FEBRUARY 2017 CONSENSUS REVENUE ESTIMATING CONFERENCE

FEBRUARY 16, 2017

George A. Fulton, Ph.D.
Research Professor and Director
Research Seminar in
Quantitative Economics (RSQE)
Department of Economics
University of Michigan

John Hill
Chief Financial Officer
City of Detroit

Jay Wortley
Chief Economist and Director
Office of Revenue and Tax Analysis
State of Michigan
Department of Treasury

City of Detroit

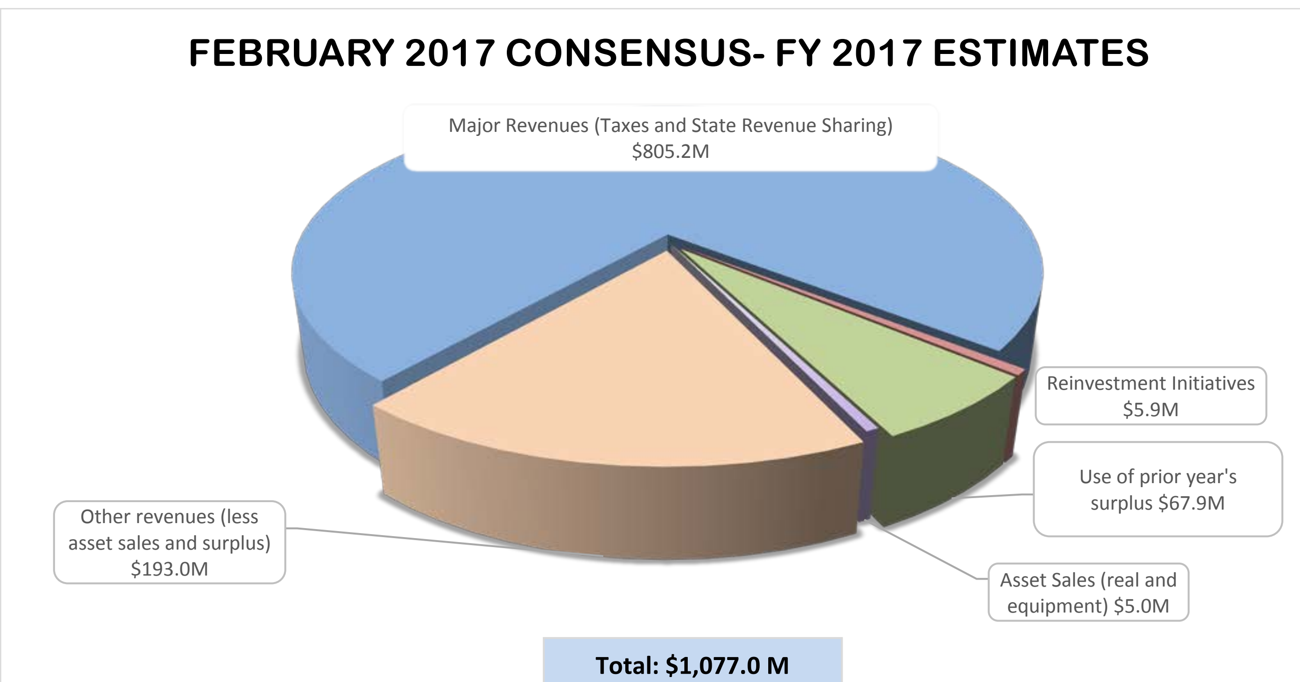
CONSENSUS REVENUE ESTIMATING CONFERENCE
FEBRUARY 16, 2017

(Draft Report)

The Directors of the City of Detroit Office of the Chief Financial Officer-Office of Budget, Office of the Auditor General and City Council Legislative Policy Division met during the month of January 2017 to discuss the City's revenue collections for the Fiscal Year ended June 30, 2016, current Fiscal Year 2017 and estimate collections for the next four fiscal years. The participants reviewed and recommended revenue estimates/projections for Fiscal Year 2017 through Fiscal Year 2021. Discussions included a forecast of economic conditions that may impact the City of Detroit revenues presented by Mr. Robert Kleine, Interim Director of Michigan State University Extension Center for Local Government Finance and Policy.

OVERVIEW OF CONFERENCE RESULTS

The February 2017 consensus estimate for General Fund revenues for FY 2017 is $1,077.0 million. The vast majority of the General Fund revenues, 75%, are from the Major Revenues: Taxes and State Revenue Sharing.



The FY 2017 General Fund Adopted Budget is $1,077.2 million. This represents a $.2 million variance between the February 2017 consensus estimate and the FY 2017 General Fund Adopted Budget. This variance is due to an increase in the major revenues of $13.5 million, offset by a decrease in the reinvestment initiatives of $6.7 million and a decline in the City's departmental revenues (including asset sales) of $7.0 million.

FY 2017 BUDGET
General Fund
(in millions)

	FY 2017 Baseline Budget	One Time/ Reinvestment Initiatives	FY 2017 Total Budget	2016 September Consensus Estimate	2017 February Consensus Estimate	Variance (February Consensus to Budget)	Variance (February Consensus to September)
Major Revenues (Taxes and State Revenue Sharing)	**$ 791.7**		**$ 791.7**	**$ 796.6**	**805.2**	**$ 13.5**	**$ 8.6**
Reinvestment Initiatives		12.6	12.6	3.6	5.9	(6.7)	2.3
Use of surplus funds		67.9	67.9	67.9	67.9	0.0	0.0
Asset Sales (real and equipment)	12.4		12.4	5.5	5.0	(7.4)	(.5)
Other revenues (less asset sales and reserve)	192.6		192.6	202.5	193.0	.4	(9.5)
Total	**$ 996.7**	**$ 80.5**	**$ 1,077.2**	**$ 1,076.1**	**$ 1,077.0**	**$ (.2)**	**$ .9**

There is no significant change between the February 2017 consensus estimate of $1,077.0 million and the September 2016 consensus estimate of $1,076.1 million. The variance ($.9 million (0%) decrease) between the September and February consensus estimates is due to an increase in the major revenues of $8.6 million, offset by an increase in the reinvestment initiatives of $2.3 million and a decline in the City's departmental revenues (including asset sales) of $10.0 million.

FEBRUARY 2017 REVENUE CONSENSUS RESULTS

The February 2017 conference includes a consensus estimate for Fiscal Year-End 2017 and determined revenue projections for Fiscal Years 2018 and 2019. The conference developed a trend line forecast of General Fund Revenues for Fiscal Years 2020 and 2021.

