	September 2019 Estimates											
	FY19		% Change		FY21		% Change		FY23		% Change	
	Unaudited Actual	FY20 Budget	FY20 Est	v. FY19	FY21 Est	% Change	FY22 Est	% Change	FY23 Est	% Change	FY24 Est	% Change
Major Taxes												
Income Tax¹	\$ 364.9	\$ 324.3	\$ 325.0	-10.9%	\$ 333.5	2.6%	\$ 344.0	3.1%	\$ 354.1	2.9%	\$ 364.2	2.9%
Recurring	316.2	322.3	323.0	2.2%	331.5	2.6%	342.0	3.2%	352.1	3.0%	362.2	2.9%
Assessments	4.7	2.0	2.0	-57.4%	2.0	0.0%	2.0	0.0%	2.0	0.0%	2.0	0.0%
Non-recurring	44.0	-	-	-100.0%	-	-	-	-	-	-	-	-
State Revenue Sharing	202.6	204.5	203.1	0.2%	199.9	-1.6%	201.1	0.6%	202.3	0.6%	203.5	0.6%
Statutory	141.1	140.5	140.5	-0.4%	140.5	0.0%	140.5	0.0%	140.5	0.0%	140.5	0.0%
Constitutional	61.5	64.0	62.6	1.8%	59.4	-5.1%	60.6	2.0%	61.8	2.0%	63.0	1.9%
Wagering Tax	183.8	184.3	185.8	1.1%	187.6	1.0%	189.4	1.0%	191.3	1.0%	193.3	1.0%
Property Tax	127.2	126.5	131.3	3.2%	132.8	1.1%	133.1	0.2%	133.4	0.2%	134.5	0.8%
Tax Increment Financing Capture	(12.3)	(11.2)	(14.0)	13.8%	(14.3)	2.1%	(13.9)	-2.8%	(14.2)	2.2%	(14.6)	2.8%
Net Property Tax	114.9	115.3	117.3	2.1%	118.5	1.0%	119.2	0.6%	119.2	0.0%	119.9	0.6%
Current	84.0	83.7	85.4	1.7%	86.6	1.4%	88.1	1.7%	89.1	1.1%	92.2	3.5%
Delinquent	30.9	31.6	31.9	3.2%	31.9	0.0%	31.1	-2.5%	30.1	-3.2%	27.7	-8.0%
Utility Users Tax	41.5	43.8	42.4	2.2%	43.2	1.9%	44.6	3.2%	46.5	4.3%	48.8	4.9%
To Public Lighting Authority	(12.5)	(12.5)	(12.5)	0.0%	(12.5)	0.0%	(12.5)	0.0%	(12.5)	0.0%	(12.5)	0.0%
Net Utility Users Tax	29.0	31.3	29.9	3.1%	30.7	2.7%	32.1	4.6%	34.0	5.9%	36.3	6.8%
Subtotal, Major Taxes	\$ 895.2	\$ 859.7	\$ 861.1	-3.8%	\$ 870.2	1.1%	\$ 885.8	1.8%	\$ 900.9	1.7%	\$ 917.2	1.8%
Other Revenues²	\$ 200.0	\$ 226.5	\$ 249.1	24.6%	\$ 233.4	-6.3%	\$ 233.5	0.0%	\$ 234.4	0.4%	\$ 235.8	0.6%
Recurring	195.0	224.0	230.0	17.9%	232.5	1.1%	232.6	0.0%	233.5	0.4%	234.9	0.6%
Non-recurring	5.0	2.5	19.1	282.0%	0.9	-95.3%	0.9	0.0%	0.9	0.0%	0.9	0.0%
Grand Total, General Fund	\$ 1,095.2	\$ 1,086.2	\$ 1,110.2	1.4%	\$ 1,103.6	-0.6%	\$ 1,119.3	1.4%	\$ 1,135.3	1.4%	\$ 1,153.0	1.6%

(1) FY19 includes \$23m in one-time corporate collections and \$2m in partnership.

(2) FY20 Sept Est includes \$16.6m sale of Millennium Garage and \$1.6m sale of city real property offset for Housing Affordability Fund.



Revenue Summary

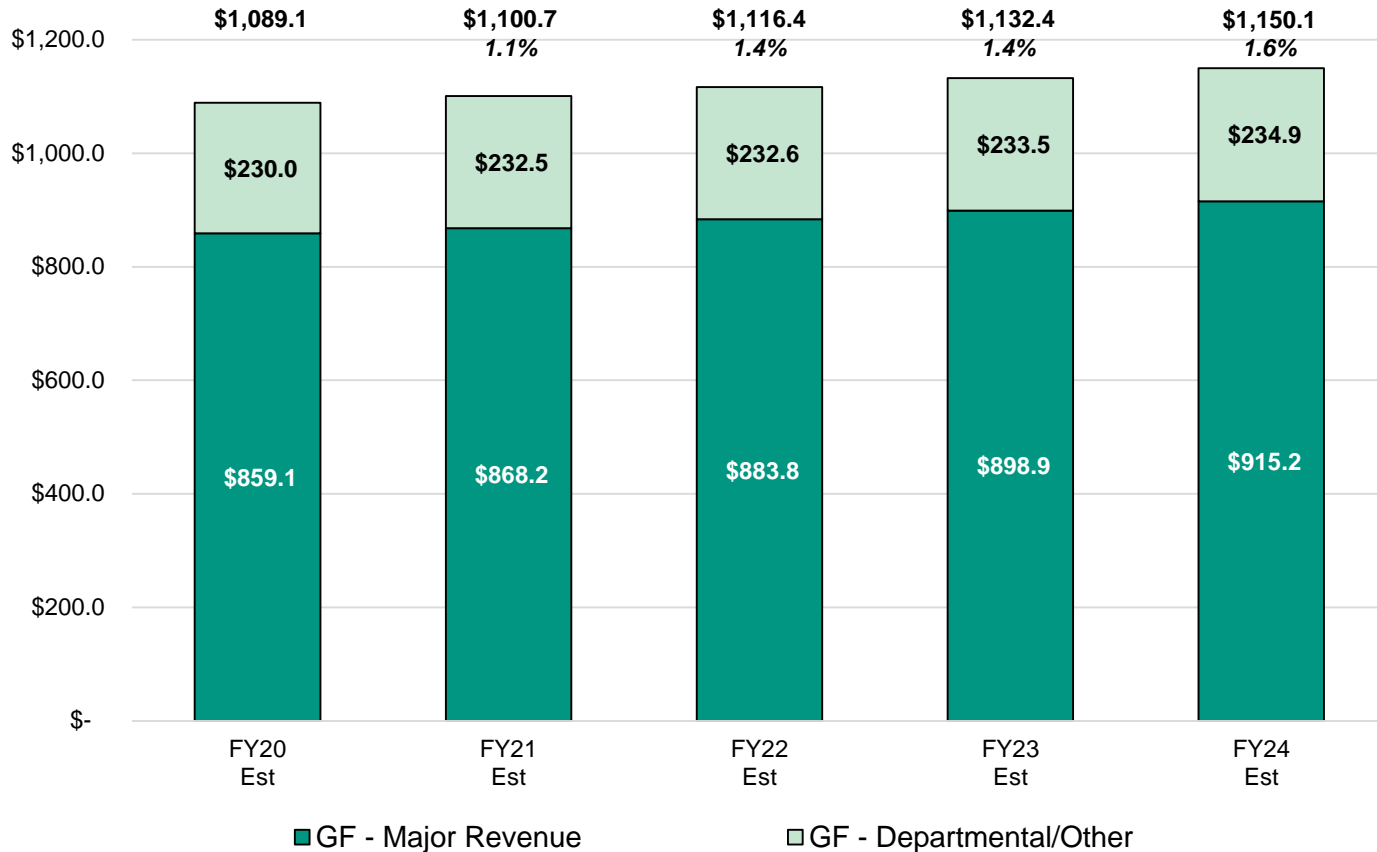
- **FY 2019 Unaudited Actuals:**
 - Collections through June are above budget target. Actuals are subject to change pending final adjustments.
- **FY 2020 changes since the Adopted Budget:**
 - Major revenues slightly revised based on fiscal 2019 collections and current economic assumptions.
 - Recurring Other Revenues – increased Investment Earnings based on updated information and FY19 collections.
 - Non-recurring Other Revenues - updated to include Millennium Garage sale.
- **FY 2021-2024 forecast:**
 - Modest annual growth rates across major taxes and other revenues.
 - Income Tax assumes GDP growth slows for FY20 and FY21 resulting in annual growth rate below recent actual activity.
 - State Revenue Sharing assumes 2020 Census lower than 2010 Census, resulting in FY21 revenue reduction.



