February 2022 Revenue Estimating Conference Report

CITY OF DETROIT

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CFO MEMORANDUM
NO. 2022-103-001

TO: City of Detroit Revenue Estimating Conference Principals
FROM: Steven Watson, Deputy CFO / Budget Director, City of Detroit
SUBJECT: Proposed FY 2022 – FY 2026 Revenue Estimates Pursuant to State of Michigan Public Act 279 of 1909, Section 4t(1)(d)
DATE: February 25, 2022

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1. AUTHORITY
   1.1. State of Michigan Public Act 279 of 1909 (PA 279), Section 4t(1)(d), as amended by Public Act 182 of 2014, states the City shall hold a revenue estimating conference in the second week of September and in the third week of February of each year, subject to the following:
      1.1.1. A conference shall establish an official economic forecast of major variables of the national, state, and local economies. A conference also shall establish a forecast of anticipated revenues of the city as the conference determines.
      1.1.2. The principals of a conference shall be the chief financial officer of the city, the state treasurer or his or her designee from within the department of treasury, and a person affiliated with another public entity, including a state institution of higher education, with experience in economic forecasting and revenue projection selected by the chief financial officer of the city and the state treasurer.
      1.1.3. The official forecast of economic and revenue variables of the conference shall be determined by consensus among the conference principals and shall be for the fiscal year in which the conference is being held and the succeeding 2 fiscal years. The conference also shall forecast general fund revenue trendline projections for the city for an additional 2 fiscal years. Conference forecasts of revenues and expenditures shall be based upon the assumption that current law and administrative procedures will remain in effect for the forecast period.
      1.1.4. The conference may request and shall receive from officers, departments, agencies, and authorities of the city the assistance and data needed to enable the conference to fulfill its duties.
2. OBJECTIVES
   2.1. To provide the City of Detroit Revenue Estimating Conference principals the assistance and data needed to fulfill their duties in establishing the City’s official economic and revenue forecast.
   2.2. To satisfy the Office of Budget’s ongoing revenue estimation and economic forecasting responsibilities in accordance with CFO Directive No. 2018-101-002 Comprehensive Financial Planning.

3. PURPOSE
    3.1. To submit proposed revenue estimates to the Revenue Estimating Conference principals for their consideration.
4. SCOPE
    4.1. This Memorandum and the attached report are intended solely to assist the Revenue Estimating Conference principals fulfill their duties pursuant to Section 4t(1)(d) of PA 279.
5. STATEMENT
    5.1. In accordance with Section 4t(1)(d) of PA 279 and CFO Directive No. 2018-101-002, the Office of Budget prepared the attached revenue estimates for FY 2022 through FY 2026 for consideration by the principals of the City of Detroit February 2022 Revenue Estimating Conference.
    5.2. Revenue estimates were prepared on a conservative basis to minimize the possibility that economic fluctuations could jeopardize ongoing service delivery during the fiscal year.
    5.3. Revenue estimates were prepared in consultation with the other OCFO divisions responsible for administering their respective revenues, as well as the City Council's Legislative Policy Division and the Auditor General's Office.

City of Detroit
February 2022 Revenue Estimating Conference Report

February 25, 2022

Overview of Revenue Estimating Conference:

State of Michigan Public Act 279 of 1909, Section 117.4t(1)(d), as amended by Public Act 182 of 2014, states the City of Detroit shall hold biannual revenue estimating conferences, which shall establish the official economic forecast and forecast of anticipated revenues of the City. The City holds its Revenue Estimating Conferences in September and February of each fiscal year. The voting principals are the City's Chief Financial Officer (CFO), the State Treasurer (or designee), and a person affiliated with another public entity, including a State institution of higher education, with experience in economic forecasting and revenue projection selected by the CFO and State Treasurer. The voting principals for the February 2022 Revenue Estimating Conference are:

- Jay B. Rising, Chief Financial Officer, City of Detroit
- Eric Bussis, Chief Economist and Director, Office of Revenue and Tax Analysis, Michigan Department of Treasury (on behalf of State Treasurer Rachael Eubanks)
- George Fulton, PhD, Director Emeritus, Research Seminar in Quantitative Economics (RSQE), Department of Economics, University of Michigan

The Office of Budget, within the Office of the Chief Financial Officer (OCFO), prepared revenue estimates for consideration by the conference principals. Following their review, the principals approved the revenue estimates without modification. In preparing the revenue estimates, the Office of Budget consulted with the OCFO's Offices of the Assessor, Departmental Financial Services, and the Treasury, as well as the City Council's Legislative Policy Division and the Office of the Auditor General. The Office of Budget thanks its colleagues for their continued support and assistance throughout the revenue estimation process.

The estimates that follow include the current fiscal year (FY 2022) and the four succeeding fiscal years (FY 2023 through FY 2026). While there is a greater focus on the General Fund, the estimates also cover the City's grant, enterprise, and special revenue funds. The forecast assumes that current law and administrative procedures will remain in effect for the forecast period.

Summary of Revenue Estimates:

The City's revenue outlook continues to improve following two challenging fiscal years of revenue losses driven by the pandemic. Recurring City revenues are forecasted to exceed pre-pandemic levels in the current fiscal year ending June 30, primarily due to stronger income tax collections and the implementation of internet gaming and sports betting last year. 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. All other revenues are expected to see stable but more modest growth.

FY 2022 General Fund recurring revenues are projected at $1.087 billion for the current fiscal year ending June 30, up $23.8 million (2.2%) from the previous conference estimate in September 2021. The increase is driven by stronger income tax collections and State Revenue Sharing from sales taxes. New internet gaming and sports betting taxes were already added to the forecast in September 2021. In addition, the City is projecting nearly $50 million in non-recurring revenues for FY 2022. General

Fund recurring revenues for FY 2023, which begins July 1, are now forecasted at $1.147 billion, an increase of $60 million (5.5%) over the revised FY 2022 estimates. The projected increase is driven by income and wagering taxes, as the local economy continues to recover and as on-site gaming activity returns to pre-pandemic levels. The conservative General Fund revenue forecasts for FY 2024 through FY 2026 show continued, but modest, revenue growth of around 2% per year on average. Note that all revenue estimates exclude the use of fund balance, which may otherwise appear in the City budget.