	Income Tax	Property Tax	Utility Users	Wagering Tax	State Rev Sharing	Other Revenues	Total General Fund Revenues
FY 2017 *							
Feb 2017 Consensus	$ 275.0	$ 124.0	$ 35.0	$ 176.0	$ 195.2	$ 203.9	**$ 1,009.1**
Sept 2016 Consensus	266.6	117.0	37.0	175.2	195.9	218.1	**1009.8**
Variance Feb over Sept	3.2%	6.0%	-5.4%	0.5%	-0.4%	-6.5%	-0.1%
* (Total excludes budget surplus of $67.9 million)							
FY 2018							
Feb 2017 Consensus	$ 283.3	$ 124.0	$ 35.0	$ 177.8	$ 196.1	$ 207.7	**$ 1,023.9**
Sept 2016 Consensus	269.3	117.6	37.0	177.0	196.9	220.9	**1018.7**
Variance Feb over Sept	5.2%	5.4%	-5.4%	0.4%	-0.4%	-6.0%	0.5%
FY 2019							
Feb 2017 Consensus	$ 291.7	$ 124.0	$ 35.0	$ 179.6	$ 196.5	$ 208.3	**$ 1,035.1**
Sept 2016 Consensus	272.0	118.2	37.0	178.8	197.9	222.6	**1,026.5**
Variance Feb over Sept	7.2%	4.9%	-5.4%	0.4%	-0.7%	-6.4%	0.8%
Long Term Trend							
FY 2020	$ 300.5	$ 124.0	$ 35.0	$ 181.4	$ 196.9	$ 208.5	**$ 1,046.3**
	3.0%	0.0%	0.0%	1.0%	0.2%	0.1%	1.1%
FY 2021	$ 309.5	$ 124.0	$ 35.0	$ 183.2	$ 197.3	$ 210.1	**$ 1,059.1**
	3.0%	0.0%	0.0%	1.0%	0.2%	0.8%	**1.2%**

MAJOR REVENUES DISCUSSION

The City of Detroit has five major revenues that represent 75% of General Fund revenues per the Fiscal Year 2016 results: Income Tax, Property Tax, State Revenue Sharing, Wagering Tax (Casinos) and Utility Users' Tax. This year, the City's internal participants began the process with an in-depth review of department revenues followed by a discussion of the City's major revenues and current economic climate. The task was to estimate General Fund major revenues and department revenues for the Fiscal Year-End 2017, and project revenues for the current Fiscal Year 2018 through Fiscal Year 2021. Using financial system reports, department sub-ledger reports, current operational analysis and local economic data, the participants individually determined their forecasts. Department- "Other revenues" of the General Fund were discussed in terms of baseline- on-going revenues, one-time activity and reinvestment initiatives. Revenues from all City funds were also considered as required by Public Act 182 of 2014.

Municipal Income Tax

As authorized under Public Act 284 of 1964, as amended by PA 56 of 2011 and again in 2012, the City of Detroit levies an Income Tax on income from all sources with minimum exemptions. Income Tax revenue includes withholding- annual and quarterly payments. More than 85% of income tax actual collections are derived from withholdings. The current Municipal Income tax rate is 2.4% for residents, 1.2% for non-residents and 2.0% for corporations. Public Act 394 of 2012 designated income tax revenues of .2% of resident individual tax collections and .1% of non-resident individual tax collections for Police operations. This public act also fixed income tax rates at 2.4% (residents, 1/2 – non-residents) until the repayment of any debt issued by the Public Lighting Authority.

In January 2016, the State of Michigan began phasing in the processing of the City's income taxes.

	Calendar Year 2016	***Calendar Year 2017 and 2018***
Individual returns: resident and non-resident	*MI Processing Start 1/1/2016; estimated 100,000 new returns filed, 304,000 returns in total. Total refunds processed $17.2 million*	*Refunds estimated as $21 million for FY 2017; in the range of $15 to $19 million for FY 2018*
Corporate returns		*MI Processing Start 1/1/2017*
Withholdings	*725 new entities are now withholding: 80% voluntary registered, 20% city compliance efforts.*	*MI Processing Start 1/1/2017*
Electronic Filing, Pay and Refunds	*Start 1/1/2016 for e-filing; 77% e-filed in 2016*	*MI Processing Start 1/1/2017 for e-pay* *MI Processing Start 1/1/2018 for e-refunds*

Income Tax Collections
Five Year History

(In millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016 (unaudited)
Actuals (per CAFR)	$233.0	$248.0	$253.8	$263.4	$268.0
% change	2.1%	6.4%	2.3%	3.9%	1.7%

The February 2017 consensus revised upward the estimate for FY 2017 to $275 million from $268 million actual collections. Anticipated increased refund activity from the State tempered overall collections in FY 2016. Income tax collections for FY 2018 continue its upward trend with growth estimated at 3%. Projections for FY 2019 through FY 2021 maintain a growth rate of 3%.

- The February 2017 consensus estimate includes reinvestment initiatives to increase delinquent income tax collections: outside collection agency; staff to perform field audits; enhanced taxpayer outreach and communications.
- The February 2017 consensus conference considered improved local economic conditions based upon blue chip economic forecasts as presented by Mr. Robert Kleine, Michigan State University.

Current Property Taxes

Article IX of the State Constitution, Sections 3 and 6 (General Property Tax) authorize the levy of taxes on real and personal property not otherwise exempt. The City currently levies the maximum tax permitted by law.

Property Tax Collections Five Year History

(In millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016 (unaudited)
Actuals (per CAFR)	$147.8	$132.8	$129.4	$126.4	$132.1
% change	(19.1%)	(10.1%)	(2.6%)	(2.3%)	4.5%

- Property Tax collections for FY 2016 benefited from internal process changes in check handling and other policy changes. In addition, the City received auction proceeds of $11 million from Wayne County.

- The FY 2017 Adopted Budget of $117 million assumed a smaller decline in collections than the previous budget due to taxable valuations declining at a lower rate. FY 2016 year-end results are estimated at $132.1 million; this is a 4.5% increase over FY 2015's actual collections. Previous estimates were based on a continued decline in the City's property taxable values due to required citywide reassessments and foreclosure activity. Improvement in the City's collection rate from 50% to over 70% is also a factor in increased collections.

- The February 2017 consensus raised property tax revenues for FY 2017 to $124.0 million from the previous budget estimates. This is a 6.0% increase over the Adopted Budget/September 2016 consensus; however, it is still 6.1% lower than FY 2016 year-end collections of $132.1 million, which continues the City's conservative approach in projecting property tax collections.

