September 2022 Revenue Estimating Conference Report

CITY OF DETROIT

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CFO MEMORANDUM
NO. 2022-103-003

TO: City of Detroit Revenue Estimating Conference Principals
FROM: Steven Watson, Deputy CFO / Budget Director, City of Detroit
SUBJECT: Proposed FY 2023 – FY 2027 Revenue Estimates Pursuant to State of Michigan Public Act 279 of 1909, Section 4t(1)(d)
DATE: September 12, 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 2023 through FY 2027 for consideration by the principals of the City of Detroit September 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
September 2022 Revenue Estimating Conference Report

September 12, 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 September 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 2023) and the four succeeding fiscal years (FY 2024 through FY 2027). 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, thanks to the strength of our income tax and our continuing efforts driving economic opportunity and growth for Detroiters. The Revenue Conference has once again approved higher revenue estimates based on our stronger collections concluding the previous fiscal year, Detroit's continued economic growth and stability, and revenue sharing increases provided in the State Budget enacted in July. Income taxes continue to drive revenue growth in future years as well, in line with the City's economic forecast and despite an ongoing loss from nonresidents expected to continue working remotely through hybrid work models. Property tax values are also expected to drive revenue growth over the next two to three years through a combination of higher Proposal A inflation caps and a higher FY 2023 taxable value base from heightened housing market activity. All other revenues are expected to see stable but more modest growth.

General Fund recurring revenues for the recently completed FY 2022 are projected to be $1.170 billion, up $82.9 million (7.6%) from the previous conference estimate in February 2022. The increase is driven by stronger income tax revenues and State Revenue Sharing from sales taxes. In addition, the City is projecting nearly $87.6 million in non-recurring revenues for FY 2022, $37.8 million higher than expected in the February 2022 estimate. General Fund recurring revenues for FY 2023, which began July 1, are now forecasted at $1.187 billion, an increase of $17.8 million (1.5%) over the revised FY 2022 estimates. The projected increase is driven by property tax collections as a result of the recently active housing market and State Revenue Sharing through an increase in statutory revenues shared as set by the adopted State budget for FY 2023. The conservative General Fund revenue forecasts for FY 2024 through FY 2027 show continued, but modest, revenue growth of around 1.6% per year on average. Note that all revenue estimates exclude the use of fund balance, which may otherwise appear in the City budget.

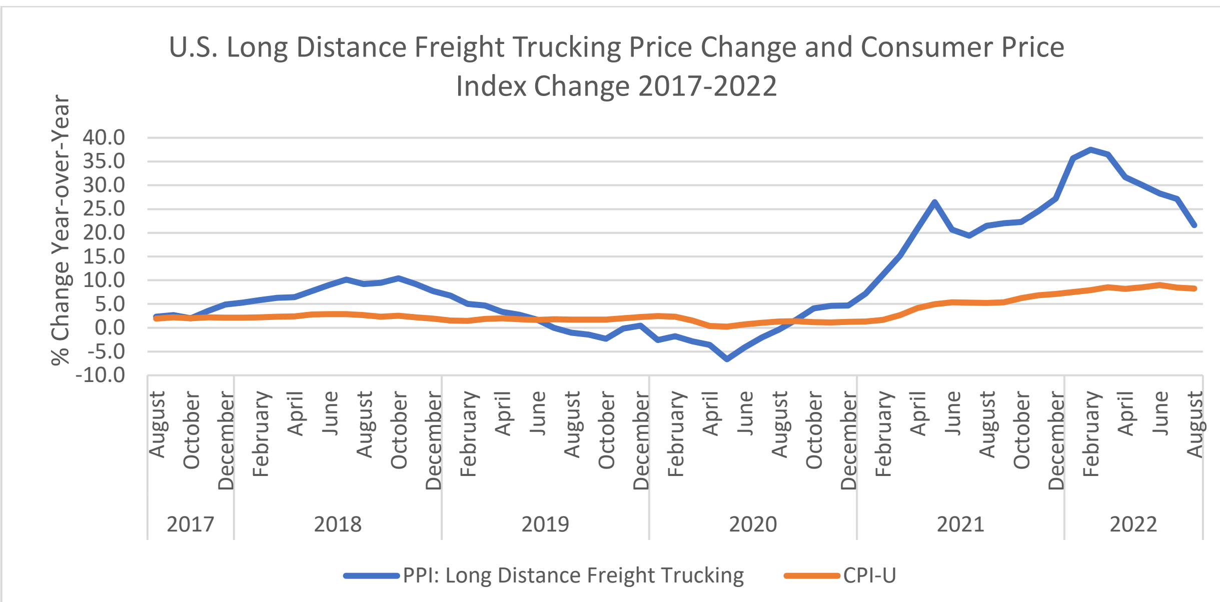
General Fund Revenue Estimates - Summary, FY 2023 - FY 2027