Proposed Revenue Estimates

Total Recurring General Fund Revenue: FY 2020 - FY 2024

(in millions)



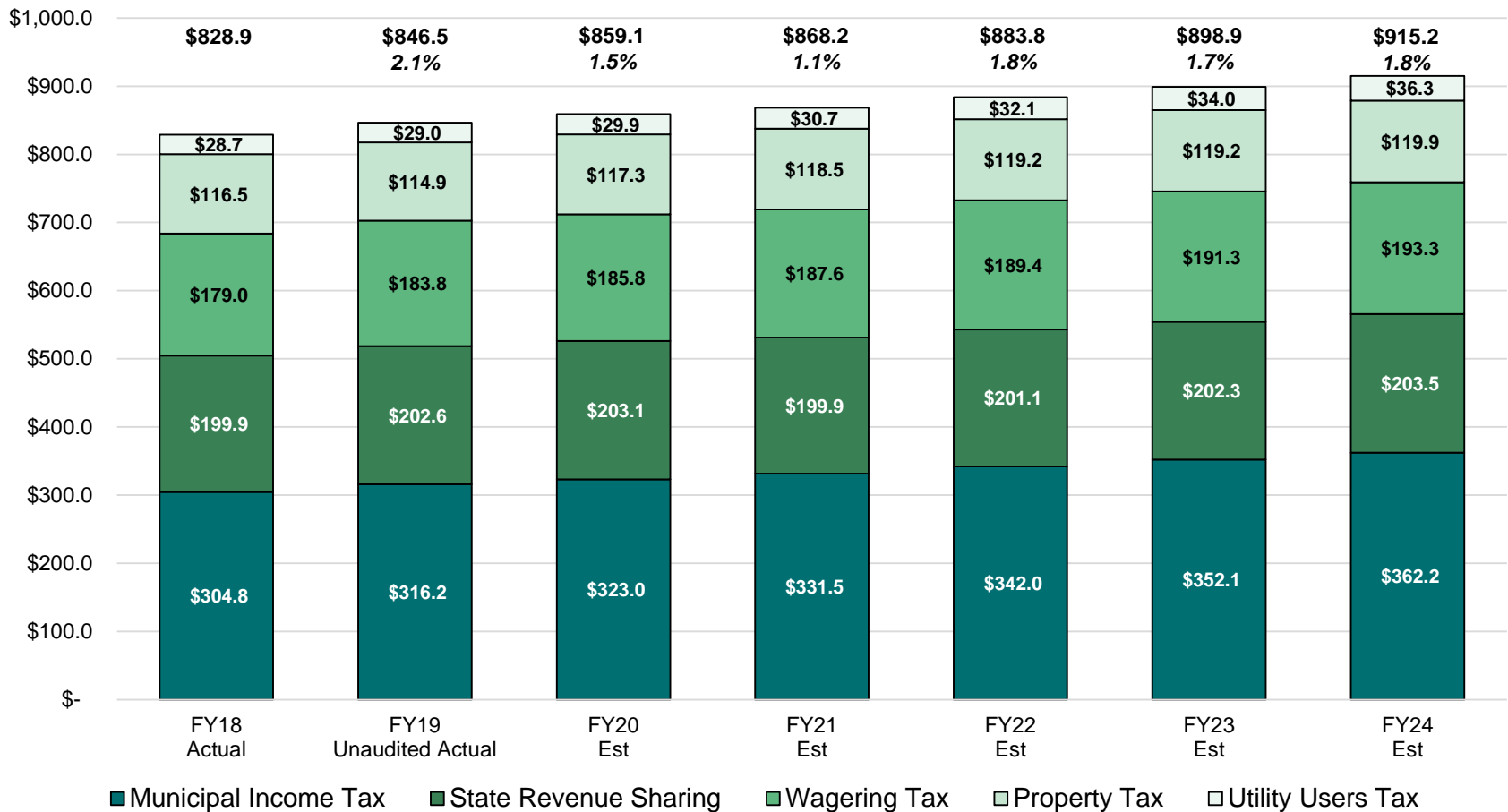
The 5 major revenues comprise nearly 80% of total General Fund revenue.