- Personal property tax valuations for FY 2017 were reduced by 13% (Industrial Facilities Personal Property taxes declined by 55%). In 2016, the City received $9.1 million from the State in personal property tax reimbursements (to be distributed to the City's taxing entities) under the Local Community Stabilization Authority (LCSA) Public Act 86 of 2014.

- Consensus projections remain flat for property tax revenues for FY 2018 and includes no growth for FY 2019 through FY 2021.

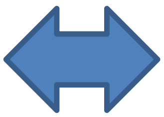
- The City Assessor's outlook on the Ad Valorem valuations for Fiscal Year 2018 indicates a much lower decline in assessed values than previously estimated. Of note, the City is experiencing growth in property values in certain areas of the city that may eventually lead to increased taxable valuation for the city. Completion of the citywide reassessment of residential properties in 2016 will not significantly impact the FY 2018 Budget. Commercial reassessments are scheduled to be completed in calendar year 2017 impacting collections for the FY 2019 Budget.

Utility Users' Tax

The City of Detroit levies a Utility Users' Tax as permitted under Public Act 100 of 1990 and as amended in 2012. The tax is based on consumption of electricity, gas, steam and telephone (land lines) in the city of Detroit. The City currently levies the maximum tax rate of 5%. Revenues are budgeted in the Police Department per the public act and have a restricted purpose to retain or hire police officers. In 2012, the law was amended to provide $12.5 million annually for the Public Lighting Authority for the repayment of debt proceeds used for street lighting infrastructure improvements in the city. To offset the loss of Utility Users' tax revenue to the Police Department, state law (Public Act 394 of 2012) authorized the payment of income tax revenues for police officers (to hire/retain).

Utility Users' Tax Collections Five Year History					
(In millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016 (unaudited)
Actuals (per CAFR)	$39.8	$35.3	$42.4	$37.9	$36.5
% change	(10.8%)	(11.3%)	20.1%	(10.6%)	(3.7%)

- The February 2017 consensus estimate for FY 2017 continues at $35 million; this was a $2 million decline over the adopted budget. Fiscal Year-end 2016 results were better than estimated in September 2016.
- The February 2017 consensus also continues the $35 million estimate for FY 2018. Factors considered were lower natural gas prices; lower utility consumption; and the prior year's actual collections. We estimate similar collections for FY 2019 through FY 2021 with no growth projected for this period. Estimates/projections were determined on a gross basis, inclusive of the $12.5 million Public Lighting transfer.

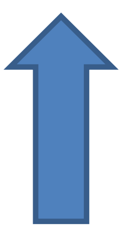


Wagering Taxes (Casino Revenues)

The City is authorized to levy a tax on the adjusted gross receipts of a gaming licensee under Initiated Law 1 of 1996, as Amended by Public Act 306 of 2004. The current tax rate in effect is 10.9% for the three casinos operating in Detroit. The City receives additional revenues from the casinos as specified in the casinos' operating agreements that increases the total percentage to 11.9%. The city is also permitted to assess a municipal service fee of 1.25% of adjusted gross receipts for public safety services provided to the casinos.

Wagering-Casino Tax Collections Five Year History					
(In millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016 (unaudited)
Actuals (per CAFR)	$181.4	$174.6	$167.9	$172.5	$174.3
% change	2.5%	(3.7%)	(3.8%)	2.7%	1.0%

- February 2017 consensus estimate revised the previous consensus estimate for FY 2017 upward due to higher year-to-date actuals and higher actual collections in FY 2016. The consensus estimate for FY 2017 was increased to $176 million, a 0.5% increase over the adopted budget. The forecast for Fiscal Years 2018 through 2019 includes a growth factor of 1.0%



- The long-term forecast for Fiscal Years 2020 through 2021 continues a growth factor of 1.0%.
- Detroit casinos have rebounded from declining revenues realized with the opening of casinos in Ohio. Any new casinos/gaming operations located within a 50 to 150 mile radius of the city will exert negative pressure on Detroit casino revenues, as shown with the opening of the Ohio casinos.

State Revenue Sharing

Revenue Sharing payments from the State are derived from two components: constitutional and statutory. Constitutional payments are guaranteed under the State Constitution and are calculated as 15% of 4% of the State Sales Tax gross collections. Statutory payments are based upon municipalities meeting the requirements of the City, Village and Township Revenue Sharing (CVTRS). For FY 2016 and FY 2017, the maximum amount available is 78.51044% of the FY 2010 total statutory payment (if a municipality complies with all requirements).

State Revenue Sharing Collections Five Year History					
(In millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016 (unaudited)
Actuals (per CAFR)	$172.3	$182.4	$189.8	$194.8	$194.7
% change	(28%)	5.9%	4.1%	2.6%	.0%

- Consensus estimates are based on the current State Revenue Sharing payments projected by the Michigan Department of Treasury and revised Sales Tax revenue projections. Treasury payments are based on the State of Michigan January 2017 Consensus Revenue Estimates and FY 2017 appropriation.

- The February 2017 consensus estimate for FY 2017 is $195.2; $0.7 million lower than the Adopted Budget of $195.9 million and .2% lower than FY 2016 actuals.
- FY 2018 through FY 2021 includes growth in Constitutional payments from MI Sales Tax revenues and assumes statutory payments to remain flat. The growth rates range from 0.5% in FY 2018 to 0.2% thereafter.
- Economic risks from potential federal fiscal policies with the election of a new administration; forecasts for lower national/local sales tax revenues; in addition to challenges to the state budget due to crises in local finances may exert downward pressure on this revenue source.

All Other General Fund Revenues

The following is a brief description of the types and sources of revenue that are included in each category shown in departmental budgets:

1. ***Sales and Charges for Services*** – Inter-fund revenue generated from maintenance and construction, Casino Municipal Service fees, Cable Franchise fees, recreation fees, property tax administrative fees, inter-fund reimbursements including personal services reimbursements, Emergency Medical Services billings, and other minor sales and service fees.
2. ***Revenue from Use of Assets*** - Earnings on investments, various interest earnings, building rentals, marina rentals, concessions, equipment rentals and sales of real property.
3. ***Other Taxes, Assessments, and Interest*** - Special assessments, Industrial Facilities Taxes, other miscellaneous property taxes and interest paid on delinquent property taxes.
4. ***Fines, Forfeits, and Penalties*** - Ordinance, court and parking fines, property tax penalties, and various fines, forfeits, and penalties.
5. ***Licenses, Permits and Inspection Charges*** - Various permits and licenses, safety inspection charges, and business licenses charges.
6. ***Contributions, Transfers, and Miscellaneous*** – Various revenues and contributions due to/or due from one fund resulting in revenues to one fund and an expenditure for another, other miscellaneous revenues and receipts, and sale of equipment.

