February 2023 Revenue Estimating Conference Report

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CFO MEMORANDUM
NO. 2023-103-001

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: February 13, 2023

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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 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 2023 Revenue Estimating Conference Report

February 13, 2023

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 2023 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 Detroit Economic Outlook for 2022-2027, previously released earlier in February, predicted that Detroit's economy will continue growing at a steady pace, despite projections of a mild national recession in late 2023 to early 2024. Demand for good-paying blue-collar jobs, spurred by City-led efforts driving economic opportunity and growth for Detroiters, prove to be a major factor in the City's economic resilience. Consequently, the City's revenue outlook continues to improve despite economic challenges at the national level.

In line with the economic outlook, the Revenue Conference has approved higher revenue estimates based on stronger projected income and utility tax collections. Updated forecasts show employment stability in key sectors, boosting income tax collections as wages continue to catch up to prices. Stronger than expected internet gaming collections and elevated natural gas prices have offset weaker on-site gaming collections, increasing revenue expectations. All other revenues are expected to see stable but more modest growth.

As with any economic and revenue forecast, there are potential risks to the estimates agreed to today, the largest being slower employment and wage growth should national economic trends and the monetary policy response prove more adverse. Future gaming behavior at Detroit's casinos, such as larger than projected internet gaming substitution effects, remain a risk as well. Conversely, additional development projects and labor force gains would help bolster revenue growth. Proposed increases in State Revenue Sharing and other funding in the State Budget provide potential upside to the forecast too.

The City presented FY2023 General Fund recurring revenues projected at $1.226 billion for the current fiscal year ending June 30, up $39.1 million (3.3%) from the previous FY2023 conference estimate in September 2022. The increase is driven by stronger anticipated income tax collections and utility users tax collections. In addition, the City is projecting $3.1 million in non-recurring revenues this year. General Fund recurring revenues for FY2024, which begins July 1, are now forecasted at over $1.253 billion, an increase of $39.2 million (3.2%) from the previous FY2024 conference estimate in September 2022. The projected increase is driven by income taxes, as the local economy stabilizes and adjusts to a tight labor market. The conservative General Fund revenue forecasts for FY2025 through FY2027 show continued, but modest, revenue growth of around 2% per year on average, led by income tax growth.

Note that all revenue estimates exclude the use of fund balance, which may otherwise appear in the City budget.

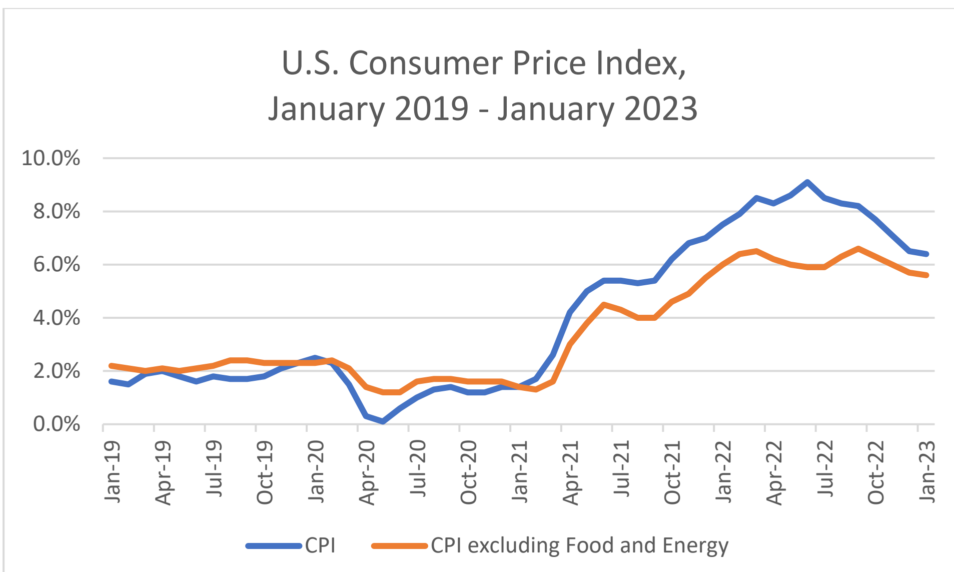
General Fund Revenue Estimates - Summary, FY 2023 - FY 2027

$ in millions

	FY 2020	FY 2021	FY2022		FY 2023	February 2023 Estimates				
	Actual	Actual	Projected Actual	Actual	Sept 2022 Estimate	FY23 Est	FY24 Est	FY25 Est	FY26 Est	FY27 Est
Major Taxes										
Income Tax	**$ 290.0**	**$ 316.0**	**$ 391.4**	**$ 402.1**	**$ 362.1**	**$ 374.7**	**$ 392.8**	**$ 405.4**	**$ 419.9**	**$ 432.8**
Recurring Base	293.5	316.0	358.2	368.9	362.1	374.7	392.8	405.4	419.9	432.8
Non-recurring	(3.5)	-	33.2	33.2	-	-	-	-	-	-
State Revenue Sharing	**181.7**	**214.0**	**219.5**	**219.5**	**221.9**	**225.7**	**224.4**	**225.2**	**225.9**	**226.6**
Recurring Base	181.7	205.2	214.9	214.8	220.4	224.2	224.4	225.2	225.9	226.6
Non-recurring	-	8.8	4.6	4.7	1.5	1.5	-	-	-	-
Wagering Tax	**132.4**	**136.7**	**283.7**	**277.7**	**250.4**	**253.5**	**258.1**	**260.7**	**263.3**	**266.0**
Recurring Base	132.4	136.7	243.2	237.2	250.4	253.5	258.1	260.7	263.3	266.0
Non-recurring	-	-	40.5	40.5	-	-	-	-	-	-
Property Tax	**116.6**	**120.7**	**127.6**	**128.8**	**132.8**	**135.9**	**137.4**	**143.5**	**148.0**	**152.5**
Recurring Base	116.6	120.7	127.6	128.8	132.8	135.9	137.4	143.5	148.0	152.5
Non-recurring	-	-	-	-	-	-	-	-	-	-
Utility Users Tax	**26.9**	**31.9**	**39.4**	**38.1**	**32.3**	**46.1**	**46.3**	**46.8**	**47.4**	**48.0**
Subtotal, Major Taxes	**$ 747.6**	**$ 819.3**	**$ 1,061.6**	**$ 1,066.3**	**$ 999.5**	**$ 1,035.9**	**$ 1,059.0**	**$ 1,081.7**	**$ 1,104.5**	**$ 1,125.9**
Major Taxes (Recurring Only)	**$ 751.1**	**$ 810.5**	**$ 983.3**	**$ 987.9**	**$ 998.0**	**$ 1,034.4**	**$ 1,059.0**	**$ 1,081.7**	**$ 1,104.5**	**$ 1,125.9**
Other Revenues	**$ 205.2**	**$ 196.3**	**$ 195.5**	**$ 167.7**	**$ 189.2**	**$ 193.6**	**$ 194.6**	**$ 198.3**	**$ 197.5**	**$ 199.2**
Recurring	176.4	169.1	186.3	176.8	189.2	192.0	194.6	196.1	197.5	199.2
Non-recurring	28.8	27.2	9.2	(9.0)	-	1.6	-	2.3	-	-
Grand Total, General Fund	**$ 952.8**	**$ 1,015.6**	**$ 1,257.1**	**$ 1,234.0**	**$ 1,188.7**	**$ 1,229.5**	**$ 1,253.6**	**$ 1,280.0**	**$ 1,302.0**	**$ 1,325.1**
General Fund, Recurring Only	**$ 927.5**	**$ 979.6**	**$ 1,169.6**	**$ 1,164.6**	**$ 1,187.2**	**$ 1,226.4**	**$ 1,253.6**	**$ 1,277.7**	**$ 1,302.0**	**$ 1,325.1**