Major Revenues

Recurring Major Tax Revenue History and Projection: FY 2018 - FY 2024

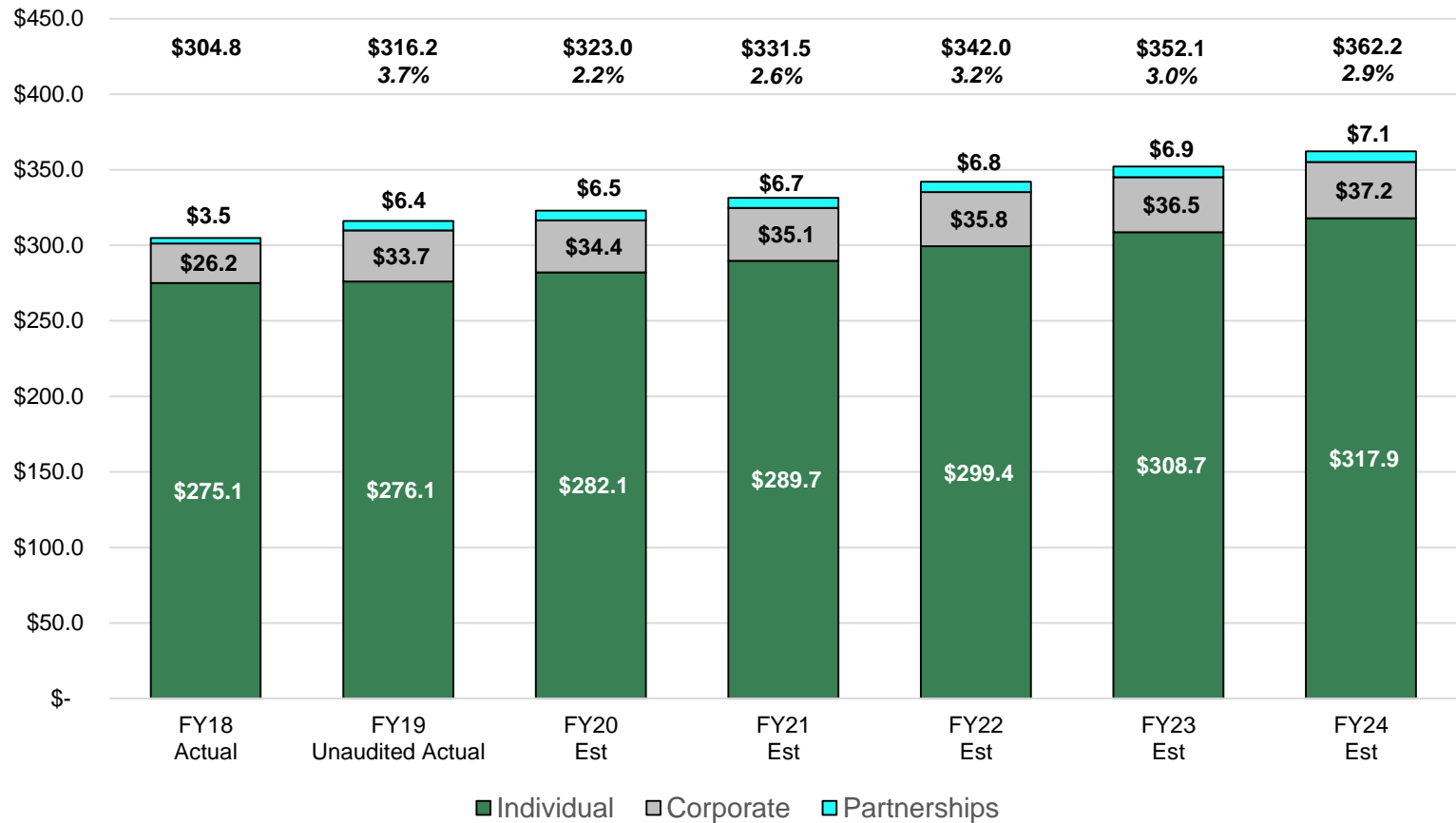
(in millions)





Income Tax

Recurring Municipal Income Tax (in millions)





Income Tax Highlights

Tax Structure

- 2.4% Resident individuals working in and outside the city
- 1.2% Non-resident individuals working in the city
- 2.0% Corporate and Partnerships