Departmental Revenue Analysis

The consensus for Other General Fund department revenues was developed after discussions with the OCFO-Office of Departmental Financial Services on the individual department revenues including departments with General Fund operations or departments receiving General Fund assistance. Our departmental analysis began with discussions on baseline assumptions for each department as presented in the Four-Year Financial Plan and any adjustments to the baseline. Revenue initiatives are included in the consensus numbers presented in this conference if deemed achievable within the period under review.

Internal participants convened and discussed individual calculations by staff of the City Council, Auditor General and OCFO-Office of Budget. Upon review, the total revenue estimate differed among the three estimators mainly due to a difference in assumptions of reinvestment initiatives and non-recurring budget items.

The varying methodologies were utilized by the participants, which included analysis of historical collection patterns, trend line fitting, moving averages, major revenue category analysis, individual agency revenue account analyses, and the utilization of run rates. All participants considered and accounted for other known items that impact collections. Participants used a conservative approach in projecting future revenues; speculative revenues were not considered in the consensus numbers, but outlined as potential upward adjustments to revenues discussed later in this report.

FEBRUARY 2017 CONSENSUS ESTIMATES

(In millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Baseline (on-going) revenues	$ 198.0	$ 194.5	$ 194.6	$ 194.6	$ 196.2
One Time Activity	67.9				
Reinvestment Initiatives	5.9	13.2	13.7	13.9	13.9
Total	$ 271.8	$ 207.7	$ 208.3	$ 208.5	$ 210.1

- Other Revenues forecasts for FY 2017 include $198.0 million from on-going sources, $67.9 million of prior years' surplus used to fund capital projects, and reinvestment initiatives of $5.9 million. This forecast represents a decrease of $13.7 million from the Adopted Budget, primarily due to reductions in on-going, baseline revenues of ($7.0) million and a decrease in reinvestment initiatives of ($6.7) million.

- Projections for on-going, baseline revenues remain primarily flat for FY 2018 and FY 2019, with reinvestment initiatives ranging from $13.2 to 13.9 million. FY 2020 and FY 2021 forecast includes no growth on baseline and reinvestment revenues. Revenues for FY 2021 include reimbursement for the Presidential Primary Election of $1.6 million.

- Noteworthy changes to Departmental Revenues:

    1. Consensus estimates for sales of equipment and real property sales were reduced for lower than expected revenues in FY 2016 and FY 2017. The lower estimates for this activity were included in the forecast for Fiscal Years 2018 through 2021.

    2. Interagency billings for services provided by the Human Resources, Law and Office of Chief Finance Officer to other Non-General Fund City departments were reduced for a lower volume of reimbursable activity.

    3. Restructuring initiatives were deleted or reduced for the following agencies:

        - *Fire Department*- lower than estimated revenues over baseline.
        - *Municipal Parking* - certain revenue initiatives still under implementation- reduced to $2.57 million in FY 2016, increasing to $3.1 million by FY 2021.
        - *Office of the Chief Financial Officer-* revenue reductions in FY 2017 due to lower reimbursements from staff billings.
        - *Law*- initiative deleted, not expected to be realized.
        - *Police*- certain initiatives reclassified to grant funds; other initiatives not expected to be realized.
        - *General Services-* restructuring initiatives eliminated in FY 2017, not expected to be realized. Revenues from restructuring initiatives of $2.85 million is included in the forecast for FY 2018 to FY 2021.

    4. Restructuring initiatives for Civil Rights Inclusion and Opportunity Agency (formerly known as Human Rights) and 36th District Court are expected to generate $1.0 million and $1.4 million, respectively, in FY 2017. A gradual increase in revenues is projected for the forecast period FY 2018 through FY 2021. Revenues received for additional compliance activity generated by the Civil Rights Inclusion and Opportunity Agency will be recorded in a special revenue account to fund workforce training activity.

    5. Reimbursement for the 2016 Presidential Primary Election was received in October 2016 for the Elections Department. The February 2017 consensus also includes this revenue in the FY 2021 projections for the next election cycle.

Other General Fund Activity

Risk Management Fund

The City is exposed to various types of risk of loss including torts; theft of, damage to, or destruction of assets; loss due to errors or omissions; job-related illnesses or injuries to employees; natural disasters; and environmental occurrences. The City is self-insured against certain third-party claims. The City currently reports the risk management activities (excluding health and dental) of non-Enterprise Funds and the Transportation Fund (an Enterprise Fund) in its General Fund. The General Fund and DDOT pay insurance premiums into the Risk Management Fund based on past claim activities. Because the Transportation Fund is included in the General Fund's risk management activities, it does not record a liability in its financial statements. Risk management activities for the other Enterprise Funds are recorded and reported separately in those funds. Contributions to the Risk Management Fund in the form of insurance payments total $24.2 to $50.9 million for Fiscal Year-end 2017 through FY 2021.

The City also has a Budget Reserve Fund and a Public Lighting Department (PLD) Decommissioning Fund recorded in the General Fund Class. The Budget Reserve Fund received $111.3 million in FY 2015 as a condition of its mandatory reserve requirement; $49 million was appropriated in FY 2016 for operating purposes.

Other City Funds (Non-General Fund)

Public Act 279 of 1909, as amended in 2014 (The Home Rule City Act), requires the City to forecast anticipated revenues of the City for the current fiscal year and the succeeding two fiscal years. The chart shown below lists all of the City's Special Revenue Funds and Enterprise Funds; funds shown but not forecasted are the Trustee and Fiduciary (Retirement System) Funds. The revenue projections presented for these funds were based on historical data, trend lines and/or current department estimates

CITY OF DETROIT FUNDS (EXCLUDES GENERAL FUND CLASS)

(In millions)