$ in millions

	FY 2020	FY 2021	FY2022		FY 2023	September 2022 Estimates				
	Actual	Actual	Feb 2022 Estimate	Projected Actual	Feb 2022 Estimate/ Adopted	FY23 Est	FY24 Est	FY25 Est	FY26 Est	FY27 Est
Major Taxes										
Income Tax	$ 290.0	$ 316.0	$ 295.1	$ 391.4	$ 316.7	$ 362.1	$ 380.8	$ 389.8	$ 397.0	$ 402.7
Recurring Base	293.5	316.0	286.7	358.2	316.7	362.1	380.8	389.8	397.0	402.7
Non-recurring	(3.5)	-	8.4	33.2	-	-	-	-	-	-
State Revenue Sharing	181.7	214.0	200.8	219.5	208.3	221.9	221.3	222.2	223.1	224.1
Recurring Base	181.7	205.2	209.6	214.9	208.3	220.4	221.3	222.2	223.1	224.1
Non-recurring	-	8.8	(8.8)	4.6	-	1.5	-	-	-	-
Wagering Tax	132.4	136.7	289.3	283.7	265.5	250.4	254.0	256.6	259.2	261.7
Recurring Base	132.4	136.7	248.8	243.2	265.5	250.4	254.0	256.6	259.2	261.7
Non-recurring	-	-	40.5	40.5	-	-	-	-	-	-
Property Tax	116.6	120.7	119.6	127.6	121.0	132.8	133.6	138.9	143.4	147.6
Recurring Base	116.6	120.7	116.7	127.6	121.0	132.8	133.6	138.9	143.4	147.6
Non-recurring	-	-	2.9	-	-	-	-	-	-	-
Utility Users Tax	26.9	31.9	33.3	39.4	32.3	32.3	32.5	32.8	33.0	33.2
Subtotal, Major Taxes	$ 747.6	$ 819.3	$ 938.1	$ 1,061.6	$ 943.8	$ 999.5	$ 1,022.2	$ 1,040.3	$ 1,055.7	$ 1,069.3
Major Taxes (Recurring Only)	$ 751.1	$ 810.5	$ 895.1	$ 983.3	$ 943.8	$ 998.0	$ 1,022.2	$ 1,040.3	$ 1,055.7	$ 1,069.3
Other Revenues	$ 205.2	$ 196.3	$ 198.4	$ 195.5	$ 202.7	$ 189.2	$ 192.1	$ 195.6	$ 194.2	$ 195.4
Recurring	176.4	169.1	191.6	186.3	202.7	189.2	192.1	193.3	194.2	195.4
Non-recurring	28.8	27.2	6.8	9.2	-	-	-	2.3	-	-
Grand Total, General Fund	$ 952.8	$ 1,015.6	$ 1,136.5	$ 1,257.1	$ 1,146.5	$ 1,188.7	$ 1,214.3	$ 1,235.9	$ 1,249.9	$ 1,264.7
General Fund, Recurring Only	$ 927.5	$ 979.6	$ 1,086.7	$ 1,169.6	$ 1,146.5	$ 1,187.2	$ 1,214.3	$ 1,233.6	$ 1,249.9	$ 1,264.7

Economic Conditions

Detroit finds itself in a high inflationary environment with recession chances increasing as the labor market remains strong, but tighter than ever. The US Consumer Price Index or CPI reported in August showed prices grew 8.3% year over year; 6.3% if you exclude the more volatile food and energy prices. The U.S. has not seen price growth as high since 1981[1]. Energy prices, which rose and remained elevated due to lower global supply related to the Russian invasion of Ukraine, has begun to fall in the United States. Prices for food and other goods have continued to rise as systemic global supply chain issues related to the aftermath of the pandemic are still being resolved. While it is not clear how long high inflation will last, there are signs of improvement. The Producer Price Index (PPI) measures the change in the cost of services charged by sellers of goods and services. A component of the index, the price for long distance general freight trucking in the U.S., has shown slowing year-over-year growth since it's peak in February 2022[2]. This alludes to price growth for goods shipped by truck slowing in the short term. Based on data over the past five years, freight trucking prices in the PPI index could serve as a leading indicator for the CPI index.



Source: Bureau of Labor Statistics, Producer Price Index by Industry: General Freight Trucking, Long Distance Truckload; Consumer Price Index for Urban Consumers

In terms of policy intervention to combat high inflation, central banks have taken the lead through a combination of interest rate increases and reductions of their nations' money supply. The combination of these actions is referred to as "quantitative tightening" the opposite of the quantitative easing we have seen as a monetary policy response to the Great Recession in 2008 and the "COVID Recession" in 2020. The U.S. central bank, the Federal Reserve, has indicated that they will increase federal funds rate up to 3.4% by the end of 2022[3] and would gradually taking the money supply down

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[1] U.S. Bureau of Labor Statistics, Consumer Price Index for Urban Consumers (CPI-U)

[2] U.S. Bureau of Labor Statistics, Producer Price Index by Industry: General Freight Trucking, Long Distance Truckload

[3] Federal Reserve Board of Governors, June Summary of Economic Projections

from the elevated levels we saw in late 2020 and 2021[4]. The goal of quantitative tightening policies like these is to slow demand down to a level where supply can keep up, which would slow down prices changes. The Federal Reserve began implementing quantitative tightening policies in June of this year and will take some time until we see the policy to begin impacting interest rates.

Locally, we've seen the impact of inflation on food prices, prices on retail goods, and gas prices but it has not yet caused any material shifts in the overall labor market. Employment levels have remained stable with slight growth through 2022 and unemployment rates have stayed relatively low, approaching pre-pandemic lows[5]. In payroll data we have seen strong wage growth over the past 12 months but not enough keep up with increasing prices. The economic pain from inflation has certainly been felt by resident and non-resident workers alike.

Economic Risks

As mentioned earlier, recession risks have been increasing as high inflation persists and corrective policy continues. Specifically, recession risks exist from potential supply-side shocks or a potential demand-side shock. The supply-side shocks are related to supply chain disruptions. COVID-related shutdowns in Asia during 2021 and early 2022 were responsible for amplifying the supply chain issues that drove inflation upwards, particularly with semiconductor chips[6]. The Russian embargo in response to their invasion of Ukraine was the one large shock that disrupted energy markets and the supply of oil and natural gas. Geopolitical shocks like these are unpredictable and do not have a set duration and would cause economic conditions to worsen to the point that would tip the U.S economy into a recession. The longer that these existing shocks last, like the war in Ukraine, the higher the likelihood that the prices for all goods and the consumer behavior driven by these changes entrench and cause permanent, long-term shifts in national economic growth trajectory.