General Fund Revenue Estimates - Summary, FY 2022 - FY 2026

$ in millions

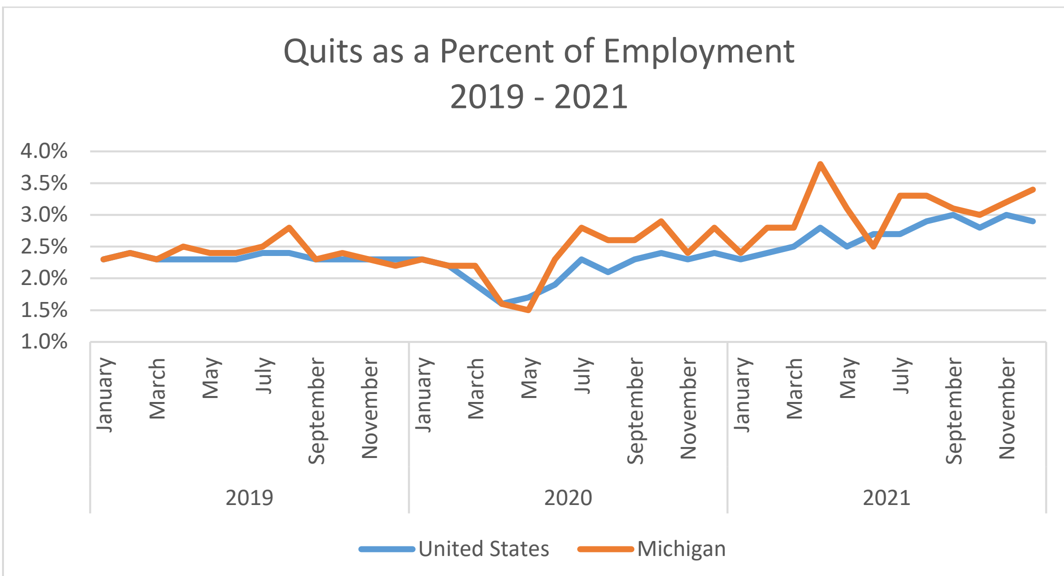
	FY 2019	FY 2020	FY 2021	FY 2022	February 2022 Estimates				
	Actual	Actual	Actual	Sept 2021 Estimate	FY22	FY23	FY24	FY25	FY26
Major Taxes									
Income Tax	$ 361.0	$ 290.0	$ 316.0	$ 276.4	$ 295.1	$ 316.7	$ 342.3	$ 351.0	$ 360.5
Recurring Base	338.0	293.5	270.7	276.4	286.7	316.7	342.3	351.0	360.5
Non-recurring	23.0	(3.5)	45.3	-	8.4	-	-	-	-
State Revenue Sharing	202.6	181.7	214.0	193.7	200.9	208.3	209.4	210.6	211.7
Recurring Base	202.6	181.7	205.2	202.1	209.6	208.3	209.4	210.6	211.7
Non-recurring	-	-	8.8	(8.4)	(8.8)	-	-	-	-
Wagering Tax	183.8	132.4	136.7	283.6	289.3	265.5	268.1	270.8	273.6
Recurring Base	183.8	132.4	136.7	244.9	248.8	265.5	268.1	270.8	273.6
Non-recurring	-	-	-	38.7	40.5	-	-	-	-
Property Tax	119.5	116.6	120.7	117.2	119.6	121.0	122.3	125.2	128.2
Recurring Base	109.8	109.4	112.0	108.5	116.7	121.0	122.3	125.2	128.2
Non-recurring[4]	9.7	7.2	8.7	8.7	2.9	-	-	-	-
Utility Users Tax	28.4	26.9	31.9	31.4	33.3	32.3	32.5	32.8	33.0
Subtotal, Major Taxes	$ 895.3	$ 747.6	$ 819.3	$ 902.3	$ 938.2	$ 943.8	$ 974.6	$ 990.4	$1,007.0
Other Revenues	$ 403.3	$ 205.2	$ 196.3	$ 204.1	$ 198.4	$ 202.7	$ 204.1	$ 207.4	$ 206.2
Recurring	179.4	176.4	169.1	199.6	191.6	202.7	204.1	207.4	206.2
Non-recurring	223.9	28.8	27.2	4.5	6.8	-	-	-	-
Grand Total, General Fund	$1,298.6	$ 952.8	$1,015.6	$1,106.4	$1,136.6	$1,146.5	$1,178.7	$1,197.8	$1,213.2
General Fund, Recurring Only	$1,042.0	$ 920.3	$ 925.6	$1,062.9	$1,086.7	$1,146.5	$1,178.7	$1,197.8	$1,213.2

Economic Conditions

Overall, the labor market has improved and stabilized from where we were in the third and fourth quarters of 2021, but some economic challenges have persisted and new ones have arisen in the first quarter of 2022. Nationally the unemployment rate has reached pre-pandemic levels, 3.9% in December 2021 as compared to 3.6% in December 2019, but labor force participation remains below the average 63% participation rate seen from 2014 through 2019[1]. Data from the Job Openings and Labor Turnover Survey (JOLTS) show that labor market has tightened in the second half of 2021. Job

[1] U.S. Bureau of Labor Statistics, Current Population Survey

openings relative to employment has been at record levels since June 2021. The rate of quits are also high, above 2019 rates by more than half of a percent.[2] Michigan's labor market has had a similar experience overall. Michigan's JOLTS data also reflects some of the labor market tightness that we have seen at the national level in both the high rate of quits and job openings relative to employment.[2] In terms of employment, Michigan is slightly below pre-pandemic levels with little change through the second half of 2021.[3] In Detroit, employment is also near pre-pandemic levels despite experiencing more severe labor market impacts from COVID-19. Wage growth for both Michigan and Detroit has generally followed a similar trend through the pandemic. In contrast to the earlier stages of the pandemic, averages have fallen for both Michigan and Detroit as lower wage jobs that were lost from industries impacted by COVID-19 are now returning to the labor force.[4] Consumer spending and confidence has not been as much of a positive story. As a continuation of a trend established with the pandemic, consumer spending has been tilted more towards goods rather than services, particularly durable goods. Through 2021 spending on durable goods, like appliances and used cars, has increased faster than spending on services.[5] In addition to the shift in spending, supply chain bottlenecks have significantly increased inflationary pressures thus creating year-over-year price increases at rates not seen since the 1980s. The high inflationary environment has had negative impact on consumer sentiment, where index levels are at lower than at any point during the pandemic.[6]



Source: Bureau of Labor Statistics, Job Opening and Labor Turnover Survey

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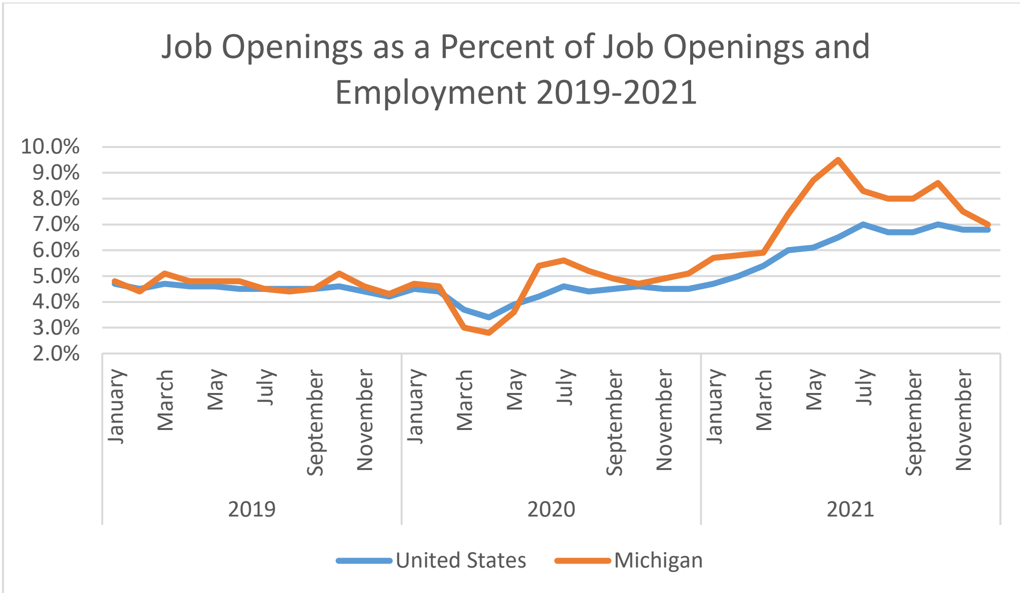
[2] U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey
[3] U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics
[4] U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages
[5] U.S Bureau of Economic Analysis, National Income and Product Accounts
[6] University of Michigan, Survey of Consumers