Economic Conditions

Conditions at the beginning of 2023 lie at a crossroad between lagged data that show a stable economic recovery and expectations of a recession from the abrupt end of the near zero interest rate era that lasted through 2010s and early 2020s. High inflation continues as the most prominent economic issue although slowing due to supply chains returning to normal and dampening demand. Inflation as measured by the consumer price index (CPI) reached peak acceleration in June 2022 where the change in prices compared to last June was 8.9%. Since then, price growth has begun to decelerate as January CPI year over year change decreased to 6.3%[1]. The policy response to high inflation has been a stance of quantitative tightening, driven by the Federal Reserve through a combination of federal funds rate increases and money supply reductions. While the policy shift has been effective in combating inflation, there is a concern that demand will have fallen too much by time the Federal Reserve ends quantitative tightening and lead to recession. The likelihood of recession has heightened because of how quickly inflation measures have fallen in the past few months and leading indicators suggesting that households will no longer be able to sustain current levels of expenditure[2]. Over the last few meetings in which the target federal funds rate is set, the pace of rate changes has slowed but continues to increase which heightens recession chances.



*Source: Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers *Not Seasonally Adjusted*

For all the worry of recession chances, labor market data has not reflected any recession-like conditions. National unemployment continues to stay near historic lows and employment levels continue to increase. Labor force participation remains a challenge and labor demand has begun to slow with federal funds rate increases but overall labor conditions still appear strong[3]. Labor market conditions in Detroit also mirror national conditions: employment levels have returned to where they

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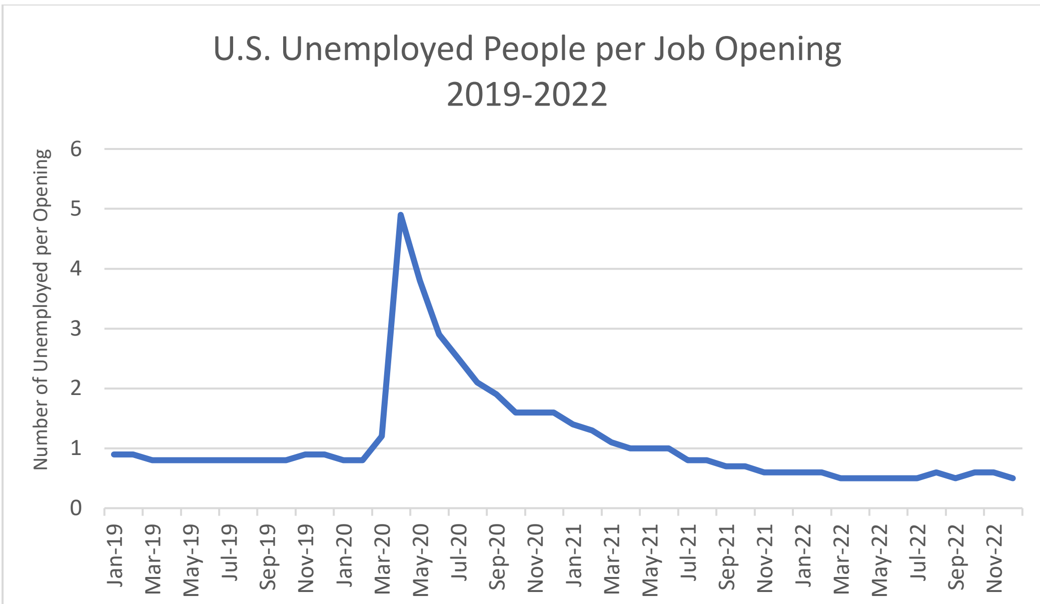
[1] U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers

[2] Fannie Mae, Economic & Housing Weekly Note, "Consumer Credit Growth Slows, Suggesting Consumption Will Lose Momentum in 2023" February 10, 2023

[3] U.S. Bureau of Labor Statistics, Current Employment Statistics

were pre-pandemic and unemployment rates have returned to pre-pandemic lows[4]. Most of the weakness the Detroit labor market has seen has been in industries that are sensitive to interest rate changes, primarily the finance and insurance sector. A major reason why Detroit's labor market is resilient even with increased recession chances is the backlog of automotive orders related to the elevated consumer demand and the semiconductor chip shortage from 2021 and 2022, buoying manufacturing employment levels. National labor shortages in the construction and leisure and hospitality sectors are reflected locally and add to local labor demand[5]. Because there still is a significant gap between labor demand and labor supply, there is upward pressure on wage growth. The gap is highlighted in the graph below showing the ratio between unemployed people looking for a job and job openings nationwide. A ratio that is less than one represents more job openings than people to fill them, or unmet labor demand. Wage growth could slow as labor demand begins to wane and as shown in the Detroit Economic Forecast, wage growth is eclipsed by inflation and likely will be for most of 2023.