	FY 2017				
FUND NAME	Revised Adopted Budget	FY 2016 September Consensus	FY 2017 February Consensus	FY 2018 Consensus Projection	FY 2019 Consensus Projection
Community Dev Block Grant	$ 30.00	$ 29.93	$ 32.60	$ 32.60	$ 32.00
Emergercy Shelter Grants	2.60	8.00	3.30	2.70	2.70
Sec 108 Loans - Development					
Neighborhood Stabilization Program I/III (Note 1)					
Department Grant Funds (Note 2):					
- Airport Grants					
- Fire SAFER -Other Fire Grants	2.00	2.00	2.00	2.00	14.40
- General Services Dept. Grants					
- Health Grants	23.70	25.70	21.70	21.70	21.70
- Homeland Security Grants	0.80	0.20	0.80	0.80	0.80
- Mayor's Office Grants	0.09	0.07	0.09	0.11	0.09
- Police Grants	5.47	5.47	4.81	4.81	4.81
- Dept. of Public Works (General) Grants			0.05	0.05	0.05
- Recreation	0.47	0.41	0.40	0.40	0.40
- Elections Grants (Voter Ed)	0.00		0.00	0.00	0.00
- Environmental Affairs Grants					
Construction Code Fund	21.60	21.50	21.00	25.00	25.00
- Fire Recovery Fund (Fire Escrow)					
Civil Rights,Inclusion&Opportunity Revolving Fund			0.90	0.45	0.35
Drug Law Enforcement Fund	1.60	1.80	2.00	2.00	2.00
- Federal Forfeiture Funds					
Library Funds	33.10	33.20	33.00	33.00	33.00
Quality of Life - Special Revenue (Note 3)					
Major and Local Streets Fund	67.50	67.50	68.00	77.21	82.10
PA 48 2002 Fund	2.20	2.20	2.50	2.90	2.90
Solid Waste Management	44.10	47.00	47.00	44.00	42.70
General Grants (Phase out to Dept Grants)					
Sinking Interest & Redemption	68.00	68.00	63.00	60.00	60.00
Special Hsg Rehab programs (HRD Dept)	4.20	4.20	4.22	4.01	4.01
Airport Funds *	1.50	1.10	1.67	1.67	1.67
Municipal Parking Funds	8.20	9.00	11.30	8.13	8.13
Transportation Funds (DDOT) **	149.90	133.10	126.90	133.00	133.00
Sewage Disposal Funds					
Water Funds					
Detroit Water & Sewerage Department- Retail	383.80	667.30	398.48	398.48	412.86
Retirement Systems					
Trust Funds					
TOTAL	$ 850.8	$ 1,127.7	$ 845.7	$ 855.0	$ 884.7

Note 1: NSP I and III Federal funding closed; no allocations expected. The City has permission to expend existing allocation.

Note 2: City Department's Grant Funds represent the reorganization of grants previously recorded in the General Grants Fund 3601; not all departments will receive annual grant awards. Grants are budgeted upon receipt of award.

Note 3: Quality of Life Fund records the proceeds of a one-time sale of bond for reinvestment initiatives in FY 2015.

* Totals include Contributions from the General Fund: Airport FY 2017, $889,209, and FY 2018 - $900,000.
** Totals include Contributions from the General Fund: DDOT: FY 2017 and FY 2018- $61.5 million

FUNDS WITH GENERAL FUND IMPACT

Airport

The Coleman A. Young International Airport is an Enterprise Agency of the City of Detroit. Revenues from landing fees, rentals, fuel concessions and Federal/State grants maintain the operations of the Airport. In addition, the Airport FY 2017 Budget includes a General Fund contribution of $889,209 which is expected to be paid. Consensus projections for FY 2018 and FY 2019 continues the contribution at $900,000 recognizing the most likely level of support from the General Fund based on historical trends. Enterprise revenues of $1.7 million are expected for FY 2017 through FY 2019.

Buildings & Safety

The Buildings & Safety Engineering & Environmental Department (BSEED) is an Enterprise Agency of the City of Detroit as mandated by State law. BSEED's mission is to safeguard public health, safety and welfare by enforcing construction, property maintenance, environmental compliance and zoning codes. Revenues from the Construction Code Fund include civil infraction fines, safety inspection charges, construction inspections and other licenses, permits and inspection charges. Revenues generated in support of the General Fund operations are from the business licensing activity. General Fund revenues are expected to remain at their current levels ($1.8 to $2.1 million) for FY 2017 through FY 2019. Revenues from the enterprise activity are projected at $21 million in FY 2017 and increase to $25 million thereafter.

Transportation

The Detroit Department of Transportation (DDOT) is an Enterprise Agency that provides transit services to the city of Detroit. Revenues are generated from fare boxes, State operating assistance, State and Federal grants, contribution from the General Fund and other miscellaneous revenues. The General Fund contribution for DDOT for FY 2016 was $63.3 million. The consensus for FY 2017 and FY 2018 estimates the General Fund contribution to remain at $61.5 million. Without additional restructuring efforts, this level of General Fund support will continue for the foreseeable future. Revenue from State operating assistance declined in FY 2014 due to a shift in the distribution formula. This shift resulted in a $7 million decline in grant revenues in FY 2014. FY 2017 revenues are estimated to decrease $6.1 million due to the repayment of ineligible costs. Increased Transportation funding is included in the road funding bills passed by the State Legislature in 2014- 2015. This legislation provides additional funding for DDOT, at the discretion of the City's Administration, by authorizing a city that meets specific criteria to allocate some of its Michigan Transportation Fund (MTF) revenues for public transit purposes. Enterprise revenues of $133 million are forecasted for FY 2018 and FY 2019.

Municipal Parking

The Municipal Parking Department is organized into two operations: the Parking Violation Bureau and the Automobile Parking and Area System. The Parking Violations Bureau is a General Fund operation responsible for enforcing on-street and off-street ordinances in the city of Detroit and the processing and collection of parking violation notices. The Auto Parking and Area System revenues are currently assigned to pay debt service for post-bankruptcy loans. The future of the revenue stream for this division is uncertain as additional bankruptcy settlement items may further dilute revenues. In addition, certain parking structures have been transferred or optioned for future purchase under terms of the bankruptcy settlement. Parking Violation revenues for FY 2017 is estimated as $14.0 million; for FY 2018 and FY 2019 the projection is $11.1 million from on-going, baseline operations and one-half- $3.1 million from budgeted reinvestment initiatives of $6.8 million. Total agency revenues estimates for FY 2017 is $25.3 million; 22.6 million is projected for FY 2018 and FY 2019.

Solid Waste Fund

The Solid Waste Management Fund is a Special Revenue Fund. The City of Detroit uses the Solid Waste Management Fund to account for local revenue collected for curbside rubbish pick-up and discard. The majority of Solid Waste Management Fund revenues comes from a residential Solid Waste Fee that is assessed to every home whether or not currently occupied. The solid waste service fee replaced the 3-mill tax for solid waste collection that was eliminated in 2006. The solid waste fee is assessed annually at $240 for single family homes, and an additional $100 for multi-family dwellings. Commercial fees are $1,000.