Source: Bureau of Labor Statistics, Job Opening and Labor Turnover Survey

COVID-19 remains a disruptive factor in the speed and consistency of our economic recovery. In November, a new variant of concern was identified and quickly spread throughout the world to become the dominant strain of the virus. The named Omicron variant was responsible for another spike in positive COVID cases that once again overwhelmed hospitals and taxed public health resources. While there weren't any mandated capacity restrictions to mitigate the spread of the virus, consumer behavior and spending towards activities and services that could not be done without contact were impacted. Any plans by employers to increase worker presence on worksites were also delayed. The impact of the Omicron variant was short-lived as the seven-day average of positive COVID cases fell in late January almost as quickly as they appeared in mid-December.[7]

Economic Risks

The risks to Detroit's economic recovery are primarily the extension of current economic challenges and headwinds. COVID-19 variants thus far have not been as impactful due to vaccine distribution and new, alternative treatment methods but they can still disrupt and slow our nascent economic recovery. A high inflation environment, particularly with food and energy, could impact consumer spending decisions as compared to other risks to Detroit's economy. The Federal Reserve has made clear the intent to adjust monetary policy tools to help stabilize prices and slow inflation.[8] Higher borrowing costs will cause shifts in the housing market and influence further changes in spending decisions by both households and firms. There is currently no end in sight to the challenges creating supply chain issues although current estimates for those pressures may have reached a plateau.[9] If those pressure do not ease or worsen, there could be an adverse impact to Manufacturing and the Trade, Transportation, and Warehousing sectors. Inflation could also be slower to decelerate even with intervention through monetary policy. Remote work employees are expected to be a permanent fixture of our labor force and remains a significant risk to economic activity in the Detroit downtown

[7] Michigan Department of Health and Human Service
[8] Federal Reserve Board of Governors, January 2022 Federal Open Market Committee Statement
[9] Benigno, Giovanni, et.al, "A New Barometer of Global Supply Chain Pressures" Federal Reserve Bank of New York *Liberty Street Economics*, January 2021

core and commercial real estate.[10] Remote work arrangements are still largely variable at this time and subject to additional changes depending on employer preference, the need to attract labor, as well as the continued presence of COVID-19. However, we are optimistic that the peak effects from remote work experienced today will lessen in future years as we reach a new normal for the workplace with hybrid work models.

Current Year General Fund Revenue Estimates:

As shown in the summary table on page 2, recurring General Fund revenue is now projected at $1,086.7 million in FY 2022. FY 2022 General Fund recurring revenues are projected at $1.087 billion for the current fiscal year ending June 30, up $23.8 million (2.2%) from the previous conference estimate in September 2021. The increase is driven by stronger income tax collections, including higher final year-end results for FY 2021, and State Revenue Sharing from sales taxes.

Compared to FY 2021 Actuals, recurring FY 2022 revenues are expected to increase overall by $161.1 million (17.4%). This change is mainly attributable to a $112.1 million increase in wagering tax due to the lifting of capacity restrictions on on-site gaming and the first full year of new internet gaming and sports betting. The increase from FY 2021 is also driven by $16.0 million of income tax gains. Recurring Other Revenues are forecasted to increase $22.5 million over the FY 2021 Actuals. This change is mainly driven by Casino Municipal Service fee revenue and various departmental revenues that include parking enforcement activity, license, permit, and inspection charges.

Non-recurring revenues of $49.8 million are also projected in the FY 2022 February 2022 forecast. These revenues include a $40.5 million wagering tax hold harmless payment from the State based on the City's FY 2021 wagering tax losses. Per the Lawful Internet Gaming Act, the State must pay the City from its internet gaming revenue an amount sufficient to ensure the City receives at least $183 million across all wagering taxes, subject to other limitations. The City received this substantial one-time revenue in October 2021. The City does not forecast future payments of this type because forecasted wagering tax revenue exceeds the $183 million hold harmless floor (see Appendix, Exhibit 1 for a summary of all non-recurring revenues).

[10] Barrero, Bloom, and Davis, "Why Working From Home Will Stick", National Bureau of Economic Research, April 2021

Summary of Major Taxes:

As shown in the summary table below, the General Fund major revenues are now projected at $938.2 million in FY 2022, up $35.9 million (4.0%) compared to the September 2021 estimates. The largest increase is in income tax, including $10.3 million in additional baseline income tax and $8.4 million in one-time tax enforcement collections. Income tax continues to lead revenue growth in future years, reaching $360.5 million by FY 2026 out of total major revenues of $1.007 billion. Please see the sections below for additional details on the major revenues forecast.

General Fund Major Revenue Estimates - Detail, FY 2022 - FY 2026

$ in millions

	FY 2019	FY 2020	FY 2021	FY 2022	February 2022 Estimates				
	Actual	Actual	Actual	Sept 2021 Estimate	FY22	FY23	FY24	FY25	FY26
Major Taxes									
Income Tax	**$ 361.0**	**$ 290.0**	**$ 316.0**	**$ 276.4**	**$ 295.1**	**$ 316.7**	**$ 342.3**	**$ 351.0**	**$ 360.5**
Withholding	287.4	282.8	280.5	287.2	292.3	311.4	322.4	332.0	342.3
Individual	31.5	35.3	33.5	32.0	34.9	37.2	38.5	39.7	40.9
Corporate	33.7	25.8	32.6	28.4	34.0	36.2	38.1	38.1	38.1
Partnership	8.4	6.7	5.3	5.2	5.4	5.6	5.7	5.7	5.7
Assessments	4.7	3.0	-	-	-	-	-	-	-
Recurring Refunds	(27.7)	(36.6)	(26.7)	(24.3)	(26.7)	(28.5)	(29.6)	(30.7)	(31.5)
Nonresident Remote Work Refunds	-	(23.5)	(54.5)	(52.1)	(53.2)	(45.2)	(32.8)	(33.8)	(35.0)
Non-Recurring	23.0	(3.5)	45.3	-	8.4	-	-	-	-
State Revenue Sharing	**202.6**	**181.7**	**214.0**	**193.7**	**200.9**	**208.3**	**209.4**	**210.6**	**211.7**
Statutory	141.0	120.2	144.3	144.3	147.2	147.2	147.2	147.2	147.2
Constitutional	61.6	61.5	60.9	57.8	62.4	61.1	62.2	63.4	64.5
Non-Recurring	-	-	8.8	(8.4)	(8.8)	-	-	-	-
Wagering Tax	**183.8**	**132.4**	**136.7**	**283.6**	**289.3**	**265.5**	**268.1**	**270.8**	**273.6**
Onsite Traditional Gaming	158.6	110.5	101.0	154.5	153.7	161.4	163.0	164.6	166.3
Internet Gaming	-	-	20.8	47.2	51.5	52.1	52.6	53.1	53.7
Sports Betting	-	-	2.4	5.3	5.1	5.8	5.8	5.9	6.0
Percentage Payment - Onsite Gaming	25.2	21.9	9.3	24.0	24.0	29.5	29.9	30.1	30.4
Percentage Payment - Internet Gaming	-	-	2.5	10.8	11.6	12.6	12.7	12.9	13.0
Percentage Payment - Sports Betting	-	-	0.7	3.1	2.9	4.1	4.1	4.2	4.2
Non-Recurring	-	-	-	38.7	40.5	-	-	-	-
Property Tax	131.8	130.9	136.3	132.4	135.3	136.5	138.2	141.5	144.9
Tax Increment Financing Capture	(12.3)	(14.3)	(15.6)	(15.2)	(15.7)	(15.5)	(15.9)	(16.3)	(16.7)
Net Property Tax	**119.5**	**116.6**	**120.7**	**117.2**	**119.6**	**121.0**	**122.3**	**125.2**	**128.2**
Current	82.9	85.7	90.9	92.6	89.4	94.2	95.2	97.4	99.7
Delinquent	24.4	20.8	18.0	21.6	24.0	23.4	23.6	24.2	24.8
Special Acts	2.5	2.9	3.1	3.0	3.3	3.4	3.5	3.6	3.7
Non-Recurring	9.7	7.2	8.7	-	2.9	-	-	-	-
Net Utility Users Tax	**28.4**	**26.9**	**31.9**	**31.4**	**33.3**	**32.3**	**32.5**	**32.8**	**33.0**
Utility Users Tax	40.9	39.4	44.4	43.9	45.8	44.8	45.0	45.3	45.5
To Public Lighting Authority	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)
Total, Major Taxes	**$ 895.3**	**$ 747.6**	**$ 819.3**	**$ 902.3**	**$ 938.2**	**$ 943.8**	**$ 974.6**	**$ 990.4**	**$ 1,007.0**