Demand-side risks of inflation are mostly policy driven. The quantitative tightening policy that Federal Reserve has adopted to slow inflation does so by slowing demand. If demand slows too much, or misses a "soft landing", then the U.S. economy would be pushed into recession. The primary mechanism that could create this outcome is the setting of the federal funds rate. In short, the federal funds rate is a base interest rate that all other interest rates are built from. As the federal funds rate increases, the cost of borrowing money increases. The federal funds rate affects everything from mortgages and credit cards to commercial loans and lines of credit. If the cost of using those products increase, then consumers, developers, and investors are more likely to delay commercial investments, purchases on homes and cars, or change spending patterns to accommodate those large purchases. Delayed purchase and investment decisions would then slow the demand for goods to where supply can meet the new level of demand. Too many delayed purchase and investment decisions could then negatively impact labor market and cause economic activity to shrink. The chance of increasing the federal funds rate to the extent where economic activity shrinks rely on how quickly the Federal Reserve can receive and digest economic data to adjust their policy appropriately. Economic conditions, especially around inflation, have been changing rapidly where a decision made on data from prior months has become increasingly difficult where the ideal "soft landing" is now the less likely scenario. Still, as experienced from the last recession caused by monetary policy in 1992, a recession caused by monetary policy over-tightening would most likely be mild and short.

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[4] Federal Reserve Board of Governors, FOMC Communications Related to Policy Normalization
[5] U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics
[6] Power and Beyond. (September, 2022) *Global Chip Shortage in 2022 – Updates in June*

Thinking about long-term risks specific to Detroit, supply-side and demand-side shocks would impact the auto industry, as it gets more expensive to buy a car either because of the price of the car or the cost to borrow money to purchase the car. The finance industry would be more sensitive to a demand-side shock from monetary policy as loan activity slows due the higher cost of debt. Because both industries have a significant presence in Detroit, impacts could be more acute than other places in Michigan. Economic development activity could also slow due to tightening monetary policy as debt needed to initiate development projects become more expensive. COVID-19 is still not so far removed from economic decision-making that it could no longer be perceived as a risk. Social distancing adaptations such as remote work and widespread use of online commerce and events have become more common and accepted as new norms. We continue to monitor data revenue and economic data to better identify the new normal and to understand any new risks that come with new post-pandemic norms and trends.

Current Year General Fund Revenue Estimates:

As shown in the summary table on page 2, recurring General Fund revenue is now projected at $1,187.2 million in FY 2023. The updated FY 2023 estimates have been increased by $40.7 million, representing a 3.5% gain from the FY 2023 Adopted Budget. The increase is primarily driven by stronger income tax collections and the inclusion of receipts from tax compliance collections on prior year income taxes owed by individuals, contributing $45.4 million of the $40.7 upward revision. Wagering tax collections and parking related revenues were revised downward due to activity recovering slower than expected. Gains from increased State Revenue Sharing dollars and higher property tax collections from higher taxable property values generally offset those downward revisions.

Compared to FY 2022 projected actuals, recurring FY 2023 revenues are expected to increase overall by $17.6 million (1.5%). This change is mainly attributable to $5.5 million in State Revenue Sharing, $5.2 million in higher property tax collections. Steady growth in both income tax collections ($4.9 million) and wagering tax collections ($7.2 million) offset the expected decrease of -$7.1 million from the normalization of utility users' tax collections. Recurring Other Revenues are forecasted to increase $2.9 million over the FY 2022 projected actuals. This change is mainly driven by growth in the Casino Municipal Service Fees and parking fees and fines, although the growth is slower than the forecast in February 2022.

Non-recurring revenues of $87.6 million are also projected in the FY 2022 September 2022 forecast. These revenues include $33.2 million in large corporate and partnership tax payments and $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 onetime 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.

Summary of Major Taxes:

As shown in the summary table below, the projected actuals for the General Fund major revenues are $1.062 billion in FY 2022, up $123.5 million (13.2%) compared to the February 2022 estimates. The largest increase is in income tax, $96.3 million. Income tax continues to lead revenue growth in future years, reaching $402.7 million by FY 2027 out of total major revenues of $1.069 billion. Please see the sections below for additional details on the major revenues forecast:

General Fund Major Revenue Estimates - Detail, FY 2023 - FY 2027

$ in millions

	FY 2020	FY 2021	FY 2022		FY 2023	September 2022 Estimates				
	Actual	Actual	Feb 2022 Estimate	Projected Actual	Adopted Budget	FY23 Est	FY24 Est	FY25 Est	FY26 Est	FY27 Est
Major Taxes										
Income Tax	$ 290.0	$ 316.0	$ 295.1	$ 391.4	$ 316.7	$ 362.1	$ 380.8	$ 389.8	$ 397.0	$ 402.7
Withholding	282.8	280.5	292.3	306.5	311.4	323.5	336.2	346.8	355.4	362.2
Individual Returns	35.3	33.5	34.9	23.7	37.2	25.0	26.0	26.8	27.5	28.0
Corporate	25.8	32.6	34.0	39.4	36.2	42.0	44.2	44.2	44.2	44.2
Partnership	6.7	5.3	5.4	9.0	5.6	9.2	9.4	9.4	9.4	9.4
Tax Compliance/Offset Program[1]	3.0	45.3	-	36.0	-	32.4	32.4	32.4	32.4	32.4
Recurring Refunds	(36.6)	(26.7)	(26.7)	(21.0)	(28.5)	(33.2)	(35.0)	(36.2)	(37.2)	(38.0)
Nonresident Remote Work Refunds	(23.5)	(54.5)	(53.2)	(35.4)	(45.2)	(36.8)	(32.4)	(33.6)	(34.7)	(35.5)
Non-Recurring	(3.5)	-	8.4	33.2	-	-	-	-	-	-
State Revenue Sharing	181.7	214.0	200.8	219.5	208.3	221.9	221.3	222.2	223.1	224.1
Statutory	120.2	144.3	147.2	147.2	147.2	154.5	154.5	154.5	154.5	154.5
Constitutional	61.5	60.9	62.4	67.7	61.1	65.9	66.8	67.7	68.6	69.6
Non-Recurring	-	8.8	(8.8)	4.6	-	1.5	-	-	-	-
Wagering Tax	132.4	136.7	289.3	283.7	265.5	250.4	254.0	256.6	259.2	261.7
Onsite Traditional Gaming	110.5	101.0	153.7	141.5	161.4	142.5	144.4	145.8	147.3	148.7
Internet Gaming	-	20.8	51.5	58.9	52.1	61.2	61.9	62.5	63.1	63.8
Sports Betting	-	2.4	5.1	4.6	5.8	5.6	5.8	5.9	6.0	6.0
Percentage Payment - Retail	21.9	9.6	24.4	23.3	31.1	23.7	24.2	24.5	24.7	24.9
Percentage Payment - Internet		2.9	14.1	14.9	15.1	17.4	17.7	17.9	18.1	18.3
Non-Recurring	-	-	40.5	40.5	-	-	-	-	-	-
Property Tax	130.9	136.3	135.3	142.7	136.5	150.8	152.9	158.9	163.9	168.7
Tax Increment Financing Capture	(14.3)	(15.6)	(15.7)	(15.1)	(15.5)	(18.0)	(19.3)	(20.0)	(20.5)	(21.1)
Net Property Tax	116.6	120.7	119.6	127.6	121.0	132.8	133.6	138.9	143.4	147.6
Current	85.7	90.9	89.4	94.7	94.2	97.4	98.4	102.5	106.0	109.4
Delinquent[2]	28.0	26.7	24.0	29.5	23.4	31.9	31.5	32.6	33.5	34.2
Special Acts	2.9	3.1	3.3	3.4	3.4	3.5	3.7	3.8	3.9	4.0
Non-Recurring	-	-	2.9	-	-	-	-	-	-	-
Net Utility Users Tax	26.9	31.9	33.3	39.4	32.3	32.3	32.5	32.8	33.0	33.2
Utility Users Tax	39.4	44.4	45.8	51.9	44.8	44.8	45.0	45.3	45.5	45.7
To Public Lighting Authority	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)
Total, Major Taxes	$ 747.6	$ 819.3	$ 938.1	$ 1,061.6	$ 943.8	$ 999.5	$ 1,022.2	$ 1,040.3	$ 1,055.7	$ 1,069.3

Notes:
(1) Tax Compliance/Offsets were categorized as one-time in past forecasts but are now categorized as recurring revenue.
(2) Monthly delinquent tax payments were categorized as one-time in past forecasts but are now categorized as recurring revenue.

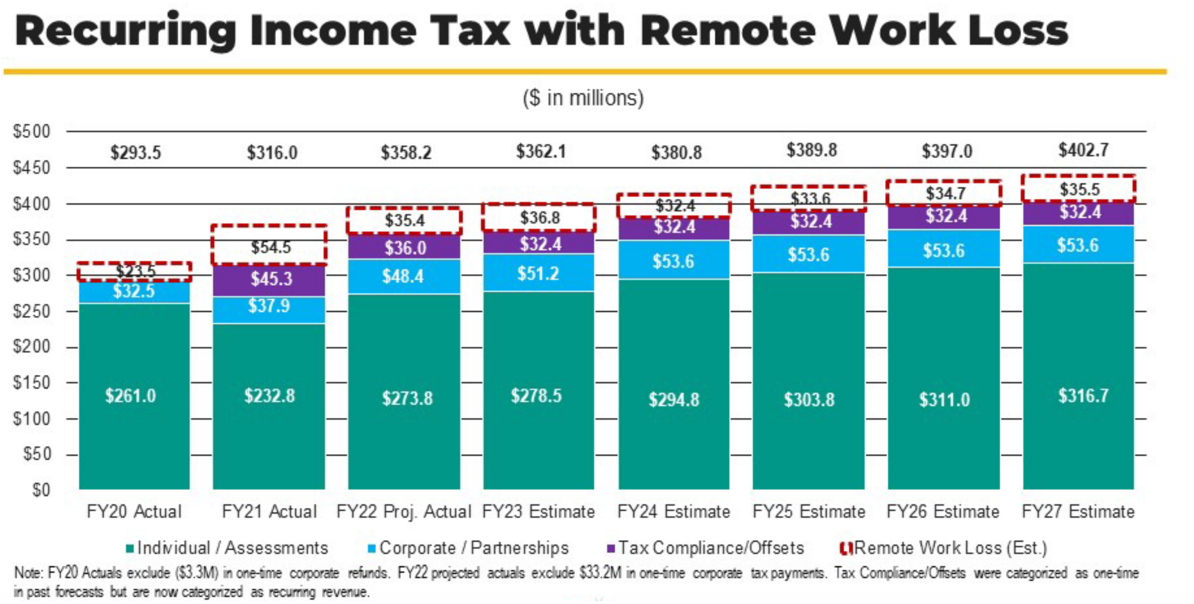
Summary of Economic Drivers:

Major Revenue	Economic Input	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Municipal Income Tax	Resident Employment Growth[1]	1.8%	1.2%	0.7%	0.4%	0.0%
	Nonresident Employment Growth[1]	3.7%	1.8%	1.0%	0.6%	0.2%
	Resident Wage Growth[2]	1.6%	1.6%	1.7%	1.4%	1.4%
	Nonresident Wage Growth[2]	4.5%	3.4%	3.0%	2.5%	2.4%
	Corporate Income Growth[4]	6.6%	5.3%	0.0%	0.0%	0.0%
	Partnership Income Growth	3.3%	2.2%	0.0%	0.0%	0.0%
Property Tax	U.S. Consumer Price Index for All Urban Consumers (U.S. CPI-U)[3]	3.3%	7.4%	3.6%	2.7%	2.7%
State Revenue Sharing	Sales Tax Forecast[4]	-2.7%	1.4%	1.4%	1.4%	1.4%
	City/State Population Ratio[5]	6.4%	6.4%	6.4%	6.4%	6.4%
Wagering Tax	Onsite Gaming Adjusted Gross Receipt (AGR) Growth Rate[6]	0.7%	1.3%	1.0%	1.0%	1.0%
	Onsite Sports Betting AGR Growth Rate	23.7%	4.6%	1.0%	1.0%	1.0%
	Internet Gaming AGR Growth Rate[7]	3.9%	1.0%	1.0%	1.0%	1.0%
	Internet Sports Betting AGR Growth Rate[7]	22.2%	4.2%	1.0%	1.0%	1.0%
Utility Users Tax	Net UUT Growth Rate	-13.7%[8]	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 average annual US CPI-U for 2021 set by the State Tax Commission, FY 2024 uses the average annual US CPI-U for 2022 as reported from the U.S. Bureau of Labor Statistics, FY 2025-2027 uses the 2023-2025 US CPI-U consensus forecast from the Survey of Professional Forecasters. Taxable value growth cannot exceed 5% per Proposal A limits.
(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) FY 2022 was adjusted upwards to account for elevated energy prices per U.S. Energy Information Administration Winter Fuels Outlook, October 2021. This decrease is the total net UUT returning to the baseline for FY 2023 – FY 2027.

Municipal Income Tax:



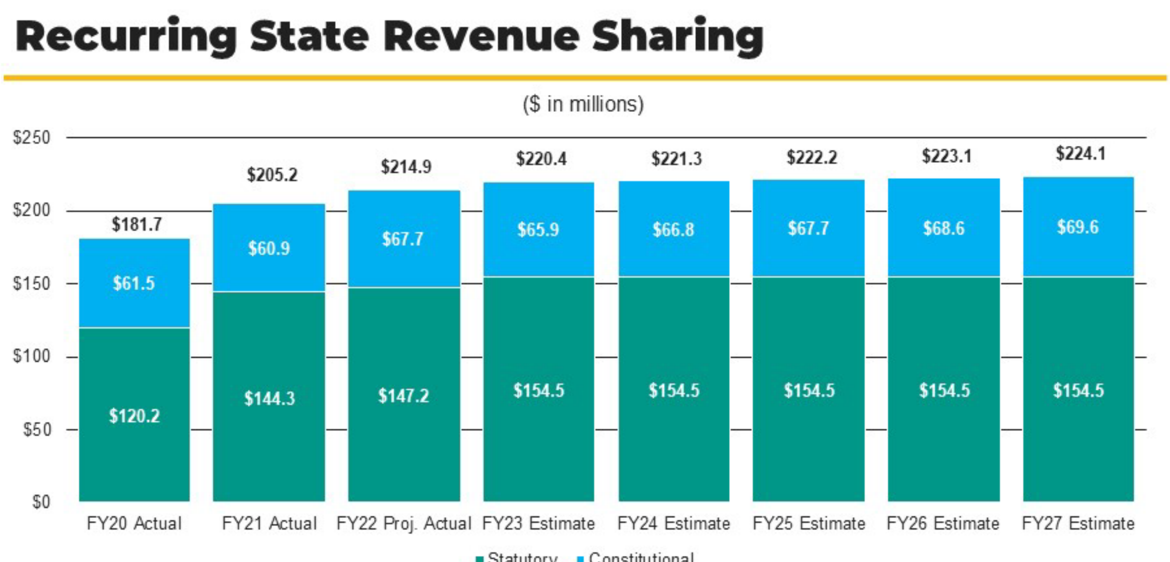
In accordance with the City Income Tax Act (Public Act 284 of 1964, as amended), the City levies a municipal income tax, with certain exemptions such as unemployment benefits. The current tax rates are 2.4% for residents, 1.2% for nonresidents, and 2.0% for corporations, which are the maximum allowed 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 2023 estimate represents a 1.1% increase compared to FY 2022 projected actuals. The FY 2023 forecast anticipates a $36.8 million revenue loss from nonresidents working remotely, slightly above from the estimated $35.4 million revenue loss in FY 2022. The forecast assumes on average 24% of nonresidents will work remotely through FY 2023 and 20% through the remainder of the forecast. The derived rate for FY 2022 projected actuals was 28%. 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). The red dotted line boxes in the graph above illustrate the expected remote work losses in the forecast.

In FY 2021, City Treasury began a large-scale tax compliance program in partnership with the State of Michigan to collect income taxes owed to the City not otherwise collected from withholding or individual tax payments. In this program, a delinquent taxpayer is identified through a process where the primary address that the taxpayer used when filing State returns are matched with City tax filings to verify that all taxes due are paid. If there are outstanding taxes owed, collections efforts are initiated. The majority of collection on these income taxes come from income tax refund offsets, where a refund owed to a taxpayer from federal and/or state income taxes is used to pay off income taxes owed to the City. The tax compliance program collected $45.3 million in FY 2021 and was treated as non-recurring revenue in the February 2022 forecast until more information was received. $36 million was collected through the program in FY 2022 and through communications with the State, it was determined that collections were likely to continue at a similar magnitude. In the FY23 – FY27 forecast, we hedged against potentially lower collections by estimating that 90% of FY 2022 collections were likely to continue in through the forecast period.

Corporate income tax revenue is expected to increase by 6.6% in FY 2023 and recover another 5.3% in FY 2024. To hedge against volatility, the forecast assumes that corporate tax revenue will remain flat from FY 2024–27. The forecast does not include potential upside from new development projects or compliance efforts on current year taxes. Income tax activity that has been identified as non-recurring is not included in the forecast base.