A change in processing of delinquent tax bills in FY 2015-16 resulted in improved collections of solid waste fees. The February 2017 consensus estimated total revenues of $47 million in FY 2017, which includes $3 million in delinquent collections. The consensus assumed collection levels of $44.0 million for FY 2018 and $42.7 million for FY 2019.

The City privatized the solid waste activity in FY 2014. Contracts were awarded to two companies to service the east and west side of the City on February 21, 2014. The outsourcing of this activity is expected to be revenue/cost neutral. However, service is anticipated to greatly improve under this arrangement.

OTHER CITY FUNDS

Grants

The City receives various Federal and State Grants for various activities administered by city departments. Some of the city's largest programs are noted below.

The Fire Department received revenues from the Staffing for Adequate Fire & Emergency Response (SAFER) grant, a Federal grant sponsored by Federal Emergency Management Agency (FEMA).

The Health Department administers grants from Federal and State sources for HIV/AIDS, Housing Opportunities for Persons with Aids (HOPA) grants, Immunization, Women, Infants and Children (WIC) and Essential Local Public Health Services (ELPHS) grants.

The Housing and Revitalization Department administers programs and contracts funded by the Community Development Block Grant (CDBG), the Emergency Solutions Grant, Hardest Hit funds for demolition and HOME funds.

The Police Department receives grants from various State and Federal sources including the Department of Justice-Justice Assistance grants (JAG), Community Oriented Policing (COPS) grants, Auto Theft and Victim's Assistance grants.

Library

The Library Fund records the operations of the Detroit Public Library (DPL). DPL is an enterprise agency of the City of Detroit. It is Michigan's largest public library system consisting of a Main Library and 21 neighborhood branches. DPL has a collection of 6.6 million items that includes books, journals, photographs, government documents, and DVDs. A bookmobile makes weekly visits to schools and community centers, and the Library for the Blind & Physically Handicapped serves those with various physical challenges. The February 2017 consensus projects revenues of $33 million for this fund for the forecast period.

Major and Local Street Funds

Activity recorded in Major and Local Street Funds provide for the construction and maintenance of streets, bridges, traffic signals and non- motorized improvements. These funds account for State Gas and Weight Tax revenue that support various projects and accounts for State and Federal grants on a project basis. The Department of Public Works staff manages the Street Fund. The following three divisions are wholly or partially funded through the Street Fund: Street Maintenance Division, City Engineering Division and the Traffic Engineering Division. An increase in road funding was enacted with the passage of State legislation amending various public acts in 2014- 2015. The City projects receiving $10-15 million in additional Gas & Weight Taxes for the forecast period. Revenues from this source are projected to range from $68.0 to $82.1 million for Fiscal Year-end 2017 through FY 2019. This projection corrects the previous consensus that excluded local street fund activity.

Sinking and Interest Funds

The Sinking (bond) and Interest Redemption Fund provides for the scheduled retirement of principal and interest on long-term City debt. This debt derives from the issuance of un-limited tax general obligation bonds. The debt service on Enterprise Funds appears in the Enterprise Agency Sections. The revenues for the Sinking and Interest (Debt Service) Fund are generated from a separate debt service millage on real and personal property located in the city of Detroit. Budgeted debt service schedules require funding of $47.2 to $53.6 million for the forecast period as revised by the August 2016 refinancing transaction that lowered principal and interest requirements for this fund.

Detroit Water & Sewerage- Retail

The Department was reorganized into two separate entities: the regional Great Lakes Water Authority (GLWA) and the Detroit Department of Water and Sewage Disposal- Retail (DWSD-Retail), effective January 1, 2016. Projections presented for the forecast period are for DWSD-Retail only. Revenues of $398.5 million are projected for FY 2017 and FY 2018, increasing to $412.86 million in 2019.

Under the reorganization, Detroit maintains its own local system. Detroit keeps exclusive control of the local water and sewer system in DWSD – under authority of Mayor and City Council. The Detroit local system is made up of approximately 3,000 miles of local sewer pipe and 3,400 miles of local water mains serving the neighborhoods of Detroit. Detroit has full authority to repair and rebuild the local system.

Great Lakes Water Authority (GLWA) is an authority formed to operate the regional system. GLWA operates the regional water and sewer assets. The GLWA Board is made up of 6 members: 2 appointed by the Mayor of Detroit, 1 each by Wayne, Oakland and Macomb Counties, and 1 by the Governor from the service area outside the three counties. The Authority provides services to communities in Oakland, Wayne and Macomb counties, estimated as 4 million customers from 127 communities.

The Authority sets the rates for all water and sewerage services. Rate increases are capped at 4% annually per agreement. GLWA entered into a long-term 40-year lease of the water and sewer assets owned by the Detroit Water and Sewerage Department. Lease terms provide for the payment of $50 million per year for the next 40 years to the City of Detroit for water and sewer infrastructure improvements. This will allow Detroit to finance up to $500-$800 million in bonds to rebuild the city’s aged water and sewer system.

SET ASIDES

The FY 2015 Budget included a reserve of $111.3 million, which more than satisfied the State's budget reserve requirement of 5% of expenditures. In FY 2016, $49 million of the excess Budget Reserve is designated for use in General Fund operations leaving a remaining balance of $62.3 million in reserves for FY 2016. This represents 5.8% of estimated General Fund appropriations for FY 2016. The Plan of Adjustment allows for surplus funding to be used for reinvestment projects. The FY 2017 Budget includes $67.85 million in surplus for capital spending. It is the city's policy to fund future capital projects with budget surpluses.

RISKS TO FORECAST

These estimates take into account the expected real revenue to the City subject to certain inherent risks outlined below:

- Potential change to federal fiscal policy due to new administration may negatively impact federal entitlement programs resulting in a loss of funds to state and local municipalities.
- Trigger of a Headlee roll-back in property tax millage assessed due to possible loss in the personal property tax base.
- Risks to estimated property tax collections due to the impact of Wayne County chargebacks netted against the delinquent accounts revolving fund payment.
- Property valuation declines and foreclosure activity negatively impacts taxable valuations.
- Loss to personal property tax collections not fully reimbursed by the state.
- Decline in property tax collections due to city-wide reassessments and adjustments to the rolls.
- Challenges to State budget from declining local finances and other critical issues.
- Lower consumer confidence depresses spending and reduces sales tax revenues.
- Rising interest rates resulting in lower consumer spending.
- Rising inflation
- Declines in Michigan Sales Tax revenues negatively impacts local government share.
- Lower gas prices impacts MI Sales Tax revenues and negatively impacts local government share.