Summary of Economic Drivers:

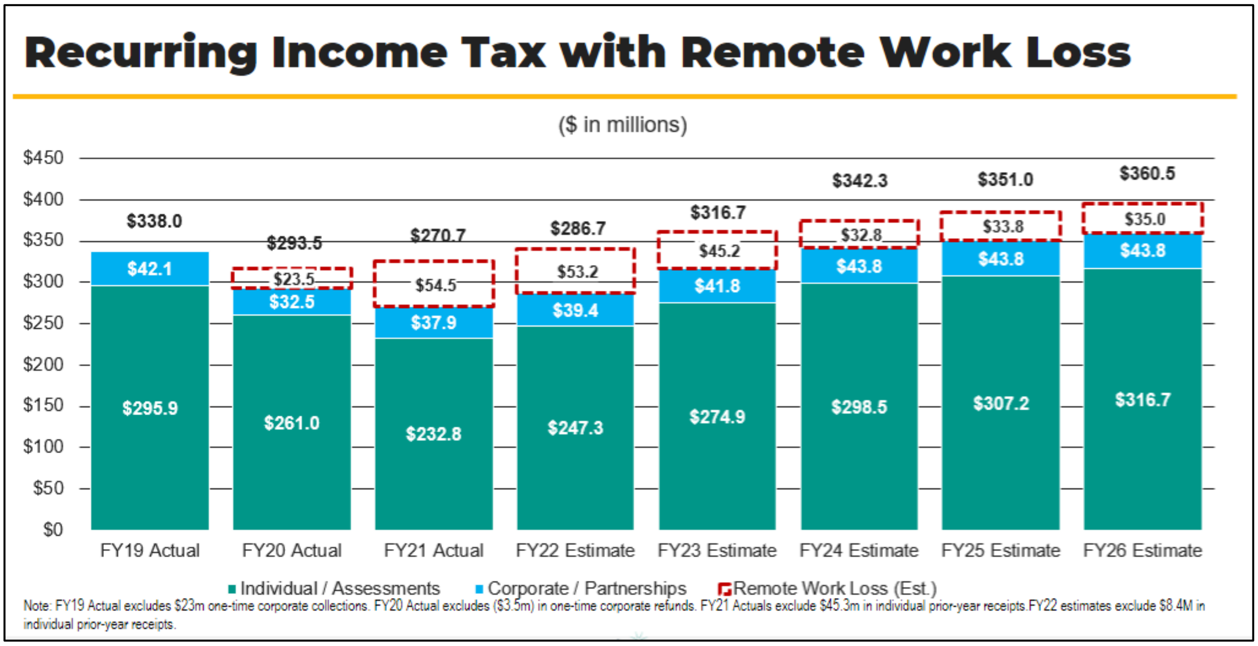
Forecasted Economic Inputs by Fiscal Year

Major Revenue	Economic Input	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Municipal Income Tax	Resident Employment Growth[1]	3.1%	3.5%	2.3%	1.0%	0.9%
	Nonresident Employment Growth[1]	5.4%	5.2%	2.8%	0.7%	0.7%
	Resident Wage Growth[2]	-0.6%	1.1%	1.7%	1.5%	1.8%
	Nonresident Wage Growth[2]	1.0%	3.5%	3.7%	2.8%	2.9%
	Corporate Income Growth[4]	4.0%	6.6%	5.3%	0.0%	0.0%
	Partnership Income Growth	2.0%	3.3%	2.2%	0.0%	0.0%
Property Tax	U.S. Consumer Price Index for All Urban Consumers (U.S. CPI-U)[3]	1.4%	3.3%	3.2%	2.4%	2.4%
State Revenue Sharing	Sales Tax Forecast[4]	2.5%	-2.1%	1.8%	1.8%	1.8%
	City/State Population Ratio[5]	6.3%	6.3%	6.3%	6.3%	6.3%
Wagering Tax	Onsite Gaming Adjusted Gross Receipt (AGR) Growth Rate[6]	53.2%	5.0%	1.0%	1.0%	1.0%
	Onsite Sports Betting AGR Growth Rate	-8.5%	4.1%	1.0%	1.0%	1.0%
	Internet Gaming AGR Growth Rate[7]	144.7%	5.3%	1.0%	1.0%	1.0%
	Internet Sports Betting AGR Growth Rate[7]	264.6%	1.3%	1.0%	1.0%	1.0%
Utility Users Tax	Average Household Unit Growth 2010-2019[8]	0.5%[9]	0.5%	0.5%	0.5%	0.5%

Sources:

(1) U.S. Census Bureau and Local Area Unemployment Statistics
(2) Quarterly Census of Employment and Wages
(3) FY 2023 uses the 2021 US CPI-U state by the State Tax Commission, FY 2024-2026 uses the 2022-2024 US CPI-U consensus forecast from the Survey of Professional Forecasters
(4) State of Michigan January 2022 Consensus Revenue Estimating Conference
(5) U.S. Census Bureau, 2020 Decennial Census Redistricting Data
(6) Michigan Gaming Control Board
(7) FY22 being the first full year of collections, there is a large increase over FY21. Tax structure, assumed seasonal adjustments, and growth rates applied on a calendar basis creates divergence from onsite activity in the forecast.
(8) U.S. Census Bureau, American Community Survey 1-year Estimates
(9) Adjustment for elevated energy prices per U.S. Energy Information Administration Winter Fuels Outlook, October 2021

Municipal Income Tax:



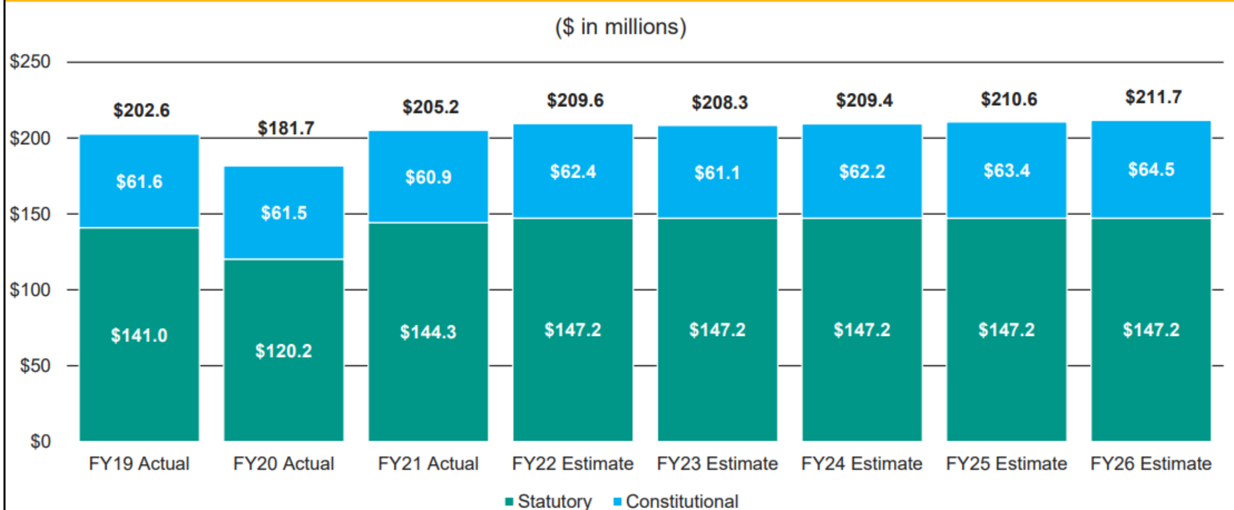
In accordance with the City Income Tax Act (Public Act 284 of 1964, as amended), the City levies a municipal income tax, with certain exemptions such as unemployment benefits. The current tax rates are 2.4% for residents, 1.2% for nonresidents, and 2.0% for corporations, which are the maximum allowed by State law. Nonresidents taxes only apply to work performed within the City's boundaries. The primary drivers behind income tax revenue are resident employment levels, nonresident employment levels, and wages. The base year employment estimates are tied to observed local area employment data, and employment growth rates for each employment category are projected independently. Wage growth is projected using observed regional and local wage data and is assumed to be uniform for each employment category.

The FY 2022 estimate represents a 5.9% increase compared to FY 2021 Actuals. The FY 2022 forecast incorporates an anticipated $53.2 million revenue loss from nonresidents working remotely. The forecast assumes 40% of nonresidents will work remotely through March 31, 2022, and 30% from April 2022 through June 2022. The derived rate for FY 2021 Actuals was 38%. Such remote work is assumed to be nontaxable, and subject to either an adjustment in withholding or a future tax refund. Of course, not all nonresident employment can be conducted remotely (e.g., health care, manufacturing, construction, leisure and hospitality). For FY 2023, the forecast assumes 30% of nonresidents continue to work remotely through June 2023 (i.e., half of nonresidents working remotely 3 days a week), while the FY 2024 through FY 2026 forecast assumes a new steady state of 20% of nonresidents working remotely post-pandemic (i.e., half of nonresidents working remotely 2 days a week). The red dotted line boxes in the graph above illustrate the expected remote work losses in the forecast.

Corporate income tax revenue is expected to increase by 3.7% in FY 2022 and recover another 6.3% in FY 2023. To hedge against volatility, the forecast assumes that corporate tax revenue will remain flat from FY 2023–26. The forecast does not include potential upside from new development projects or improved compliance efforts. Income tax activity that has been identified as non-recurring is not included in the forecasted base.

State Revenue Sharing:

Recurring State Revenue Sharing



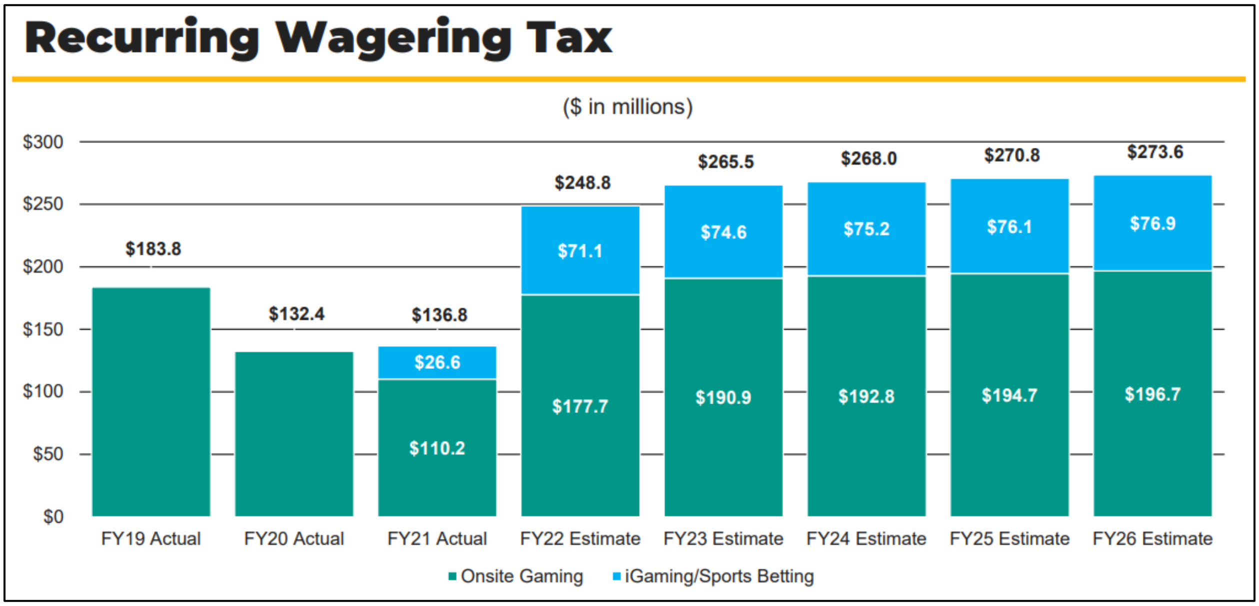
Note: FY20 Actual includes one-time $24M reduction in statutory revenue sharing that the State replaced with a one-time Coronavirus Relief Fund grant outside the General Fund. FY21 excludes $8.8M and FY22 excludes ($8.8M) State payment adjustment due to anticipated delay in applying 2020 US Census population decline into FY22. No net change for two-year total for FY21 and FY22.

Revenue sharing payments from the State come from two components: constitutional and statutory. The State Constitution of 1963, Article IX, Section 10, as amended, requires constitutional revenue sharing payments to municipalities based on 15% of the 4% portion of Michigan's sales tax collections. The State allocates amounts to municipalities based on population as of the last decennial Census. Statutory revenue sharing payments have an underlying formula distribution. For the past several years statutory allocations have instead been determined annually in the State budget as a percentage change from the prior year allocation, often with no change from the prior year.

The forecast assumes growth in the constitutional share based on the State's January 2022 Consensus Revenue Estimating Conference. The forecast uses the reported 2020 Census results to estimate Detroit's share of constitutional revenue sharing. Under current state law, the City is also subject to recoupment in FY 2022 for the difference in the reported 2020 Census versus the 2010 Census, going back to FY 2021. The City's revenue estimates account for this as a non-recurring $8.8 million revenue in FY 2021 and a non-recurring $8.8 million additional loss in FY 2022. The graph above, however, shows what the amounts would be had FY 2021 been simply reduced instead to provide a clearer picture of the year-over-year trend.