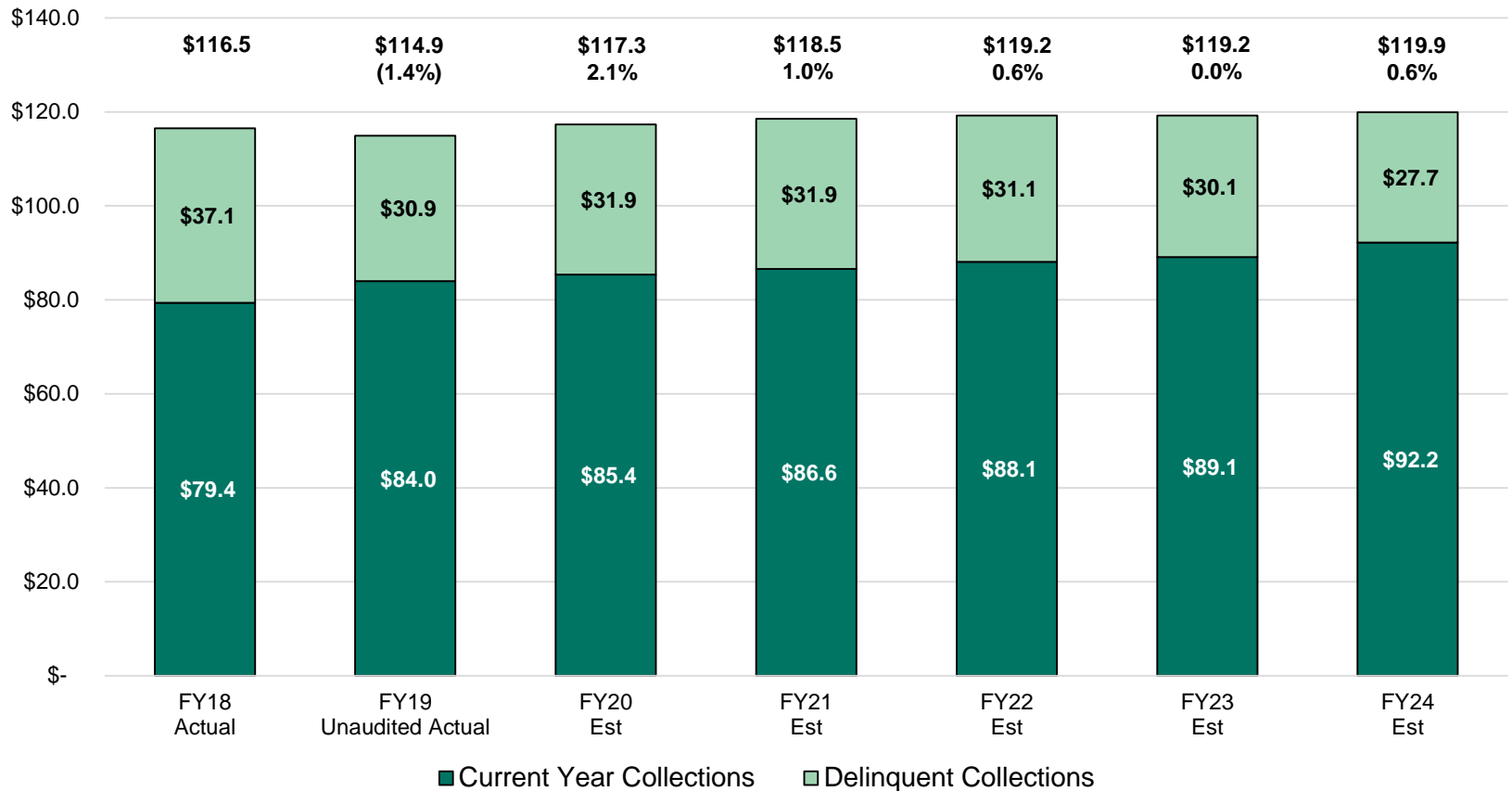
Forecast Assumptions

- Growth is driven by movements in employment and wages.
- Incorporates US GDP growth slowdown (1.7% in FY 2020 and 1.4% in FY 2021).
- Significant corporate tax growth observed in past 2 years.
- Does not include potential upside from new development projects.
- Does not include potential upside from improved compliance efforts.
- Activity identified as non-recurring in corporate, partnership, and assessment tax collections are removed from the forecasted base.



Property Tax

Property Tax
(in millions)





Property Tax Highlights

Tax Structure

- Ad valorem taxes on real and personal property at 19.952 mills
- Comprised of current year and prior-year delinquent taxes less tax capture distributions.

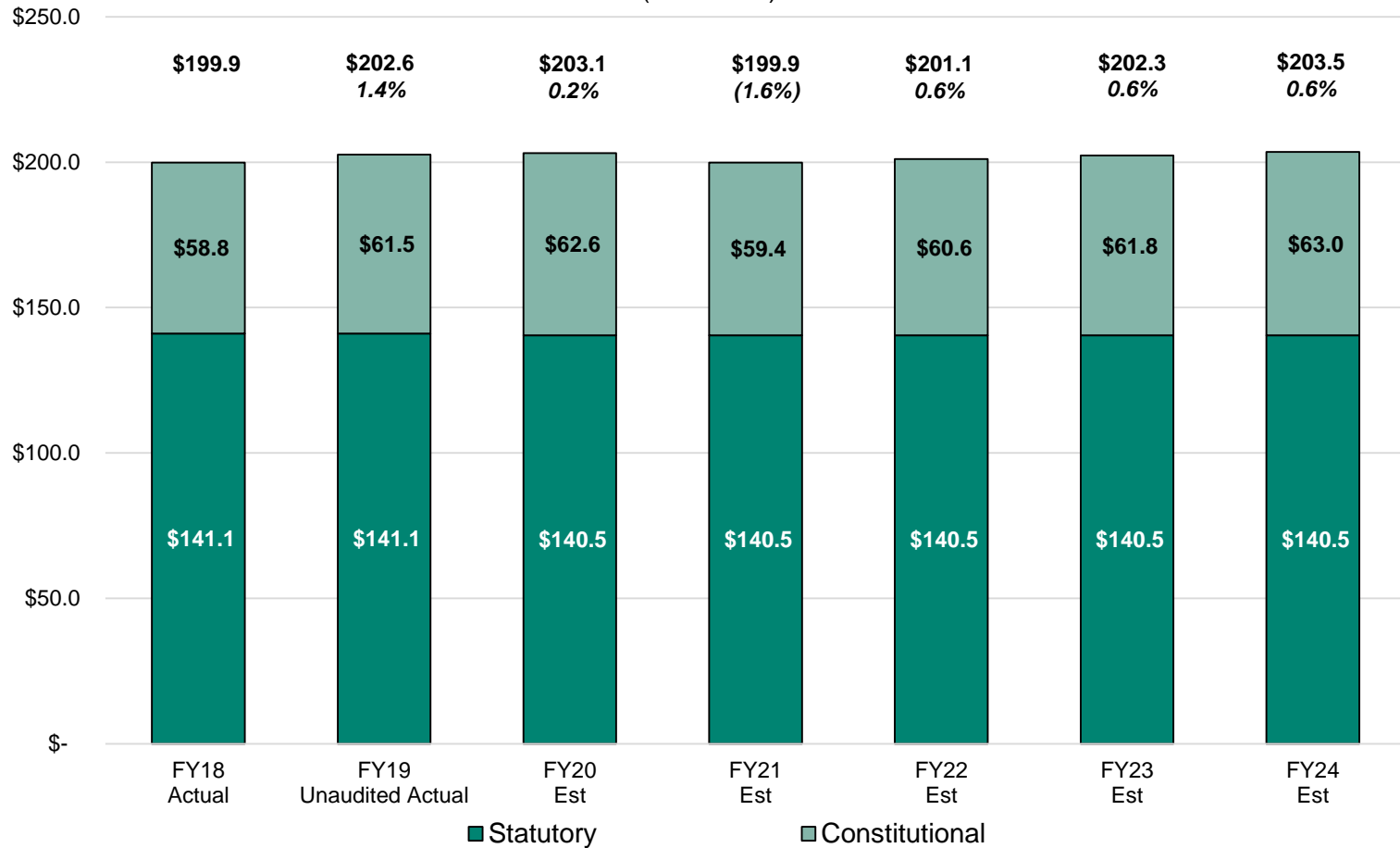
Forecast Assumptions

- Taxable value growth is driven by U.S. CPI inflation (Proposal A tax limitation). Industrial personal property phases out per State law.
- Includes schedule of Renaissance Zone properties' phase out to full ad valorem.
- FY 2019 collection rate (83.61%) is held constant throughout the forecast.
- Forecast does not include additions to the tax base or uncapping of taxable value.
- Delinquent roll base and forecast includes delinquent property taxes, interest, penalty, and administrative fees.



State Revenue Sharing

State Revenue Sharing
(in millions)





State Revenue Sharing Highlights

Tax Structure

- Constitutional share (30%): State sales tax collections (15% of 4% portion) allocated based on population as of the latest Census.
- Statutory share (70%): Set annually via the State budget.