POTENTIAL UPWARD ADJUSTMENTS TO FORECAST

- Ongoing improvements to collection efforts in FY 2017 results in additional tax revenues not currently reflected in the consensus estimates.

- The potential for increased economic development to increase the city's tax base and generate additional revenues for the city.

- State of Michigan processing of the City's income tax and subsequent withholding collections results in increased compliance and generate additional revenues for the city. E-pay payment option should improve collection activity.

- Passage of State legislation requiring non-Detroit businesses to withhold income taxes of employees residing in Detroit should significantly increase income tax collections.

- Revenue initiatives in the Four-Year Financial Plan, but not included in the consensus estimates/projections may result in additional revenues if timely and successfully implemented.

- Sales tax on internet purchases may increase state local share distributions to city/villages/townships.

Conference Participants

John W. Hill, Chief Financial Officer

John Naglick, Jr., Chief Deputy Chief Financial Officer / Finance Director

John H. Hageman, Chief of Staff to the Chief Financial Officer

Tanya Stoudemire, OCFO-Deputy CFO, Budget Director

Tina Tolliver, OCFO-Office of Budget, Deputy Budget Director

Steve Watson, OCFO, Director of Special Projects

Irvin Corley, Jr., City Council Legislative Policy Division, Executive Policy Manager

Anne Marie Langan, City Council Legislative Policy Division, Fiscal Analyst

Richard Drumb, City Council Legislative Policy Division, Fiscal Analyst

Mark Lockridge, Auditor General

Jeffrey Vedua, Office of the Auditor General, Deputy Auditor General

Vivian Slaughter, Office of Auditor General

Jill Kilbourn, Office of the Auditor General

Walter Griggs, Office of Auditor General

Renee Short, OCFO-Office of Budget

Sneha Patel, OCFO-Office of Budget

Janice Butler, OCFO-Office of Budget

Pamela Scales, OCFO-Deputy CFO, Office of Departmental Services

Mike Jamison, OCFO-Deputy CFO, Financial Planning and Analysis

Alvin Horhn, OCFO-Deputy CFO, Office of the Assessor

James Chubb, OCFO-Deputy CFO-Deputy Treasurer-Operations

Debra Pospiech, OCFO-Deputy Treasurer-Tax

Rhonda McKay, OCFO-Treasury

Justin Bahri, OCFO- Treasury

Felix O’Aku, OCFO, Agency CFO

James George, OCFO, Agency CFO

Lisa Jones, OCFO, Agency CFO

Steven Morris, OCFO, Agency CFO

Angela Taylor, OCFO, Agency CFO

Eunice Williams, OCFO, Agency CFO

John Wallace, OCFO, Agency CFO

Kim Williams, OCFO, Office of Departmental Financial Services

Shawn Woodard, OCFO-Office of Departmental Financial Services

Robert Kleine, Michigan State University

Shavi Sarna, Ernst & Young

Table 1
Consensus Economic Forecast

January 2017

	Calendar 2015 Actual	Calendar 2016 Forecast	Percent Change from Prior Year	Calendar 2017 Forecast	Percent Change from Prior Year	Calendar 2018 Forecast	Percent Change from Prior Year	Calendar 2019 Forecast	Percent Change from Prior Year
United States									
Real Gross Domestic Product (Billions of Chained 2009 Dollars)	$16,397	$16,660	1.6%	$16,993	2.0%	$17,316	1.9%	$17,680	2.1%
Implicit Price Deflator GDP (2009 = 100)	110.0	111.4	1.3%	113.4	1.8%	115.6	1.9%	117.9	2.0%
Consumer Price Index (1982-84 = 100)	237.017	239.925	1.2%	244.879	2.1%	249.777	2.0%	255.504	2.3%
Consumer Price Index - Fiscal Year (1982-84 = 100)	236.742	238.939	0.9%	243.767	2.0%	248.490	1.9%	254.017	2.2%
Personal Consumption Deflator (2009 = 100)	109.5	110.7	1.1%	112.6	1.7%	114.6	1.8%	116.9	2.0%
3-month Treasury Bills Interest Rate (percent)	0.05	0.3		0.8		1.4		2.1	
Aaa Corporate Bonds Interest Rate (percent)	3.9	3.6		3.9		4.1		4.3	
Unemployment Rate - Civilian (percent)	5.3	4.9		4.7		4.7		4.7	
Wage and Salary Employment (millions)	141.865	144.319	1.7%	146.200	1.3%	147.520	0.9%	148.850	0.9%
Housing Starts (millions of starts)	1.112	1.164	4.7%	1.226	5.3%	1.270	3.6%	1.335	5.1%
Light Vehicle Sales (millions of units)	17.4	17.5	0.4%	17.2	-1.5%	17.0	-1.2%	16.9	-0.6%
Passenger Car Sales (millions of units)	7.5	6.9	-8.2%	6.5	-5.8%	6.4	-1.5%	6.3	-1.6%
Light Truck Sales (millions of units)	9.9	10.6	6.9%	10.7	1.3%	10.6	-0.9%	10.6	0.0%
Big 3 Share of Light Vehicles (percent)	43.6	42.9		43.0		43.2		43.0	
Michigan									
Wage and Salary Employment (thousands)	4,244	4,329	2.0%	4,376	1.1%	4,420	1.0%	4,464	1.0%
Unemployment Rate (percent)	5.4	4.6		4.6		4.8		4.7	
Personal Income (millions of dollars)	$424,807	$440,101	3.6%	$457,265	3.9%	$474,183	3.7%	$493,625	4.1%
Real Personal Income (millions of 1982-84 dollars)	$194,237	$198,076	2.0%	$201,330	1.6%	$204,870	1.8%	$208,937	2.0%
Wages and Salaries (millions of dollars)	$214,703	$224,580	4.6%	$232,215	3.4%	$239,414	3.1%	$247,793	3.5%
Detroit Consumer Price Index (1982-84 = 100)	218.706	222.188	1.6%	227.122	2.2%	231.456	1.9%	236.255	2.1%

MICHIGAN STATE UNIVERSITY | Extension
Center for Local Government Finance and Policy

Economic Forecast Prepared for City of Detroit

Robert Kleine, Interim Director
MSUE Center for Local Government Finance & Policy

U.S. Economy

The national economy continued to grow at a moderate pace in 2016, but at a slower rate than in recent years. Real GDP increased at a rate of 1.6% in 2016 compared with 2.6% in 2015. The relatively slow rates of growth are due mainly to weak government spending, slow growth in exports due to the strength of the dollar, increasing income inequality, and in 2016, the maturity of the economic recovery which has reached 88 months, the fourth longest in history.