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

[4] U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics
[5] U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey

Economic Risks

The primary risks to the ongoing economic recovery are inflation and the policy response to inflation. Fortunately, consumer expenditure has continued to grow even when adjusted for inflation[6]. The longer that wage growth stays below the inflation rate the more likely we are to see consumer expenditure pull back from discretionary spending which then could lead to labor market consequences. Quantitative tightening also poses risks to consumer demand and economic development activity. Specifically, as the federal funds rate goes up the cost borrowing money increases which includes loans, credit cards, and lines of credit. The more expensive these financing tools become, the less money a consumer or investor would have to spend. The housing market has already seen impacts with the rise in the federal funds rate which affected mortgage rates. As mentioned before, a quantitative tightening policy could slow demand to the point where economic activity could contract. Current expectations are for a monetary policy driven recession scenario to be mild or avoided completely, with the Federal Reserve achieving a "soft landing" where inflation falls to acceptable levels without causing a recession.

Considering that the data used to determine shifts in policy are lagged there is a chance for a general misalignment between policy and actual economic conditions. The longer the policy is misaligned, the higher the chance of recession. Because the Federal Reserve has communicated that they will continue to raise the federal funds rate and we have seen concrete signs inflation beginning to slow, the risk of misalignment is higher than it was three to six months ago. The last recession caused by an over-tightening of monetary policy was in 1992, where recession impacts were mild and short-lived. Based on current conditions and the likely recession scenario, impacts would be similar if a recession does occur within the next year or two. Other factors and concerns about the future of work, downtown activity, and long-term shifts in consumer behavior post-pandemic are arguably still settling into a pattern that will define the new long-term trend. While there is still much to understand and disseminate, the City of Detroit has so far proven its ability to weather recent and potentially future economic headwinds.

Current Year General Fund Revenue Estimates:

As shown in the summary table on page 2, recurring General Fund revenue is now projected at $1,226.4 million in FY 2023. The updated FY 2023 estimates have been increased by $39.2 million, representing a 3.3% gain from the previous conference estimate in September 2022. The increase is primarily driven by stronger individual income tax collections and lower income tax refund activity than previously estimated. Utility users tax collections year-to-date have consistently beat forecasted expectations as natural gas prices have remained high, warranting a significant upward revision of $13.8 million above the September 2022 forecast. Gains from increased State Revenue Sharing dollars and higher property tax collections from higher taxable property values, and higher internet gaming revenues also added to the upward revision.

Compared to FY 2022 actuals, recurring FY 2023 revenues are expected to increase overall by $61.8 million (5.3%). Wagering tax growth is a significant contributor, responsible for $16.3 million of growth as internet gaming and sports betting activity continues to accelerate. Revenue growth is spread between other major revenue streams: $8.0 million in higher utility users tax collection, $6.2 million in State Revenue Sharing, and $7.1 million in higher property tax collections and $5.8 million in income

[6] U.S. Bureau of Economic Analysis, "Table 1.1.1. Percent Change From Preceding Period in Real Gross Domestic Product," first estimates for the fourth quarter of 2022.

tax collections . Recurring Other Revenues are forecasted to increase $15.2 million over the FY 2022 actuals. This change is mainly driven by the Casino Municipal Service Fees related to internet gaming growth, court fees and fines recovering from limited activity related to pandemic effects, and higher license, permits, and inspection charge activity.

Non-recurring revenues of $69.4 million were also collected in FY 2022. These revenues include $33.2 million in large corporate and partnership tax payments, $40.5 million wagering tax hold harmless payment from the State based on the City's FY 2021 wagering tax losses and a $4.7 million state revenue sharing hold harmless payment from 2020 census population adjustments. The remaining difference is largely due to a one-time revenue reduction for unrealized losses on investments that will be recouped when those assets are held to maturity in future fiscal years. 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.

Summary of Major Taxes:

As shown in the summary table below, the actuals for the General Fund major revenues are $1.066 billion in FY 2022, up $4.7 million (0.4%) compared to the September 2022 projected actual. The largest increase is in income tax, $10.7 million, offset by $6 million in lower than projected wagering tax collections. Income tax, wagering tax, and utility users tax drive revenue growth in future years, leading major revenues to reach $1.126 billion by FY 2027. 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	February 2023 Estimates				
	Actual	Actual	Projected Actual	Audited Actuals	Sept 2022 Estimate	FY23 Est	FY24 Est	FY25 Est	FY26 Est	FY27 Est
Major Taxes										
Income Tax	**$ 290.0**	**$ 316.0**	**$ 391.4**	**$ 402.1**	**$ 362.1**	**$ 374.7**	**$ 392.8**	**$ 405.4**	**$ 419.9**	**$ 432.8**
Withholding	282.8	280.5	306.5	309.1	323.5	320.7	332.3	344.5	357.3	368.2
Individual Returns	35.3	33.5	23.7	28.7	25.0	30.0	31.1	32.3	33.5	34.5
Corporate	25.8	32.6	39.4	40.3	42.0	42.9	45.2	47.0	48.9	50.9
Partnership	6.7	5.3	9.0	9.2	9.2	6.7	6.9	7.0	7.1	7.3
Tax Compliance/Offset Program[1]	3.0	45.3	36.0	36.3	32.4	34.4	34.4	34.4	34.4	34.4
Total Refunds	(60.1)	(81.2)	(56.4)	(54.6)	(70.0)	(60.1)	(57.2)	(59.8)	(61.4)	(62.5)
Regular Refund Estimate	(36.6)	(26.7)	(21.0)	(28.6)	(33.2)	(30.7)	(31.4)	(32.5)	(33.1)	(33.5)
Nonresident Remote Work Refund Estimate	(23.5)	(54.5)	(35.4)	(26.0)	(36.8)	(29.4)	(25.7)	(27.3)	(28.2)	(29.0)
Non-Recurring	(3.5)	-	33.2	33.2	-	-	-	-	-	-
State Revenue Sharing	**181.7**	**214.0**	**219.5**	**219.5**	**221.9**	**225.7**	**224.4**	**225.2**	**225.9**	**226.6**
Statutory	120.2	144.3	147.2	147.2	154.5	154.5	154.5	154.5	154.5	154.5
Constitutional	61.5	60.9	67.7	67.7	65.9	69.7	69.9	70.6	71.3	72.1
Non-Recurring	-	8.8	4.6	4.7	1.5	1.5				
Wagering Tax	**132.4**	**136.7**	**283.7**	**277.7**	**250.4**	**253.5**	**258.1**	**260.7**	**263.3**	**266.0**
Onsite Traditional Gaming	110.5	101.0	141.5	141.9	142.5	136.3	136.7	138.1	139.5	140.9
Internet Gaming	-	20.8	58.9	59.1	61.2	69.8	73.2	74.0	74.7	75.5
Sports Betting	-	2.4	4.6	4.6	5.6	5.4	5.1	5.1	5.2	5.2
Percentage Payment - Retail	21.9	9.6	23.3	19.3	23.7	22.8	23.0	23.2	23.4	23.6
Percentage Payment - Internet		2.9	14.9	12.3	17.4	19.2	20.1	20.3	20.5	20.7
Non-Recurring	-	-	40.5	40.5	-	-	-	-	-	-
Property Tax	130.9	136.3	142.7	143.9	150.8	153.9	156.8	163.7	168.7	173.7
Tax Increment Financing Capture	(14.3)	(15.6)	(15.1)	(15.1)	(18.0)	(18.0)	(19.3)	(20.1)	(20.7)	(21.2)
Net Property Tax	**116.6**	**120.7**	**127.6**	**128.8**	**132.8**	**135.9**	**137.4**	**143.5**	**148.0**	**152.5**
Current	85.7	90.9	94.7	94.6	97.4	99.9	100.9	105.7	109.2	112.8
Delinquent[2]	28.0	26.7	29.5	30.4	31.9	31.9	32.1	33.3	34.2	34.9
Special Acts	2.9	3.1	3.4	3.8	3.5	4.0	4.4	4.5	4.7	4.8
Non-Recurring	-	-	-	-	-					
Net Utility Users Tax	**26.9**	**31.9**	**39.4**	**38.1**	**32.3**	**46.1**	**46.3**	**46.8**	**47.4**	**48.0**
Utility Users Tax	39.4	44.4	51.9	51.0	44.8	58.2	58.8	59.3	59.9	60.5
To Public Lighting Authority	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)
Non-Recurring			-	(0.4)	-	0.4	-	-	-	-
Total, Major Taxes	**$ 747.6**	**$ 819.3**	**$ 1,061.6**	**$ 1,066.3**	**$ 999.5**	**$ 1,035.9**	**$ 1,059.0**	**$ 1,081.7**	**$ 1,104.5**	**$ 1,125.9**

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.

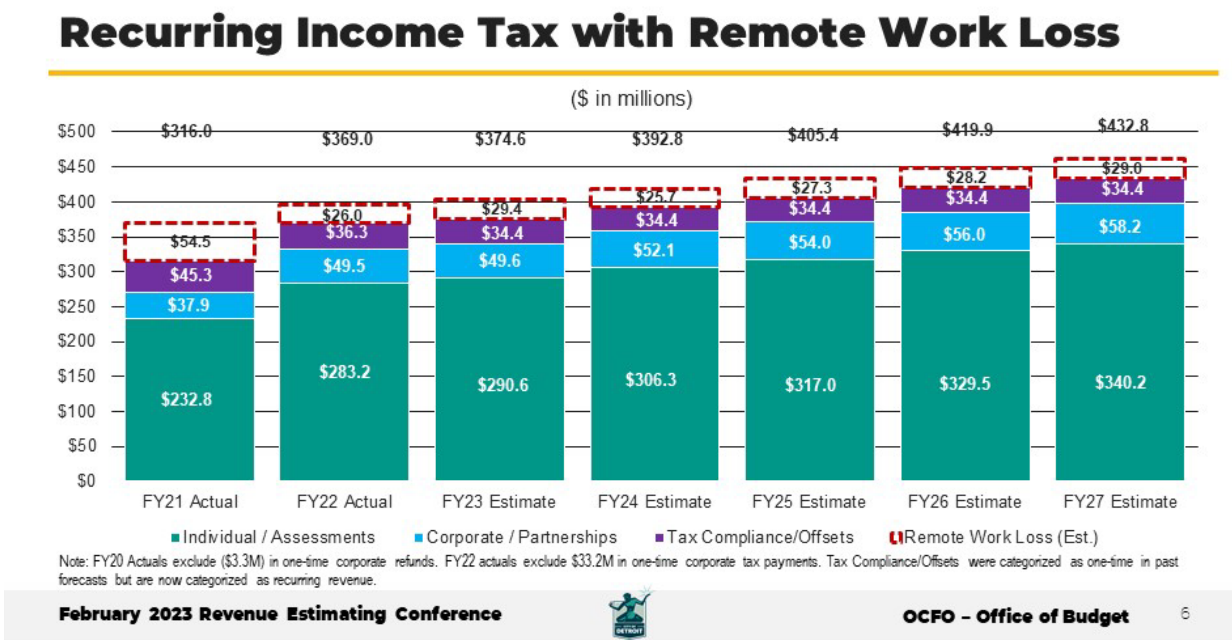
Summary of Economic Drivers:

Major Revenue	Economic Input	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Municipal Income Tax	Resident Employment Growth[1]	0.9%	0.9%	1.3%	1.5%	0.8%
	Nonresident Employment Growth[1]	1.8%	1.1%	1.3%	1.5%	0.8%
	Resident Wage Growth[2]	1.7%	1.6%	1.8%	1.6%	1.6%
	Nonresident Wage Growth[2]	3.4%	3.9%	3.1%	3.0%	3.0%
	Corporate Income Growth[4]	6.6%	5.3%	4.0%	4.0%	4.0%
	Partnership Income Growth	-26.7%	2.2%	2.0%	2.0%	2.0%
Property Tax	U.S. Consumer Price Index for All Urban Consumers (U.S. CPI-U)[3]	3.3%	7.4%	4.1%	2.7%	2.7%
State Revenue Sharing	Sales Tax Forecast[4]	3.0%	0.3%	1.0%	1.0%	1.0%
	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]	-3.7%	0.3%	1.0%	1.0%	1.0%
	Onsite Sports Betting AGR Growth Rate	18.4%	5.0%	1.0%	1.0%	1.0%
	Internet Gaming AGR Growth Rate	-0.7%	0.4%	1.0%	1.0%	1.0%
	Internet Sports Betting AGR Growth Rate	23.6%	-8.0%	1.0%	1.0%	1.0%
Utility Users Tax	Net UUT Growth Rate	14.0%[7]	1.0%	1.0%	1.0%	1.0%

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 2023 Consensus Revenue Estimating Conference
(5) U.S. Census Bureau, 2020 Decennial Census Redistricting Data
(6) Michigan Gaming Control Board
(7) 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:



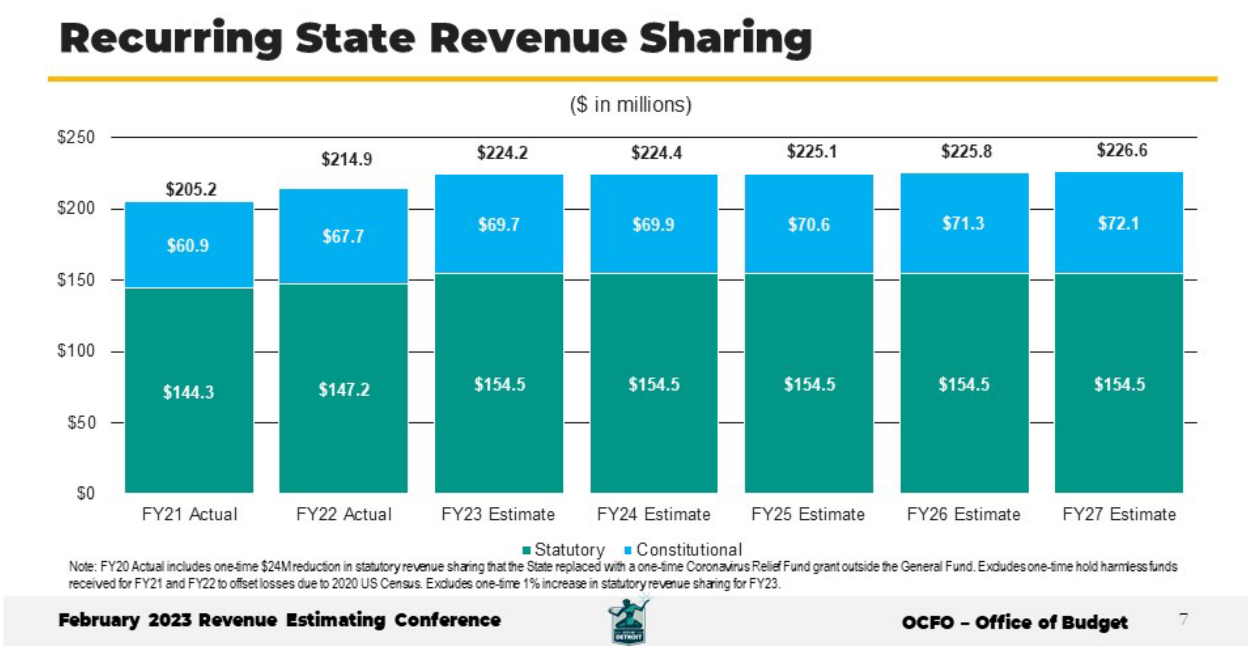
In accordance with the City Income Tax Act (Public Act 284 of 1964, as amended), the City levies a municipal income tax, with certain exemptions such as unemployment benefits. The current tax rates are 2.4% for residents, 1.2% for nonresidents, and 2.0% for corporations, which are the maximum allowed 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 1.5% increase compared to FY 2022 actuals. The FY 2023 forecast anticipates a $29.4 million revenue loss from nonresidents working remotely, slightly above from the estimated $26 million revenue loss in FY 2022. The forecast assumes on average 18% of nonresidents will work remotely through FY 2023 and 16% through the remainder of the forecast. The derived rate for FY 2022 actuals was 20%. 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 prior year 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 95% 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 5.3% in FY 2024 before settling into a projected long-term trend of 4% growth through FY 2027. Partnership income tax revenue year to date through November was significantly below expectations and below FY 2022 revenue during the same time period, leading to a downward revision of the forecast in FY2023. Partnership income tax revenue resumes its long-term growth path of 2% in FY 2024 - FY2027. 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 forecasted base.

State Revenue Sharing:



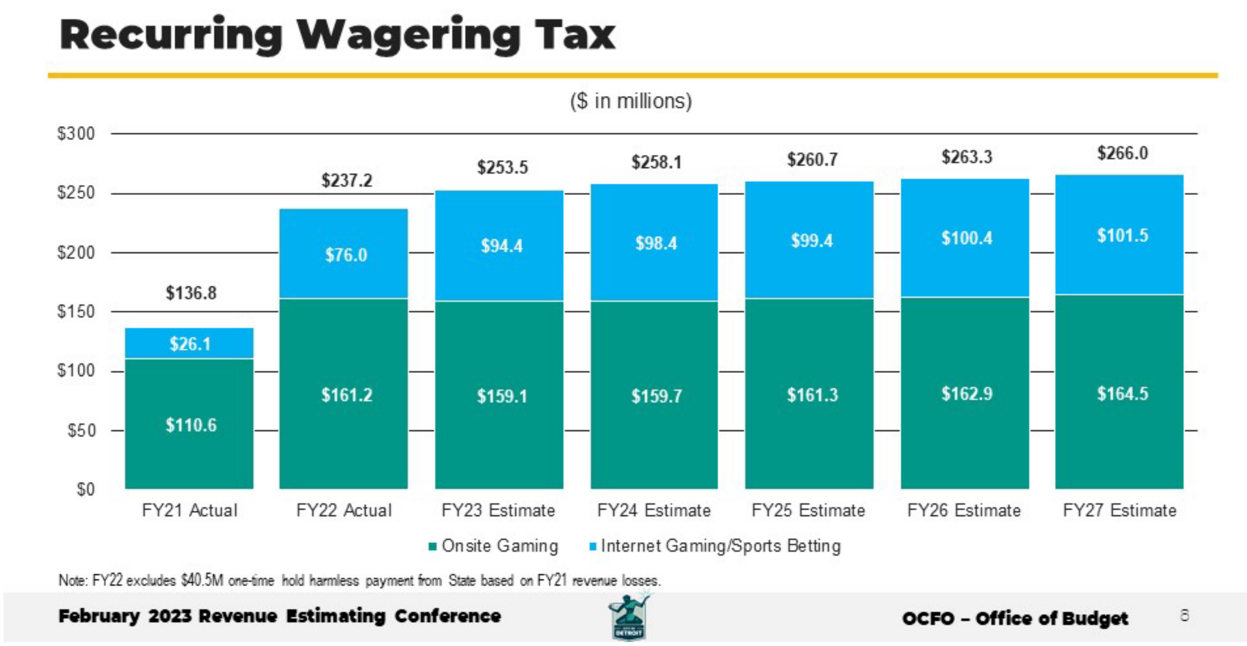
Revenue sharing payments from the State come from two components: constitutional and statutory. The State Constitution of 1963, Article IX, Section 10, as amended, requires constitutional revenue sharing payments to municipalities based on 15% of the 4% portion of Michigan's sales tax collections.

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 2023 Consensus Revenue Estimating Conference. The forecast uses the reported 2020 Census results to estimate Detroit's share of constitutional revenue sharing. Under state law, the City was 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 $13.4 million 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 State 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.

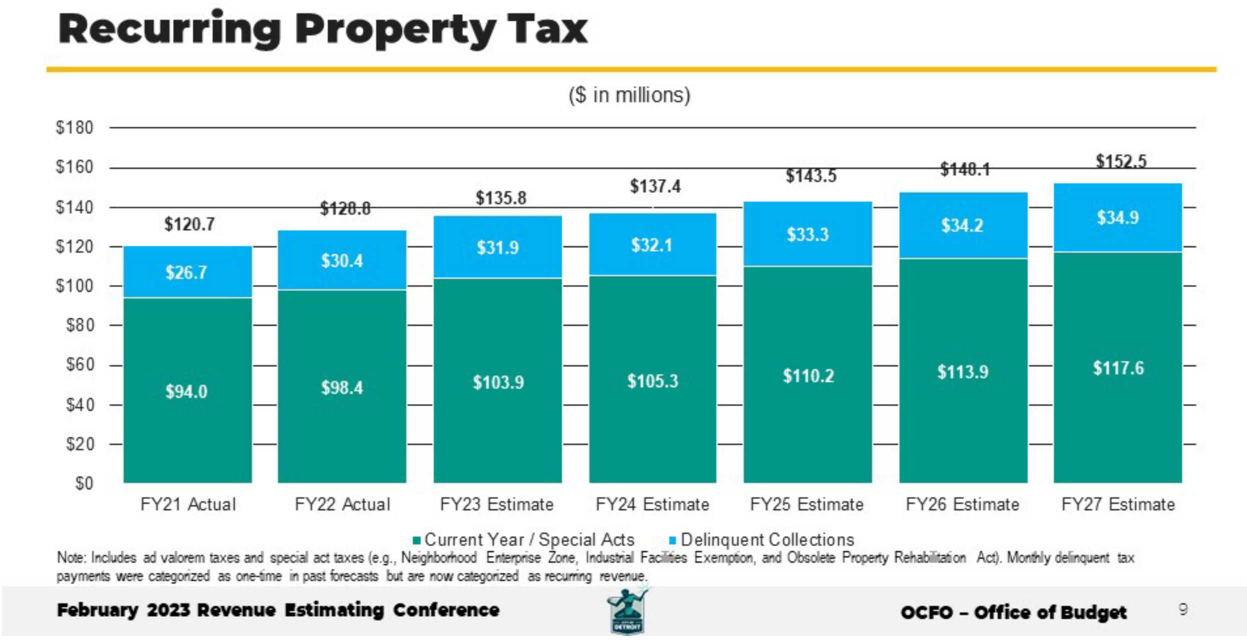
Internet gaming conducted by the Detroit casinos is taxed at a graduated rate on their adjusted gross receipts received each calendar year as outlined below. The City receives 30% of this tax revenue.

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 activity has been below expectations throughout calendar year 2022. Conversely, internet gaming and sports betting activity has exceeded expectations for each casino. Because this trend has persisted as COVID-19 impacts have diminished, a substitution effect was built into the estimates for revenues from retail gaming. Each form of gaming activity is expected to follow their specific, short term growth trend in FY 2023 and FY 2024. The forecast then assumes internet gaming and sports betting will stabilize to a long term 1% growth trend, similar to retail gaming.