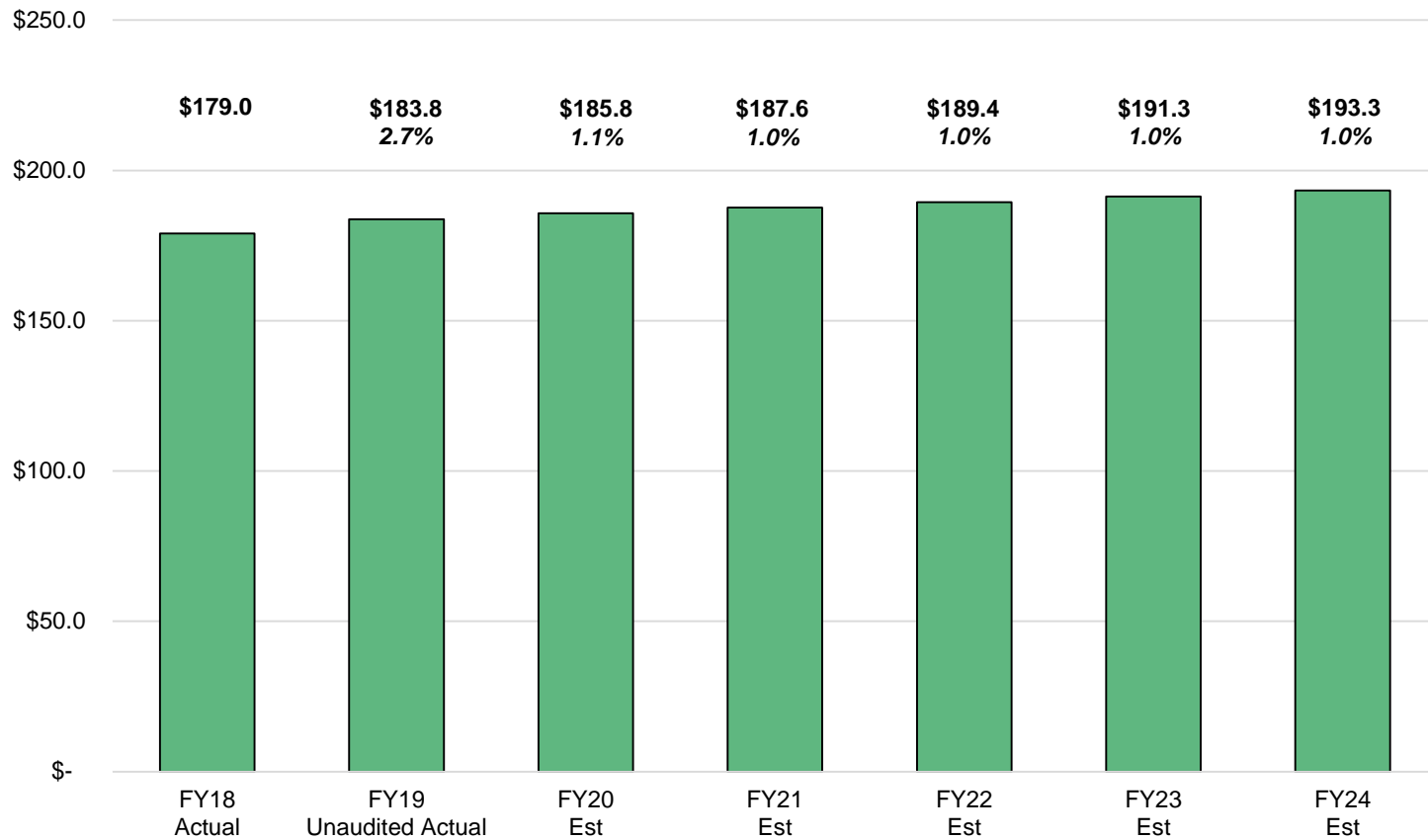
Forecast Assumptions

- Statutory share is held flat, assuming no annual changes to State budget allocation. FY 2018 and FY 2019 include \$600k supplemental appropriation.
- FY 2021 Constitutional share decline based on assumed 2020 Census population reduction compared to 2010 Census.
- FY 2020 amount based on State documentation, sales tax growth forecast slightly below State's May forecast.
- Does not include the increase in statutory share proposed in the Governor's budget (pending adopting of State budget).



Wagering Tax

Wagering Tax
(in millions)





Wagering Tax Highlights

Tax Structure

- Tax on adjusted growth receipts applied to the three casinos operating in Detroit.
- 11.9% tax rate (10.9% State law, 1% per casinos development agreements).
- Supplemental 1% tax if a casino's gross receipts exceed \$400 million.
- Municipal service fee 1.25% of gross receipts or \$4 million, whichever is greater (included separately in "Other Revenues")

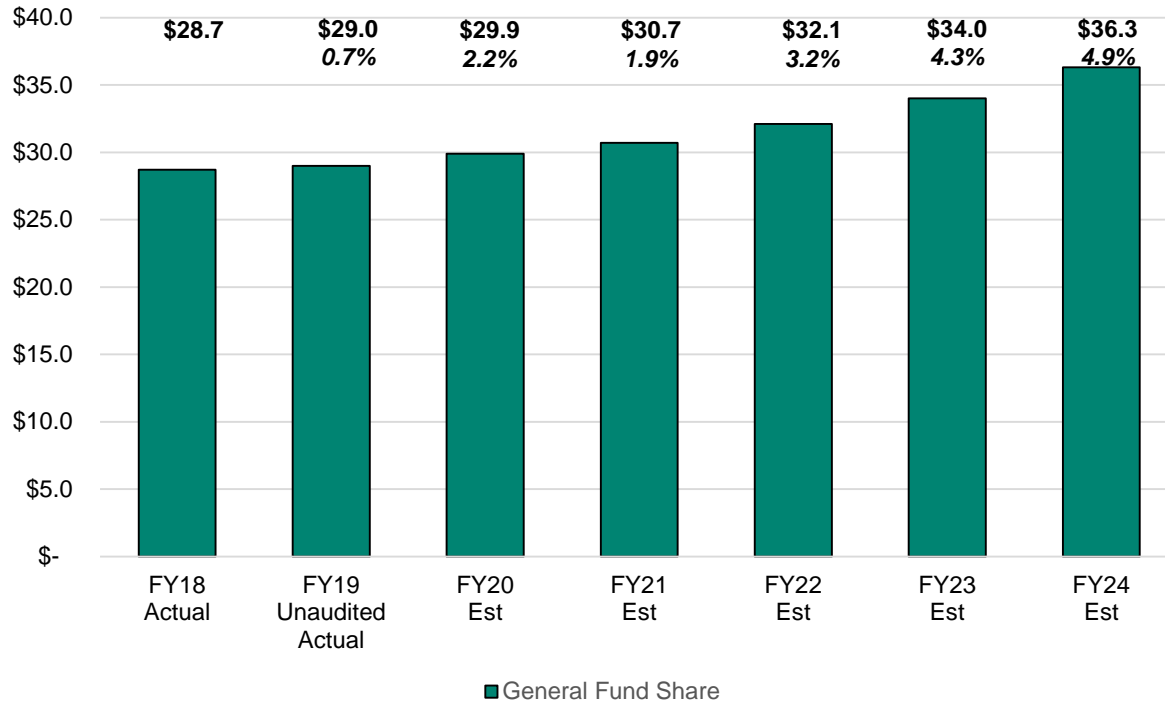
Forecast Assumptions

- 1% annual growth rate from FY 2020 – 2024.
- Forecast years do not include impact of proposed legislation for online gaming or sports betting.