State Revenue Sharing:



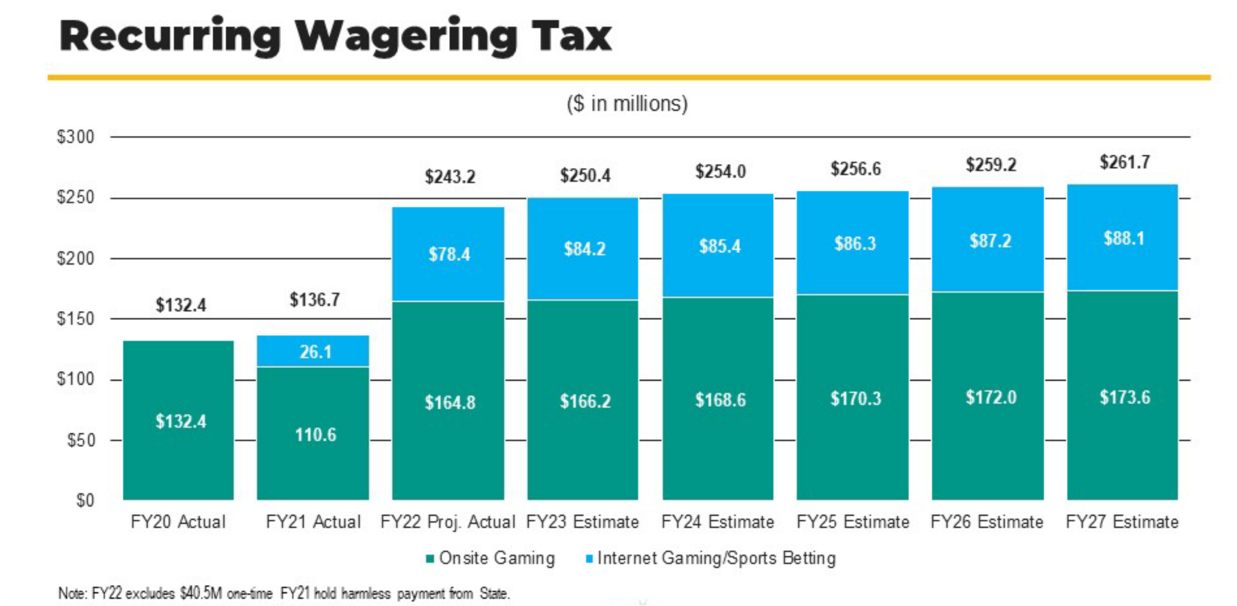
Note: FY20 Actual includes one-time $24M reduction in statutory revenue sharing that the State replaced with a one-time Coronavirus Relief Fund grant outside the General Fund. Excludes one-time hold harmless funds received for FY21 and FY22 to offset losses due to 2020 US Census. Excludes one-time 1% increase in statutory revenue sharing for FY23.

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.

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. Instead of the recoupment to adjust the constitutional revenue sharing payment to reflect the new population ratio, Detroit was allowed to keep the revenue sharing payments it had received before the population ratio was set. These are represented as non-recurring "hold harmless" funds, where $8.8 million was kept in FY 2021 and $4.6 million was kept in FY 2022, totaling to $13.4M in non-recurring activity.

For statutory revenue sharing, the FY 2023 budget includes a $7.3 million (5%) ongoing increase and $1.5 million (1%) one-time increase that discontinues in FY 2024. Proposed budget actions will not be counted in the forecast until they are formally adopted.

Wagering Tax:



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.

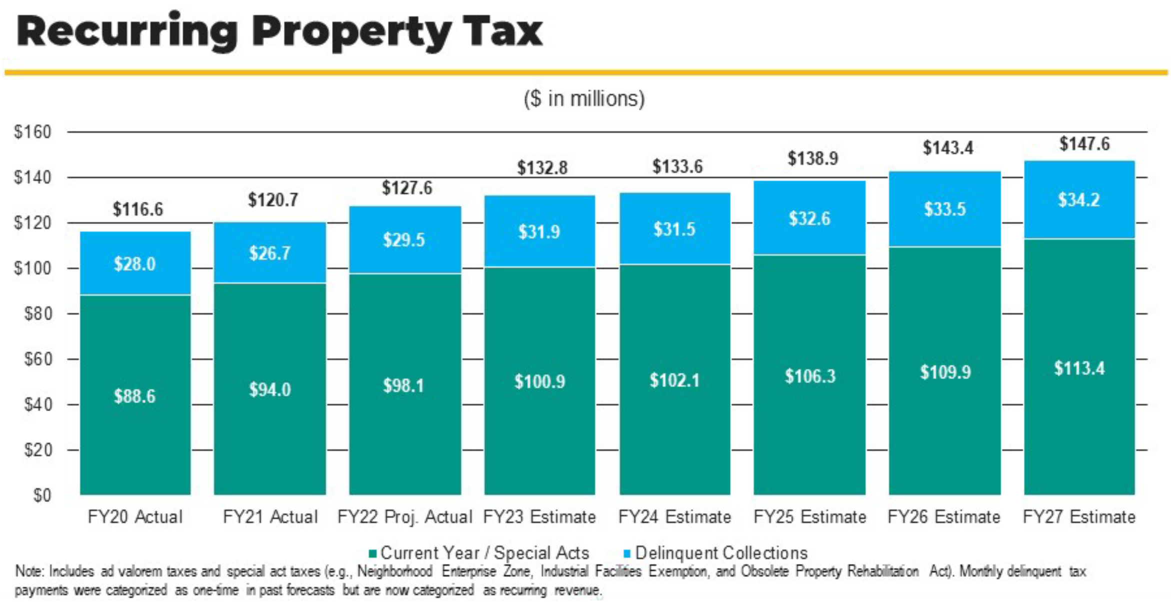
Internet gaming conducted by the Detroit casinos is taxed at a graduated rate on their adjusted gross receipts received each calendar year as outlined below. The City receives 30% of this tax revenue.