Employment growth also slowed in 2016, as job gains averaged 180,000 a month compared with 240,000 for the previous two years.

Light motor vehicle sales maintained a strong pace, reaching 17.5 million units slightly edging the 2015 record level.

The forecast is for real GDP to improve modestly in 2017 (2%) and 2018 (1.9%).

Wage and salary growth will continue to slow in the next two years, increasing 1.3% in 2017 and 0.9% in 2018, compared to 1.7% in 2016.

Motor vehicle sales will remain at a high level but slightly below the 2105 and 2016 records, 17.2 million units in 2017 and 17 million units in 2018.

The risks to the forecast beyond 2017 are substantial. The new administration is likely to implement some major changes in economic and other policies. Some of the major risks are potential conflicts on trade causing job losses, major tax cuts that could balloon the deficit, sharp cuts in government spending that could slow economic growth, the repeal of the Affordable Care Act that could reduce employment and increase health care costs, over tightening by the Fed, and policy mistakes by inexperienced members of the new administration.

The forecasts are largely those agreed to in the State's revenue estimating conference that convened in Mid-January.

Michigan Economy

Michigan's economic performance is largely dependent on the national economy, particularly on motor vehicle sales.

Michigan added 68,000 jobs in 2016 (December to December). This compares with an average gain of 79,000 from 2010 to 2015, and a gain of 71,000 in 2015.

Using another measure, the monthly average for 2015 and 2016, the increase was 90,000, up from 62,000 in 2015.

Michigan has added 530,000 jobs since hitting bottom in March, 2010, and has more than regained all the jobs lost during the Great Recession. However, wage and salary employment is still 334,000 below the 2000 peak.

The slowing of the national economy and the modest decline in auto sales will slow Michigan employment growth in 2017 and 2018 to about half the 2016 increase; an increase of 47,000 jobs in 2017 and 44,000 in 2018.

The unemployment rate is expected to average 4.6% in 2017, down slightly from 4.7% in 2016, and increase to 4.8% in 2018. The November unemployment rate was 4.9% and the December unemployment rate was 5%, which suggests the 2017 forecast could be optimistic.

Michigan personal income increased an estimated 3.6% in 2016(only three quarters data have been released) down from 4.6% in 2015. The average gain in the first three quarters was 3%. The forecast is for a 3.9% increase in 2017 and a 3.7% increase in 2018. The average annual gain since 2010 is 4.1%.

There has been little inflation in the last three years, due in part to the decline in oil prices. The Detroit CPI increased 1% in 2014, fell 1.4% in 2015, and increased 1.6% in 2016. The forecast is for a 2.2% increase in 2017 and a 1.9% increase in 2018. The increase in inflation is due, in large part, to the forecast of stable to rising oil prices.

Detroit Economy and Revenues

There is little current economic data available for the city of Detroit but the same trends that affect the national and Michigan economies will affect Detroit, although there will clearly be some differences.

Current employment data is available for the Warren-Detroit-Dearborn Metro area, which covers six counties (Wayne, Oakland, Macomb, Lapeer, Livingston and St. Clair). The metro area has grown slightly faster than the state since 2010, and has been growing at a rate of about 2% in recent quarters, about the same as the state.

Detroit's major revenue sources are the income tax, property taxes, casino taxes, and state revenue sharing. See Exhibit 1.

Exhibit 1

Detroit General Fund Revenue, FY 2015

Source	*Amount (000)*	*% of Total*
Income Taxes	$263,377	24.9%
State Revenue Sharing	$194,757	18.4%
Wagering Taxes	$172,523	16.3%
Property Taxes	$126,394	11.9%
Sales, Licenses, Charges for Services	$97,863	9.2%
Other Intergovernmental Aid	$58,083	5.5%
Other Taxes	$43,829	4.1%
Other Revenue	$102,963	9.7%
Total Revenue	$1,059,791	100.0%

Income Tax

The income tax accounts for about 25% of Detroit's General Fund (GF) revenue.

The average annual growth rate from 2011 to 2016 was 3.5%.

Estimating revenues for FY 2017 and FY 2018 is difficult for two reasons. First, the state has taken over the processing of income tax returns which is resulting in increased collections, but it is too early to estimate the additional revenue, and second, the corporate income tax is very volatile and difficult to estimate. Based on the forecast for Michigan personal income and looking at 2017 estimates for other income tax cities, a reasonable estimate for the individual income tax is 3% for FY 2017 and 2.5% for FY 2018, excluding any impact from state collection, or other unusual events.

State Revenue Sharing

Revenue sharing payments have increased the last four years, but are down about 25% since 2008. The estimates are $195,263,000 for FY 2017, and $196,700,000 for 2018. The 2017 number is the estimate from the Senate Fiscal Agency and the 2018 estimate assumes a 2.5% increase in the constitutional portion, which is tied to the growth in the sales tax, and no change in the statutory portion.

Property Taxes

Property taxes account for only 12% of GF revenues. The average for all cities is 43%.

The key determinant of growth in property taxes for most local governments is the change in the U.S. CPI, as taxable value is limited to the rate of inflation or 5%, whichever is less. The cap in 2017 is 0.9% and the projected cap for 2018 in 2.2%.

Detroit's TV has declined 24% since 2012, and the decline in 2016 was 9.5%. It is likely that the worst of the declines is over, and that growth in future years will be limited by the cap.

Wagering Taxes

These taxes provide about 16% of GF revenue. The recent trend has been uneven. Up in 2012 (2.6%), down in 2013 and 2014 (total of 7.5%), and up in 2015 and 2016. A baseline forecast might be the average of the last 5 years, which is $175 million. Special factors such as increased competition or upgraded facilities could affect the estimate.

The U.S. and Michigan Forecast is summarized in Exhibit 2.

Exhibit 2

Summary of U.S. and Michigan Forecast, 2017 and 2018

U.S.	*2016*	*2017*	*2018*
Real GDP	1.6%	2.0%	1.9%
Wage & Salary Employ. Growth	1.7%	1.3%	0.9%
Unemployment Rate	4.9%	4.7%	4.7%
Motor Vehicle Sales (millions)	$17.5	$17.2	$17.0
CPI	1.3%	2.4%	2.3%
10-Year Treasury Note	1.8%	2.3%	2.5%
Michigan			
Personal Income	3.6%	3.9%	3.7%
Wage & Salary Employ. Growth	2.0%	1.1%	1.0%
Unemployment Rate	4.7%	4.6%	4.8%
Detroit CPI	1.6%	2.2%	1.9%