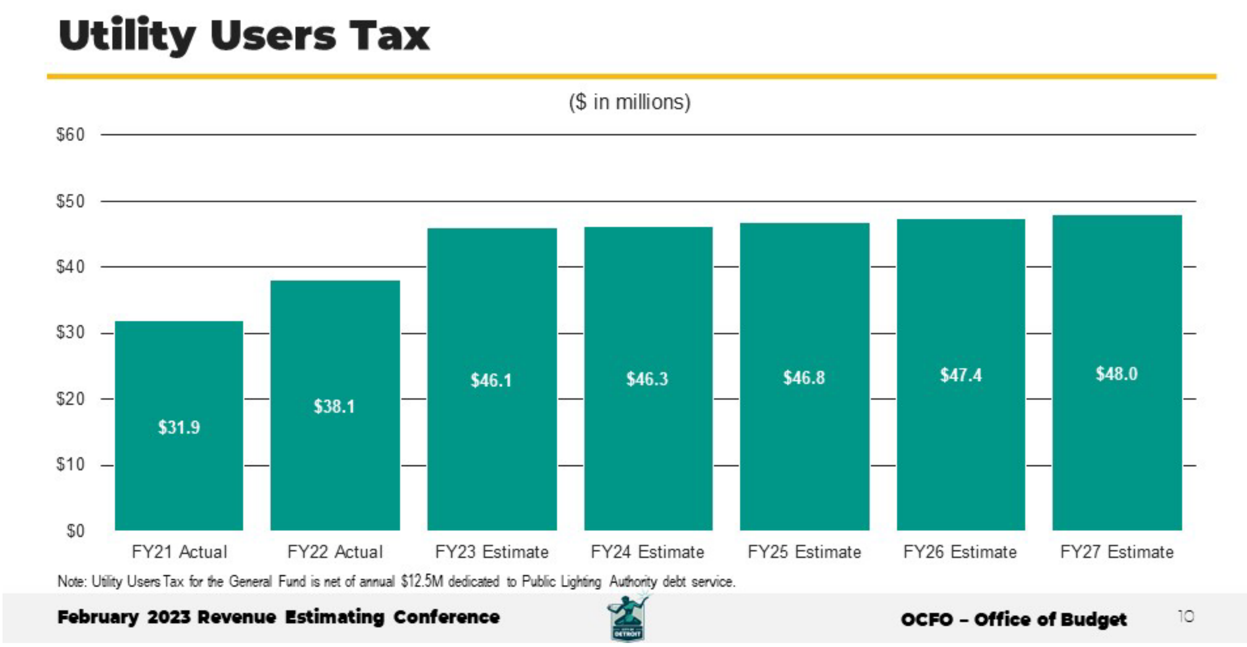
Property Tax:



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.

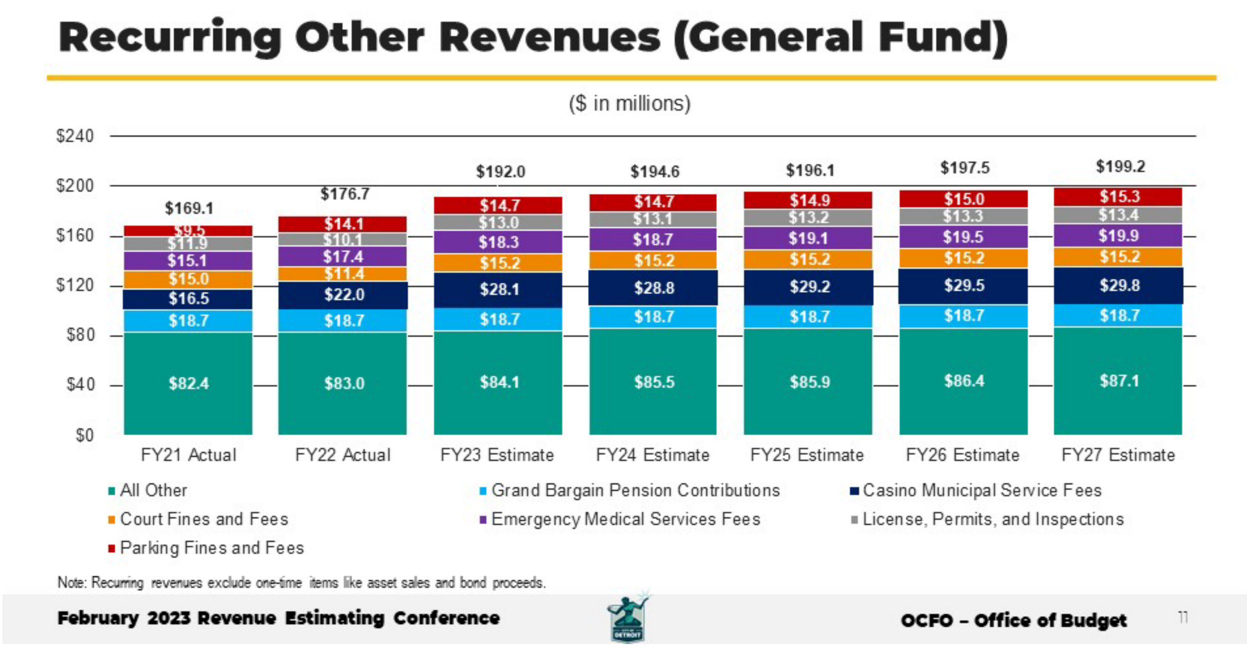
The primary driver for growth during the forecast period is a lagged inflation rate determined by the State Tax Commission (US Consumer Price Index for Urban Consumers lagged by one year) applied to the reported tax year 2022 base, which is defined as the cap for growth in taxable value under the State 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. Updated taxable values applicable to FY 2023 showed that downward adjustments were not as large as expected, leading to an upward revision of the forecast. The calculated inflation cap is expected to remain elevated in FY 2024 and stabilize at 2.7% in FY 2025-2027 as inflationary pressures wane. 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. In previous forecasts, a non-recurring adjustment was made to the winter months in FY 2022 (December 2021-March 2022) to incorporate the new price expectations from the U.S. Energy Information Association. Because energy prices were not expected to remain at their heightened level in future years, the forecast adjustment did not affect FY 2023-2026. Since year-to-date collections have consistently outperformed these expectations and new information suggests the cause for higher collections is not transitory, an upward adjustment was made to the forecast through FY 2027. Additionally, collections for FY 2022 were higher than previously projected and contributed to the upward forecast revision. 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 2023 estimates grow by 8.7% over the FY 2022 actuals, driven by an $6.1 million increase in casino municipal service fees, related to higher internet and sports betting activity than previously estimated, higher license, permits, and inspection fee activity year-to-date, and lower than projected court fines and fees in FY 2022. The estimates also assume that revenue sources have stabilized since COVID-19 and continue an aggregate long term growth trend of 0.8% to 1% through FY 2027. The forecast excludes non-recurring items, such as asset sales.