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.

Retail gaming revenue is growing but not as quickly as forecasted in the February 2022 Revenue Estimating Conference. The FY 2022 total displayed ($243.2 million) does not include a one-time payment that was part of the hold harmless agreement. There has been strong online activity with internet gaming numbers coming in above forecasted values for each casino in the last five months (March 2022-July 2022). The forecast assumes internet gaming and sports betting will follow a 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.

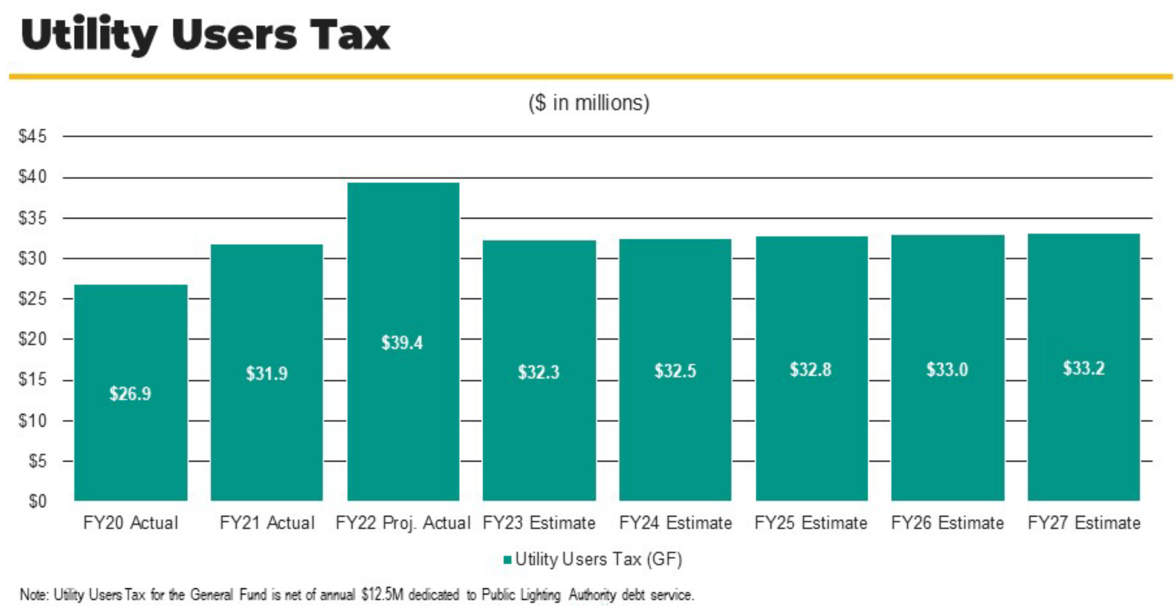
Property Tax:



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 2022 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 85.1% 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. Delinquent monthly settlement payments were treated as non-recurring in the February 2022 forecast but has been added back in as a recurring revenue stream held constant through the forecast at $7.2 million, similar to collections in FY 2022. Auction proceeds of $0.9 million were received from auctions limited to industrial, commercial, and unoccupied residential parcels. Full auction coverage is expected to return in FY 2023 where we project to receive proceeds of $2 million, which is the pre-pandemic average. The forecast does not include prospective gains from additions to the tax base or the "uncapping" of taxable value.

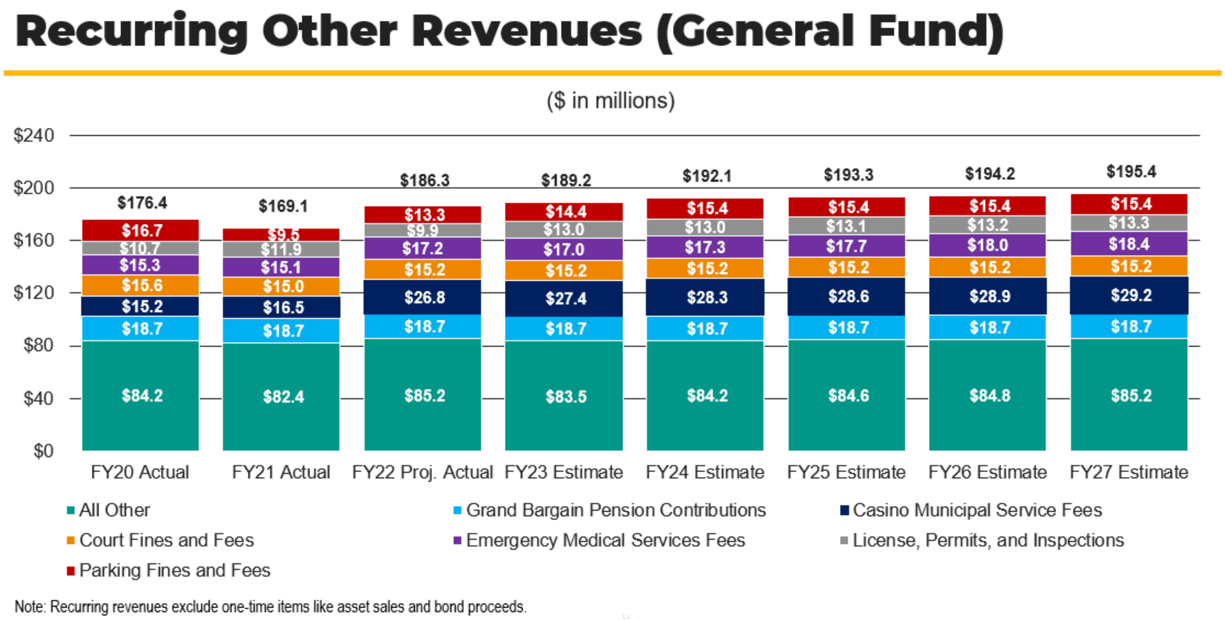
Utility Users Tax:



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. Last revenue conference, a forecast adjustment was made to the winter months in FY 2022 (December 2021-March 2022) to incorporate the new price expectations from the Michigan Energy Information Association. 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).