For statutory revenue sharing, the FY 2021 actuals reflect a $24.1 million one-time cut to statutory payments that was offset by $37 million in State aid funded from the federal CARES Act that is counted in FY 2021 as non-General Fund revenue. The FY 2022 estimate increased compared to September 2021 based on the enacted State Budget, which included a 2% increase. The forecast is held flat in future years, pending future action in the State Budget. Governor Whitmer has proposed revenue sharing increases in her FY 2023 Budget, including a 5% ongoing and 5% one-time increase in statutory revenue sharing. She has also proposed a one-time hold harmless payment to offset the recoupment requirements discussed above related to the 2020 Census results. Proposed budget actions will not be counted in the forecast until they are formally adopted.

Wagering Taxes:



In accordance with the Michigan Gaming Control and Revenue Act (Initiated Law 1 of 1996, as amended) and associated development agreements, a tax on adjusted gross receipts (AGR) is applied to the three casinos operating in Detroit. The current City wagering tax rate is 11.9% (10.9% in State law, plus 1% pursuant to the casinos' development agreements with the City). The casinos also pay the City a supplemental 1% tax if their gross receipts exceed $400 million in a calendar year. The City also assesses a municipal service fee from each casino of 1.25% of adjusted gross receipts or $4 million, whichever is greater (included separately in the "Other Revenues" category).

In late 2019, the State enacted the Lawful Internet Gaming Act (Public Act 152 of 2019), the Lawful Internet Sports Betting Act (Public Act 149 of 2019), and amendments to the Michigan Gaming Control and Revenue Act. Only internet gaming and sports betting conducted within Michigan's borders is authorized. Only the current Detroit and tribal casinos are eligible licensees. On-site sports betting at casinos began in March 2020. The State launched internet gaming and sports betting in late January 2021.

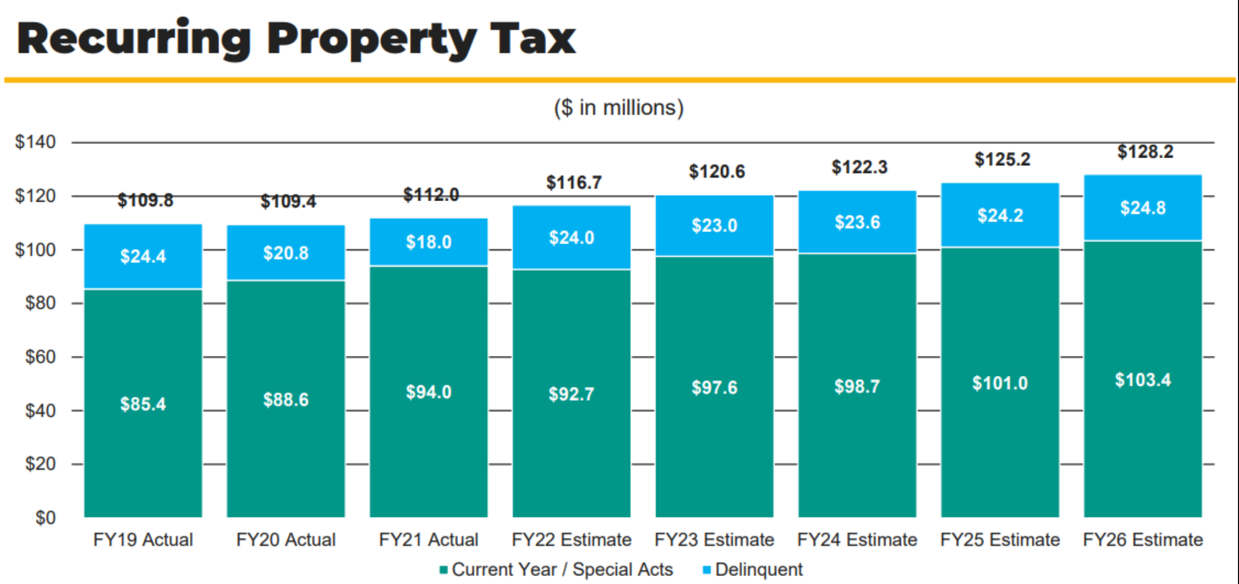
Internet gaming conducted by the Detroit casinos is taxed at a graduated rate on their adjusted gross receipts received each calendar year as outlined below. The City receives 30% of this tax revenue.

a) For adjusted gross receipts less than $4,000,000, a tax of 20%.
b) For adjusted gross receipts of $4,000,000 or more but less than $8,000,000, a tax of 22%.
c) For adjusted gross receipts of $8,000,000 or more but less than $10,000,000, a tax of 24%.
d) For adjusted gross receipts of $10,000,000 or more but less than $12,000,000, a tax of 26%.
e) For adjusted gross receipts of $12,000,000 or more, 28%.

Internet sports betting conducted by the Detroit casinos is taxed at a rate of 8.4% on their adjusted gross sports betting receipts. The City receives 30% of this tax revenue. Retail sports betting conducted on-site at the Detroit casinos is taxed at a rate of 8.4% on their qualified adjusted gross receipts. The City receives 55% of this tax revenue. In addition to the new taxes outlined above, internet gaming and sports betting conducted by the Detroit casinos are also subject to the existing development agreement taxes (up to 2% of AGR) and municipal service fees (1.25% of AGR) that apply to on-site gaming.

The FY 2022 estimate represents a $112.1 million (82%) increase compared to FY 2021 Actuals, due to the lifting of capacity restrictions on on-site gaming in late June 2021 and the first full year of new internet gaming and sports betting, which launched in late January 2021. The forecast assumes a gradual return to pre-pandemic levels of on-site gaming by FY 2023 followed by the historical trend of 1% growth. The forecast assumes internet gaming and sports betting will follow the same 1% growth trend. In addition to the growth in base taxes for internet gaming and sports betting, the forecast includes the casinos' development agreement payments based on these activities as well.

Property Tax:

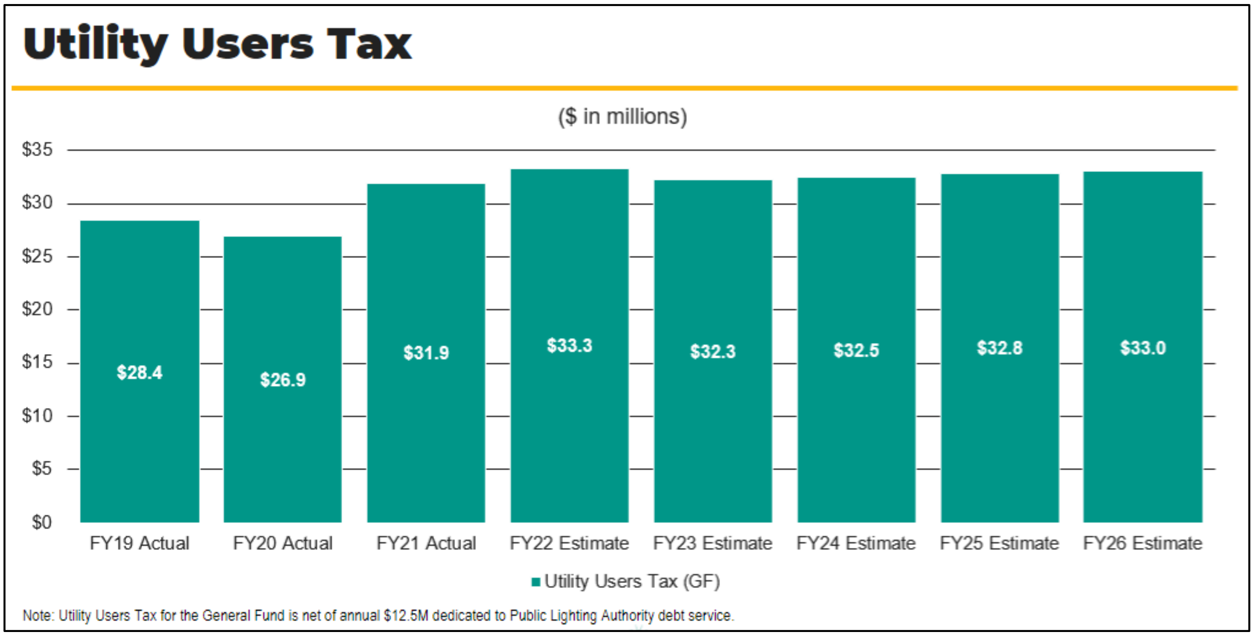


Note: Includes ad valorem taxes and special act taxes (e.g., Neighborhood Enterprise Zone, Industrial Facilities Exemption, and Obsolete Property Rehabilitation Act). Excludes monthly settlement payments on delinquent taxes.

In accordance with the General Property Tax Act (Public Act 206 of 1893, as amended), the City levies taxes on real and personal property. Collections consist of current year taxes, delinquent taxes, and related auction proceeds. The City currently levies 19.952 mills for general operating purposes. However, the millage rate and taxable values are subject to various abatements and exemptions. The actual General Fund collections and revenue estimates are net of captured tax increment financing distributions. The amounts include ad valorem property tax revenue and Special Act property tax revenues from Neighborhood Enterprise Zones, Industrial Facilities Tax, and Obsolete Property Rehabilitation Act parcels.

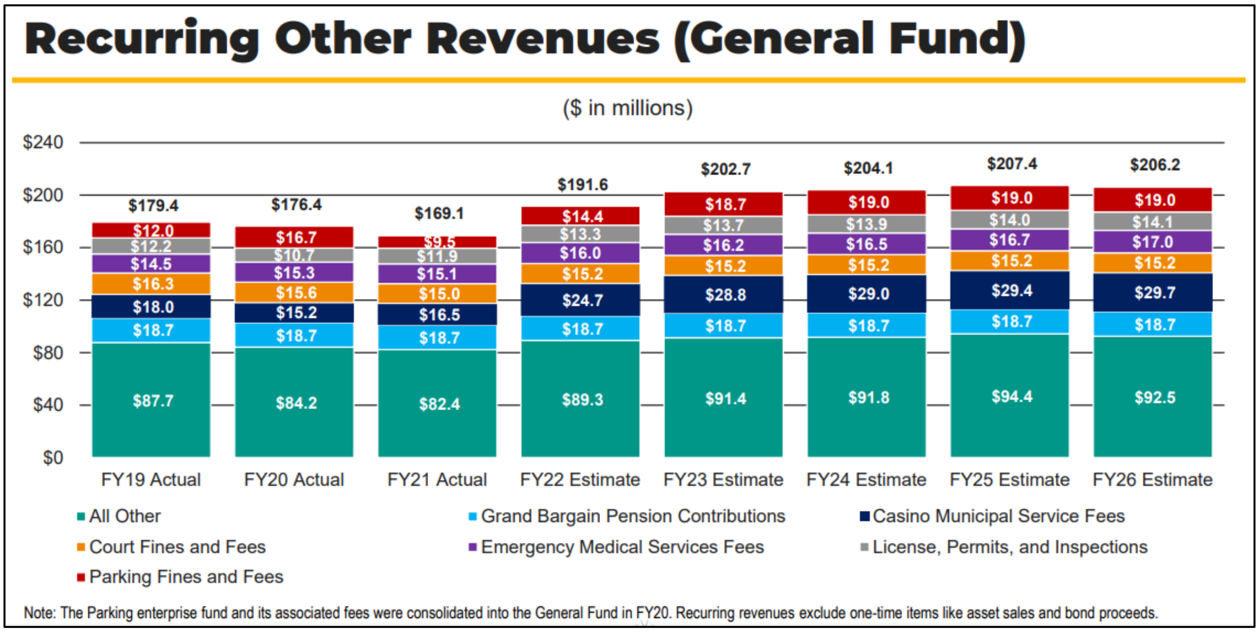
The primary driver for growth during the forecast period is a lagged inflation rate determined by the State Tax Commission (US Consumer Price Index for Urban Consumers lagged by one year) applied to the reported tax year 2021 base, which is defined as the cap for growth in taxable value under the State constitution (Proposal A). This growth is partly offset by the State-mandated phase-out of industrial personal property taxes through FY 2024. The FY 2022 collection rate of 84.6% is held constant throughout the forecast period. Other components, such as payments from Wayne County for delinquent real property tax collections and revenue capture by TIF authorities, are also factored into the forecast based on current and historical observations. The forecast does not include non-recurring delinquent monthly settlement payments or prospective gains from additions to the tax base or the "uncapping" of taxable value.

Utility Users Tax:



In accordance with the City Utility Users Tax Act (Public Act 100 of 1990, as amended), the City levies a 5% tax on consumption of electricity, gas, steam, and telephone services. Annual changes in the revenue forecast are largely based on the average growth rate in household units that is consistent with prior-year trends. In their latest short-term energy forecast release, the Energy Information Administration (EIA) projected an increase in electricity and natural gas prices through winter 2021-2022. In addition to the longer growth trend, a forecast adjustment was made to the winter months in FY 2022 (December 2021-March 2022) to incorporate the new price expectations. Energy prices are not expected to remain at their heightened level in future years, so the forecast adjustment does not affect FY 2023-2026. The estimated revenues shown in the graph are net of $12.5 million disbursed annually to the Public Lighting Authority (PLA).

Other Departmental General Fund Revenue:



The Other Revenue category includes various non-major revenues mostly administered by individual departments related to their operations and services. The graph above shows the largest categories of these revenues. The FY 2022 estimates grow substantially over the FY 2021 actuals, driven by an $8.2 million increase in casino municipal service fees, which grow in kind with wagering taxes. The estimates also assume that parking fees and fines recover as downtown traffic picks up, but not quite reaching pre-pandemic levels throughout the forecast. The forecast excludes non-recurring items, such as asset sales.