Non-General Fund Revenues:

February 2023 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	3,183	3,246	3,311
Community Development Block Grant	33,753	33,663	34,336	35,022	35,723
Construction Code Fund	28,080	28,080	28,642	29,215	29,799
Dedicated Fees and Donations Fund	9,605	9,793	9,986	10,182	10,383
Drug Law Enforcement Fund	1,188	1,211	1,236	1,260	1,285
Elections Voter's Education Donations	3	3	3	3	3
Fire Grants Fund	1,850	2,100	2,100	2,100	2,100
Health Grants Fund	29,905	30,504	31,116	31,740	32,376
Homeland Security Grants Fund	755	770	785	801	817
Library	29,404	32,007	32,869	33,709	34,572
Major Street	105,353	112,538	106,738	108,838	110,071
Mayor's Office Grants Fund	178	161	161	161	161
Police Grants Fund	6,406	6,722	7,239	7,796	8,397
Public Act 48 of 2002 Fund	3,121	3,184	3,248	3,314	3,381
Public Lighting Decommissioning Reserve Fund	1,096	2,131	2,131	2,131	2,131
Recreation/General Services Grants Fund	1,400	1,050	1,050	1,050	1,050
Sinking Interest & Redemption	59,749	55,006	46,684	41,436	36,778
Solid Waste Management	49,396	51,932	52,875	53,908	54,962
Special Housing Rehab Programs	9,889	9,052	10,122	11,393	12,897
Urban Development Action and Discretionary Grants	2,859	2,912	2,966	3,021	3,077
Enterprise Fund					
Airport Operation and Maintenance	516	526	536	548	559
Detroit Water and Sewerage Department	629,078	641,716	654,496	667,552	680,870
Transportation	65,273	62,127	62,427	62,736	63,054
Total, Non-General Fund Revenue	**$ 1,071,917**	**$ 1,090,309**	**$ 1,094,929**	**$ 1,111,162**	**$ 1,127,757**

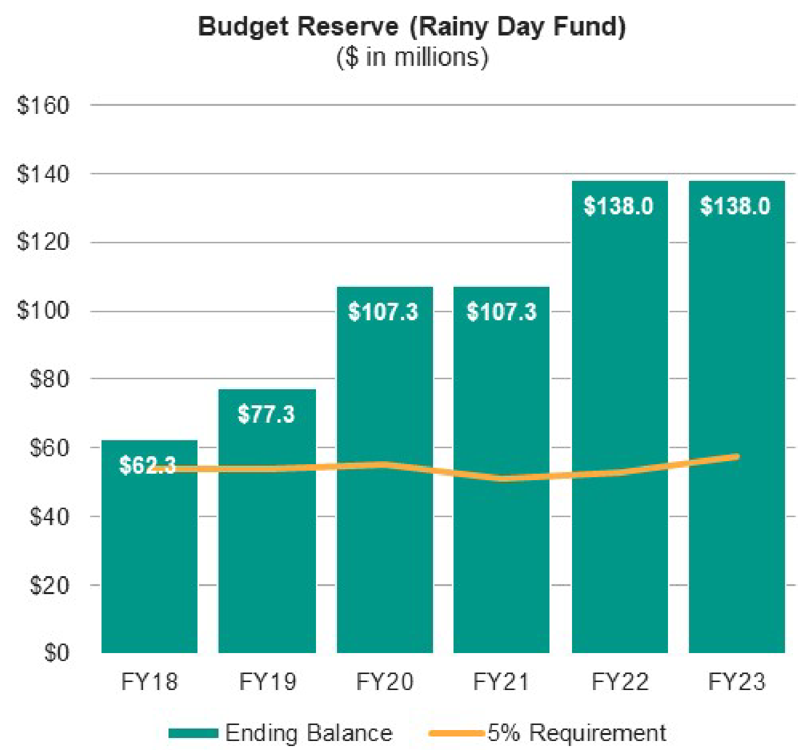
Non-General Fund revenues include enterprise, grant and special revenue funds. Major examples include water and sewer bills, bus fares, solid waste fees, intergovernmental aid for roads and transit, and other restricted revenues. Note that amounts above exclude General Fund contributions, interfund transfers, 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, 2022, the City's Budget Reserve (or "Rainy Day fund") totaled $138.0 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 authorized during the FY 2023 budget process 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
- Lower natural gas demand than anticipated
- Longer lasting changes in economic activity due to workplace and firm/consumer behavior changes
- Slower employment and wage growth than forecasted

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
- Additional State Revenue Sharing from annual State budget process
- Higher taxable property values than forecasted.

Appendix, Exhibit 1 – FY 2022 ACFR Reconciliation and Non-Recurring Detail

FY 2022 Revenue Actuals -
ACFR to Budget Display Reconciliation

$ in thousands

General Fund		FY 2022
ACFR Revenue	**$**	**1,211,852**
Other Financing Sources - Face amount of bonds and notes issued		-
Other Financing Sources - Transfers In		-
Other Financing Sources - New Leases Entered Into		2,348
Other Financing Sources - Sale of Capital Assets		5,621
Grand Total, ACFR Resources	**$**	**1,219,822**
Reclassifying of revenues coded as expenditures in ACFR		34,783
Remove non-fund 1000 ACFR General Fund revenues and financing sources		(18,039)
Other Financing Sources/Uses excluded from Revenue Conference		(2,348)
Total, FY 2022 Revenue Actuals	**$**	**1,234,218**
Non-Recurring Items		
Major Taxes		
Wagering Tax - Hold Harmless Payment		40,511
Income Tax - Corporate		28,800
Income Tax - Partnership		4,400
State Revenue Sharing - Census Hold Harmless		4,663
Utility Users Tax - Trustee Miscalculation		(438)
Subtotal, Major Taxes	**$**	**77,936**
Other Revenue		
Revenues from Sale and Use of Assets		5,165
Non-Dept Undistributed Balances		2,906
Unrealized Gain		(18,949)
Tax Receipts Clean Up & Homeland Security Grants		5,105
Police Auction Sales		2,434
Subtotal, Other Revenue	**$**	**(3,338)**
Total, FY 2022 Non-Recurring Items	**$**	**74,598**
Total, FY 2022 Recurring Revenue	**$**	**1,159,620**
Major Taxes		988,560
Other Revenue		171,060