Utility Users Tax

Utility Users Tax
(in millions)



Tax Structure

5% tax on consumption of electricity, gas, steam, and telephone services.

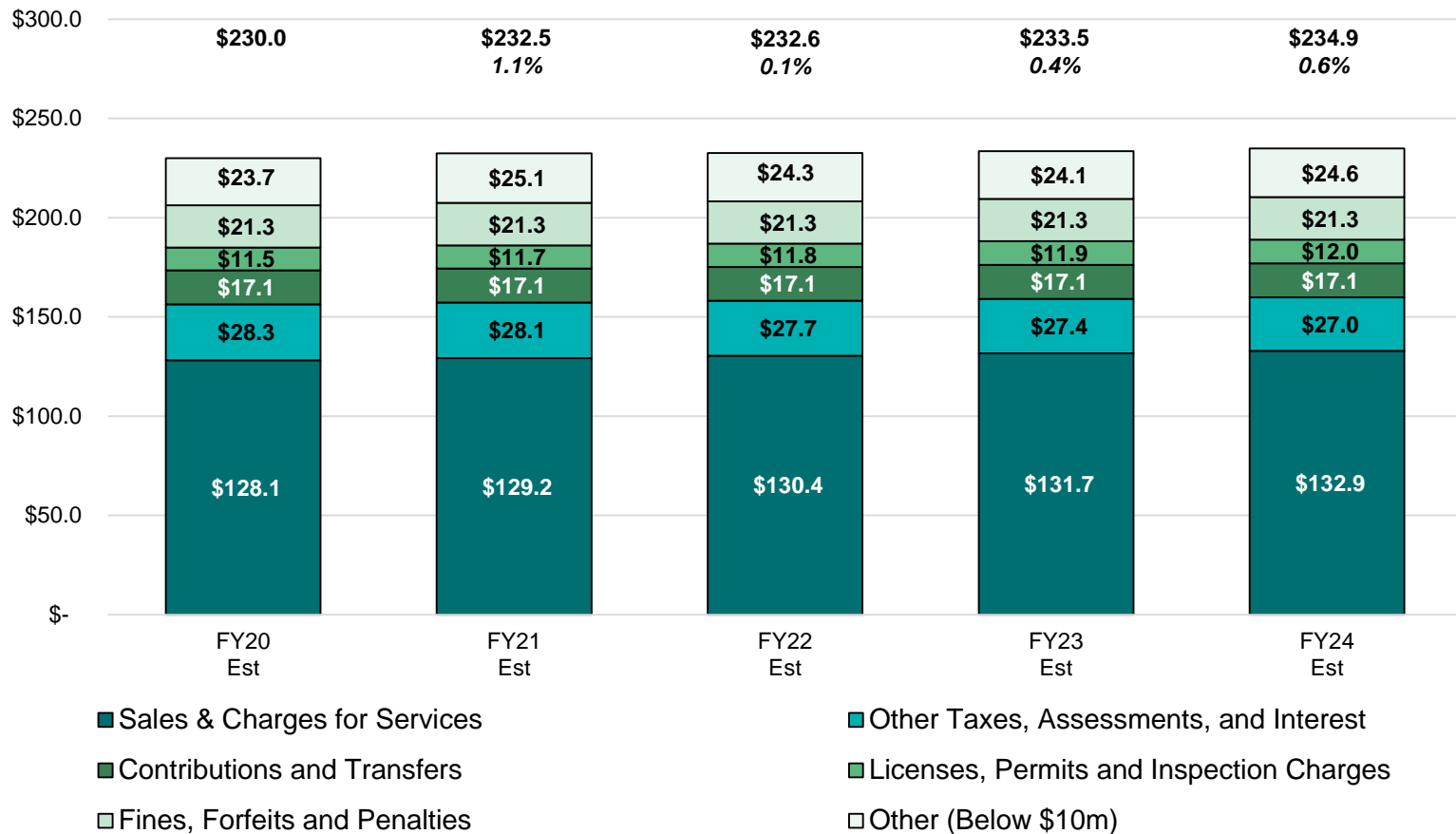
Forecast Assumptions

General Fund growth is driven by household unit growth and projected gas and electricity prices.



Departmental and Other GF Revenues

Recurring Departmental/Other General Fund Revenues
(in millions)