The total Utility User's Tax revenue for FY 2022 is stronger than we expected in February. We believe this is due to a spike in natural gas prices caused by the supply chain constraints and the conflict overseas. These high prices are not expected to continue in the future years in our forecast and returns to normal levels in FY 2023. From there, the long-term growth rate resumes. This decision was based on the Energy Information Administration's September Short Term Energy Outlook (STEO) which predicts a fall in natural gas prices in FY 2023 along with declines in consumption.

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 2023 estimates grow slightly over the FY 2022 projected actuals, driven by an $1.1 million increase in casino municipal service fees, which grow in kind with wagering taxes. The estimates also assume that parking fees and fines gradually recover, reaching near pre-pandemic levels by FY 2027. The forecast excludes non-recurring items, such as asset sales.

Non-General Fund Revenues:

September 2022 Revenue Estimates, Non-General Fund

$ in thousands

	FY23 Est	FY24 Est	FY25 Est	FY26 Est	FY27 Est
Non-General Fund					
Civil Rights, Inclusion and Opportunity Fund	3,060	3,121	3,184	3,248	3,313
Community Development Block Grant	33,753	34,428	35,117	35,819	36,535
Construction Code Fund	27,530	28,080	28,642	29,215	29,799
Dedicated Fees and Donations Fund	9,716	9,897	10,084	10,273	10,466
Drug Law Enforcement Fund	1,188	1,211	1,236	1,260	1,284
Elections Voter's Education Donations	3	3	3	3	3
Fire Grants Fund	1,850	1,887	1,925	1,964	2,004
Health Grants Fund	29,905	30,503	31,113	31,736	32,371
Homeland Security Grants Fund	755	770	785	801	817
Library	29,404	29,828	30,501	31,189	31,893
Major Street	105,553	107,716	110,129	112,457	114,834
Mayor's Office Grants Fund	178	182	185	189	193
Police Grants Fund	6,407	6,531	6,657	6,786	6,917
Public Act 48 of 2002 Fund	3,121	3,184	3,247	3,312	3,378
Public Lighting Decommissioning Reserve Fund	1,096	331	338	344	350
Recreation/General Services Grants Fund	1,400	1,428	1,457	1,486	1,516
Sinking Interest & Redemption	59,749	55,006	46,684	41,436	36,778
Solid Waste Management	49,396	49,596	49,896	50,096	50,297
Special Housing Rehab Programs	9,889	10,086	10,288	10,494	10,704
Urban Development Action and Discretionary Grants	2,859	2,916	2,974	3,034	3,095
Enterprise Fund					
Airport Operation and Maintenance	516	526	537	548	559
Detroit Water and Sewerage Department	629,133	641,716	654,550	667,641	680,994
Transportation	67,349	72,581	76,141	78,244	79,391
Total, Non-General Fund Revenue	**$1,073,810**	**$ 1,091,527**	**$1,105,673**	**$ 1,121,575**	**$ 1,137,493**

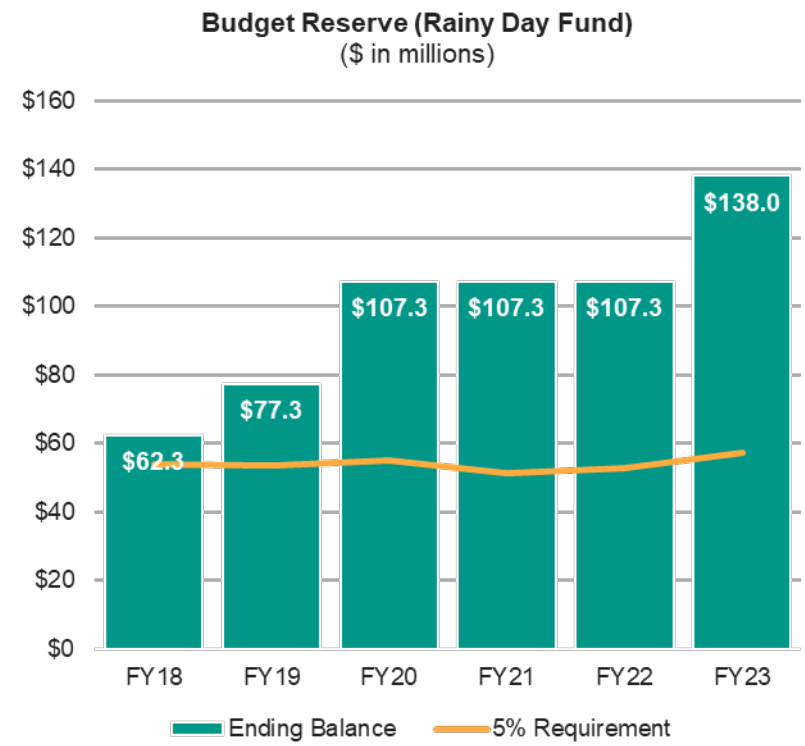
Non-General Fund revenues include enterprise, grant and special revenue funds. Major examples include water and sewer bills, bus fares, solid waste fees, intergovernmental aid for roads and transit, and other restricted revenues. Note that amounts above exclude General Fund contributions, interfund transfers, 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.

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. An additional $30.7 million was contributed in the FY 2023 budget bringing the total budget reserve to $138 million, approximately 12% of expenditures.

Revenue Risk and Potential Upside:

Downside risks:

- Slower casino growth than expected
- High inflation lasting longer than anticipated
- Larger than anticipated impact from Federal Reserve monetary policy
- Larger than anticipated nonresident remote work impact
- Longer lasting changes in economic activity due to workplace and firm/consumer behavior changes
- Future state and federal budget pressures causing reductions in local funding

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