Non-General Fund Revenues:

February 2022 Revenue Estimates, Non-General Fund

$ in thousands

	FY22 Est	FY23 Est	FY24 Est	FY25 Est	FY26 Est
Non-General Fund					
Civil Rights, Inclusion and Opportunity Fund	$ 3,000	$ 3,060	$ 3,121	$ 3,184	$ 3,248
Community Development Block Grant	33,133	33,753	34,428	35,117	35,819
Construction Code Fund	26,990	27,530	28,080	28,642	29,215
Dedicated Fees and Donations Fund	9,503	9,716	9,897	10,084	10,273
Drug Law Enforcement Fund	1,164	1,188	1,211	1,236	1,260
Elections Voter's Education Donations	3	3	3	3	3
Fire Grants Fund	2,554	1,850	1,887	1,925	1,964
Health Grants Fund	29,319	29,905	30,503	31,113	31,736
Homeland Security Grants Fund	740	755	770	785	801
Library	28,532	29,404	29,828	30,501	31,189
Major Street	106,066	105,553	107,716	110,129	112,457
Mayor's Office Grants Fund	169	178	182	185	189
Police Grants Fund	6,281	6,407	6,531	6,657	6,786
Public Act 48 of 2002 Fund	3,060	3,121	3,184	3,247	3,312
Public Lighting Decommissioning Reserve Fund	318	1,096	331	338	344
Recreation/General Services Grants Fund	1,373	1,400	1,428	1,457	1,486
Sinking Interest & Redemption	69,997	59,749	55,006	46,684	41,436
Solid Waste Management	49,096	49,396	49,596	49,896	50,096
Special Housing Rehab Programs	9,695	9,889	10,086	10,288	10,494
Urban Development Action and Discretionary Grants	2,803	2,859	2,916	2,974	3,034
Enterprise Fund					
Airport Operation and Maintenance	512	516	526	537	548
Detroit Water and Sewerage Department	643,177	656,041	669,162	682,545	696,196
Transportation	61,415	67,037	73,271	73,668	74,073
Total, Non-General Fund Revenue	**$ 1,088,900**	**$ 1,100,406**	**$ 1,119,663**	**$ 1,131,195**	**$ 1,145,959**

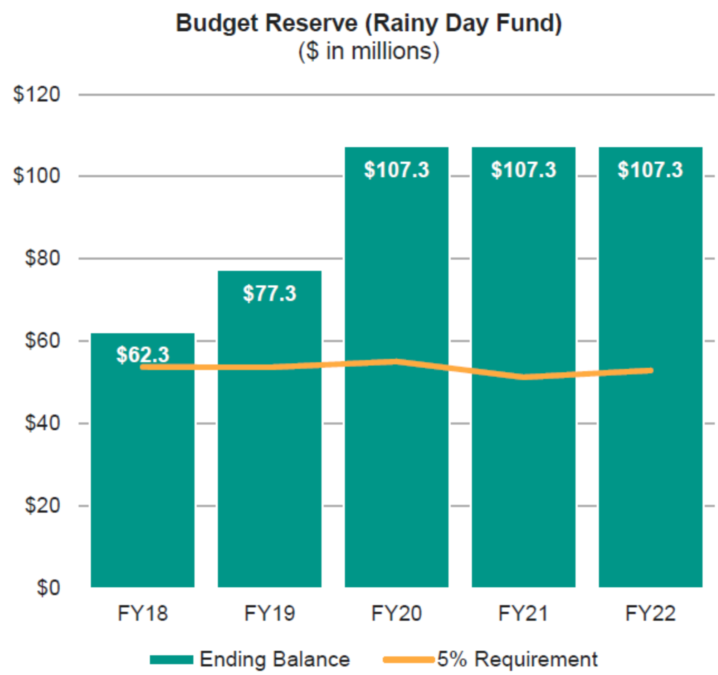
Non-General Fund revenues include enterprise, grant and special revenue funds. Major examples include water and sewer bills, bus fares, solid waste fees, intergovernmental aid for roads and transit, and other restricted revenues. Note that amounts above exclude General Fund contributions, inter-fund transfers, and the use of fund balance. The Major Street Fund receives most of its revenue from gas and weigh tax distributions from the State. The forecast has been adjusted based on the reported 2020 Census results, which impact the distribution formula. The Sinking Interest & Redemption Fund represents the City's debt millage, which raises property tax revenue sufficient to pay debt service on voter-approved bonds. The Solid Waste Management Fund includes the annual $240 solid waste fee seen on the summer property tax bill, which supports residential curbside garbage collection. The Transportation enterprise fund is for the Detroit Department of Transportation (DDOT). It includes bus fares, State formula aid for bus operations, and transit capital grants. Bus fares have been depressed throughout the pandemic, and the forecast assumes this continues in FY 2023 before returning to baseline by FY 2024.

Budget Reserve:

State of Michigan Public Act 279 of 1909, Sections 117.4t(1)(b)(vi) and 117.4t(1)(c)(vi), as amended by Public Act 182 of 2014, states the City's annual four-year financial plan shall include and comply with the following requirements:

- Measures to assure adequate reserves for mandated and other essential programs and activities in the event of an overestimation of revenue, an underestimation of expenditures, or both.

- Include a general reserve fund for each fiscal year to cover potential reductions in projected revenues or increases in projected expenditures equal to no less than 5% of the projected expenditures for the fiscal year.



As of June 30, 2021, the City's Budget Reserve (or "Rainy Day fund") totaled $107.3 million, which exceeded the minimum requirement of 5% of the projected expenditures. Prior to the pandemic, the City proactively increased its Rainy Day Fund to approximately 10% of expenditures to hedge against a future recession. After the pandemic struck, the FY 2021 Adopted Budget assumed the City would need to draw down $50 million to help address COVID-19 revenue shortfalls, while still keeping the balance above 5%. Due to stronger revenue performance in FY 2021, the FY 2021 drawdown was ultimately not needed, so the Rainy Day Fund was maintained at $107.3 million.

Revenue Risk and Potential Upside:

Downside risks:

- Slower casino recovery than expected and potential substitution effects
- Slower than anticipated recovery from recession
- Larger than anticipated nonresident remote work impact

- Longer lasting changes in economic activity due to workplace and firm/consumer behavior changes
- Additional COVID-19 variants extending pandemic impacts longer than expected
- Supply chain issues persisting and particularly impacting manufacturing sector

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 funding, economic stimulus, and infrastructure investment

Appendix, Exhibit 1 – FY 2021 ACFR Reconciliation and Non-Recurring Details

2021 Revenue Actuals -
ACFR to Budget Display Reconciliation

$ in thousands

General Fund	FY 2021
ACFR Revenue	**$ 1,004,331**
Other Financing Sources - Face amount of bonds and notes issued	5,841
Other Financing Sources - Transfers In	395
Other Financing Sources - Sale of Capital Assets	19,218
Grand Total, ACFR Resources	**$ 1,029,785**
Reclassifying of revenues coded as expenditures in ACFR	6,482
Remove non-fund 1000 ACFR General Fund revenues and financing sources	(6,663)
Other Financing Sources/Uses excluded from Revenue Conference	(14,000)
Total, FY 2021 Revenue Actuals	**$ 1,015,604**
Non-Recurring Items	
Major Taxes	
Income Tax - Individual	45,300
Property Tax - Monthly Settlements	8,694
State Revenue Sharing - 2020 Census Population Adjustment	8,785
Subtotal, Major Taxes	**$ 62,779**
Other Revenue	
Local Community Stabilization Authority (LCSA) Payment	6,362
Police Department hazard pay federal grant	2,635
Fire Department hazard pay federal grant	1,023
Revenues from Sale and Use of Assets	3,218
State Fairgrounds Sale	2,000
Libor Settlement	1,639
Non-Dept undistributed balances/tax receipts adjustment	8,490
Detroit Salt Mine Lease Payment	975
LCSA - Health Dept (FY20 payment only)	784
Pistons Donation	417
Unrealized Gain	(356)
Subtotal, Other Revenue	**$ 27,187**
Total, FY 2021 Non-Recurring Items	**$ 89,966**
Total, FY 2021 Recurring Revenue	**$ 925,638**