Departmental and Other GF Revenues Highlights

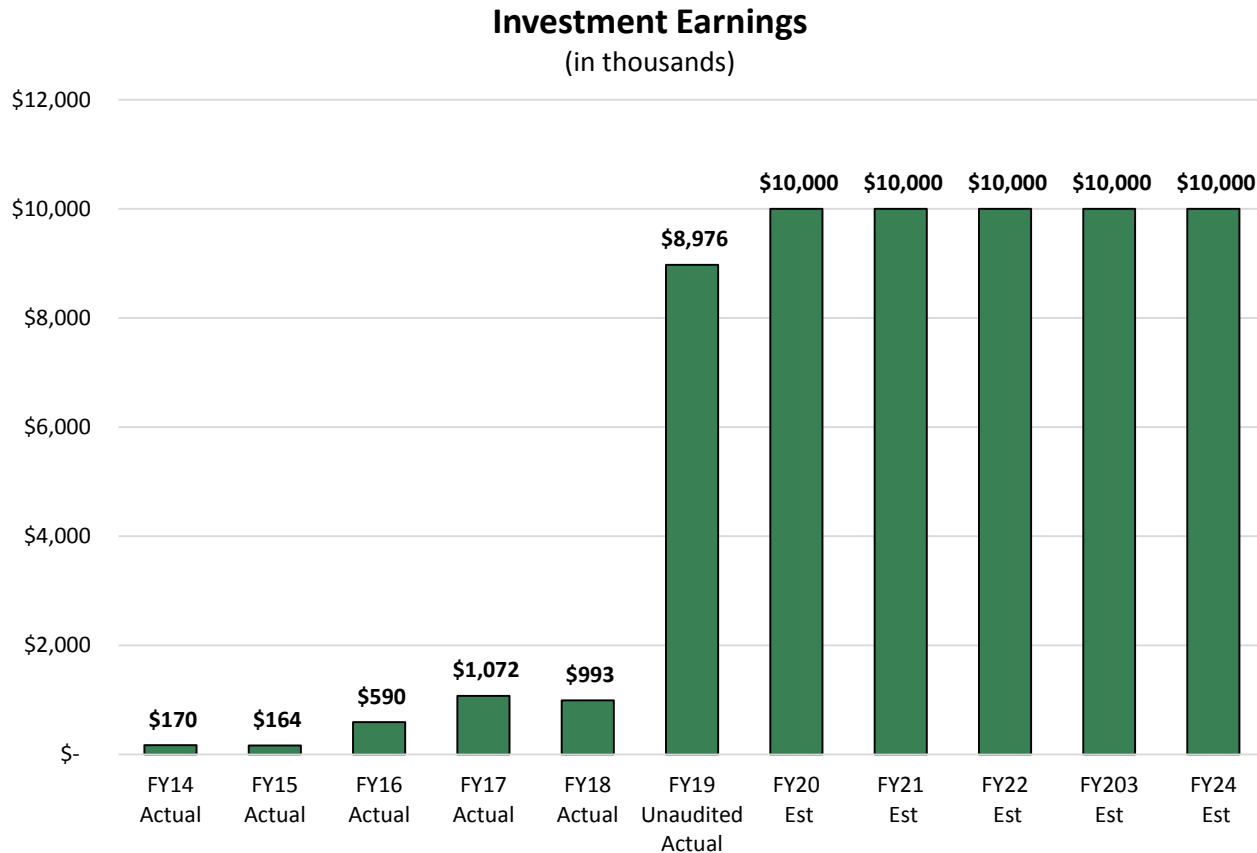
Significant Departmental Revenues

- **License, Permits and Inspection Charges:** BSEED (Business Licenses), Public Works (Street Use Permits and Construction Inspection Charges), Fire Department (Safety Inspection Charges)
- **Fines, Forfeits and Penalties:** Parking fines and 36th District Court
- **Sales & Charges for Services:** Fire (EMS Service Fee), Health (Inspection Charges), BSEED and Administrative Hearing (Blight Tickets), Court fees
- Also includes departmental salary reimbursements, and enterprise fund contributions, and earnings on investments.

Does not include revenues from initiatives not yet implemented or in early stages, such as EMS billing improvements, new parking initiatives, and other revenue optimization efforts.



Investment Earnings History FY14- FY20



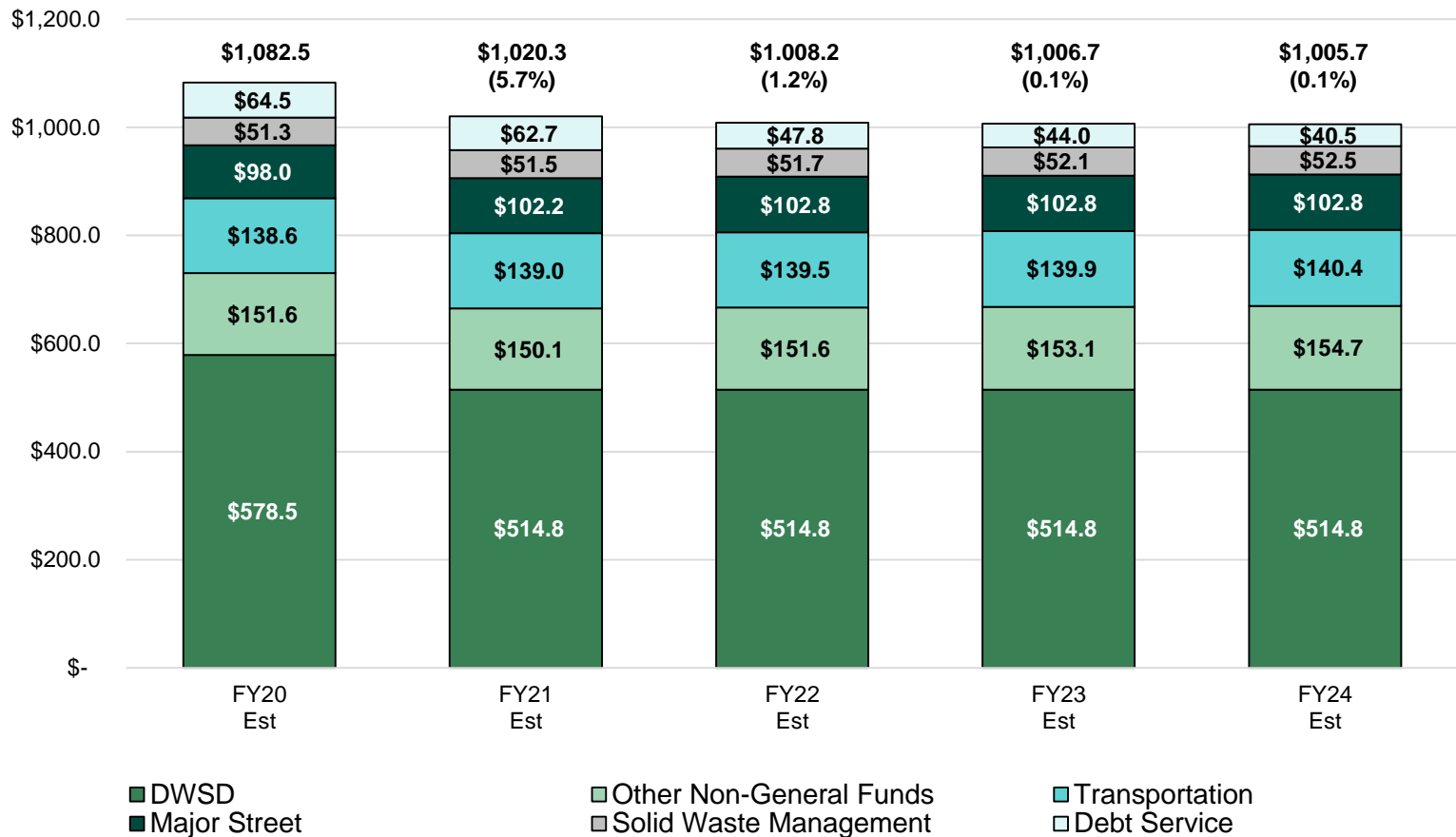
- In FY19, City investment portfolio was expanded to include more General Fund dollars than in prior-years.
- FY20 assumes full phase-in of investable cash, with consistent levels anticipated through FY21-24.



Non-General Fund Revenues

Non-General Fund Revenue Estimates: FY 2020 - FY 2024

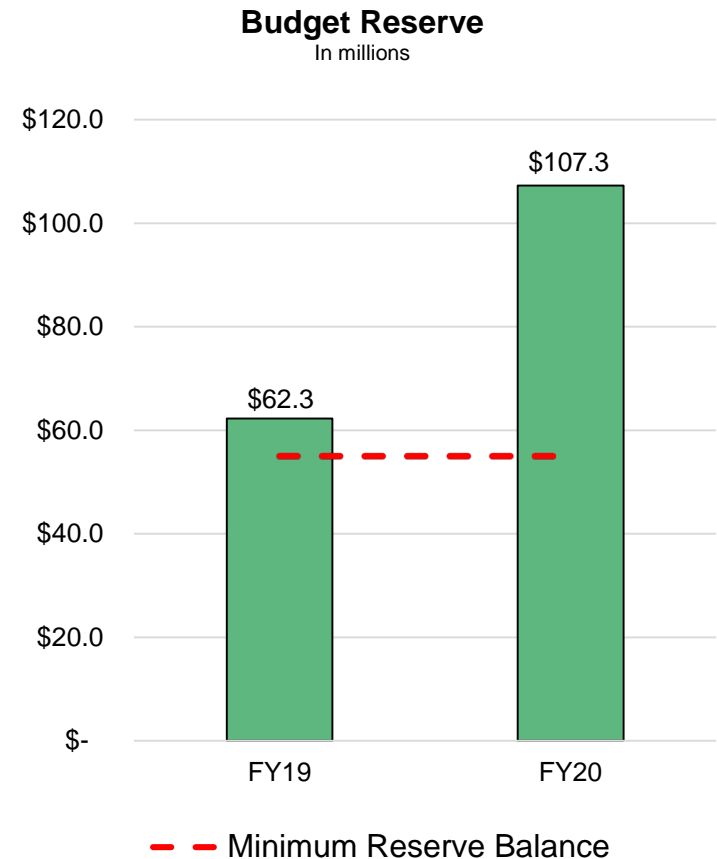
(in millions)





Budget Reserve (Rainy Day Fund) Summary

- State law requires the City of Detroit to maintain a general reserve fund no less than 5% of the projected expenditures for the fiscal year.
- The FY 2020 Adopted Budget assumes an ending budget reserve balance of \$107.3m, or nearly 10% of projected expenditures.
- Additional budget reserves allow the City to better manage economic and revenue risks.





Risks and Opportunities

Risks

- Adverse changes in economic / demographic trends
- Adverse federal / state policy actions (tax and budget policy, local limitations)
- Increased competition in gaming and risks of past trends not continuing
- Adverse changes in property tax foreclosure activity
- Property Tax appeals

Potential Opportunities

- Revenue gains from development projects throughout the city
- State-shared taxes on recreational marijuana sales
- Tax collection improvements
- Departmental revenue optimization efforts



Appendix – Employment History

Labor Force and Employment of Detroit*

Calendar Year	Employed	Unemployed	Labor Force	Unemployment Rate
2009	283,041	94,787	377,828	25.1%
2010	208,289	68,596	276,885	24.8%
2011	206,226	55,117	261,343	21.1%
2012	208,119	49,611	257,730	19.2%
2013	208,943	48,765	257,708	18.9%
2014	209,701	40,275	249,976	16.1%
2015	212,953	28,514	241,467	11.8%
2016	219,906	26,420	246,326	10.7%
2017	224,958	23,112	248,070	9.3%
2018	226,431	22,112	248,543	8.9%
2019 (YTD)	229,082	22,879	251,962	9.1%

*Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics



Appendix – Economic Drivers Summary

Forecasted Economic Inputs by Fiscal Year

Major Revenue	Economic Input	FY2020	FY2021	FY2022	FY2023	FY2024
Municipal Income Tax	Resident Employment Growth (Census/LAUS)	0.85%	0.94%	1.42%	1.13%	1.08%
	Non Resident Employment Growth (Census/LAUS)	0.54%	0.87%	1.35%	1.04%	0.97%
	Annual Wage Growth (QCEW)	1.68%	1.78%	1.91%	1.96%	1.88%
	Corporate	2.0%	2.0%	2.0%	2.0%	2.0%
Property Tax	U.S. CPI-U*	2.4%	2.6%	2.6%	2.5%	2.5%

* FY 2020 uses the US Consumer Price Index figure stated by the State Tax Commission, FY 2021-2024 uses the US Consumer Price Index forecasted by the Congressional Budget Office (See Slide 25 for expanded data source references)



Appendix – Economic Drivers Summary

Forecasted Economic Inputs by Fiscal Year

Major Revenue	Economic Input	FY2020	FY2021	FY2022	FY2023	FY 2024
State Revenue Sharing	State Sales Tax Forecast	5.5%	2.0%	2.0%	2.0%	2.0%
	Decennial Census City/State Population Ratio (2010 Census)	7.2%	7.2%	6.8%	6.8%	6.8%
Wagering Tax	Average Rate of Change 2010-2018 (MGCB)	1.0%	1.0%	1.0%	1.0%	1.0%
Utility Users Tax	Average Household Unit Growth (Census)	0.24%	0.28%	0.53%	0.79%	0.78%
	Weighted Forecasted Natural Gas Prices (EIA)	1.44%	0.80%	1.26%	2.03%	2.23%
	Weighted Forecasted Electricity Prices (EIA)	0.40%	0.83%	1.49%	1.56%	1.84%



Appendix – Data Sources

Property Tax

- Michigan State Tax Commission
- Congressional Budget Office

Municipal Income Tax

- Bureau of Labor Statistics, Local Area Unemployment Statistics (LAUS)
- Bureau of Labor Statistics, Quarterly Census of Employment & Wages (QCEW)
- U.S. Census Bureau, On The Map

Wagering Tax

- Michigan Gaming Control Board (MGCB)

State Revenue Sharing

- State of Michigan, May 2019 Consensus Revenue Estimating Conference
- U.S. Census Bureau, 2010 Census; 2018 Population Estimates

Utility Users Tax

- U.S. Census Bureau, American Community Survey 1-Year Estimates
- U.S. Energy Information Administration (EIA), 2019 Annual Energy Outlook