SEPTEMBER 2016 CONSENSUS REVENUE ESTIMATING CONFERENCE

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City of Detroit

CONSENSUS REVENUE ESTIMATING CONFERENCE

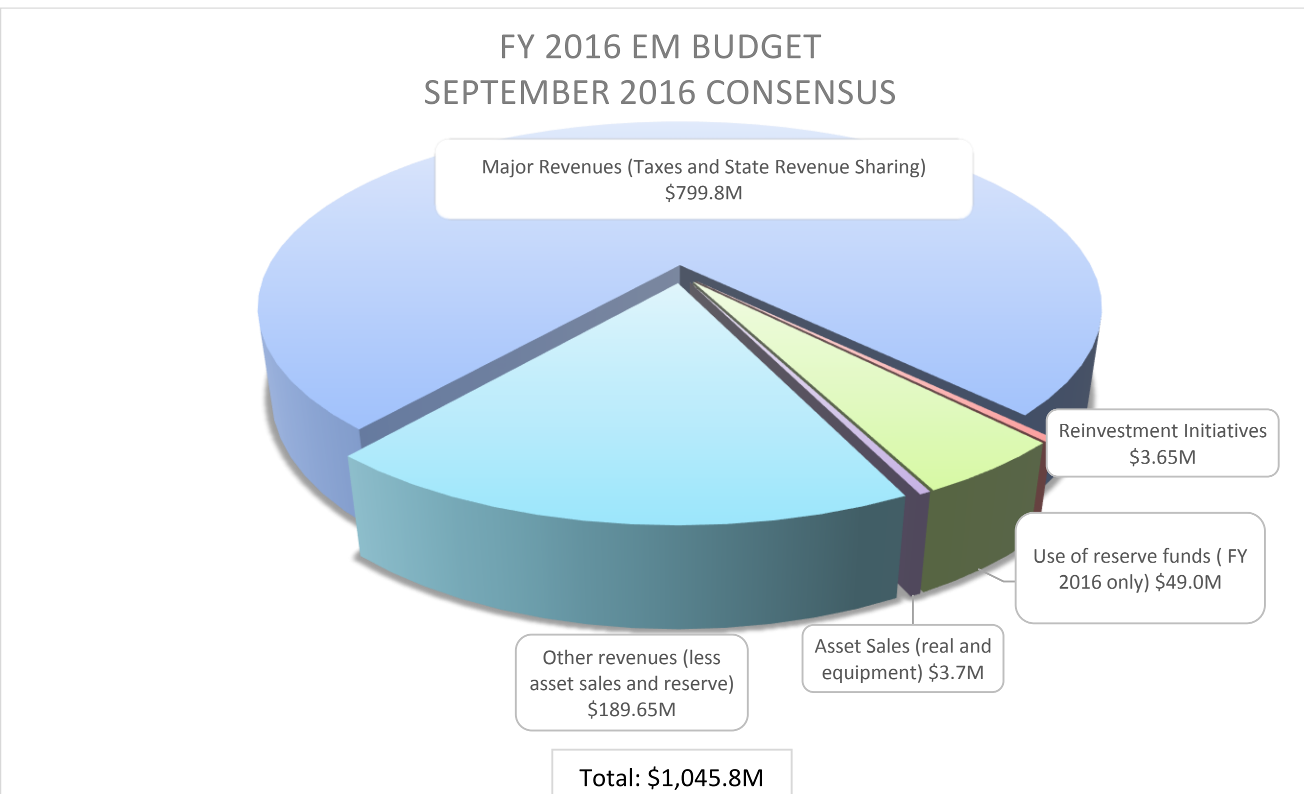
SEPTEMBER 22, 2016

(Draft Report)

The Directors of the City of Detroit Office of Budget, Office of the Auditor General and City Council Legislative Policy Division met in August and September 2016 to discuss the City's revenue collections for the fiscal year ending 2016, current fiscal year and estimate collections for the next four fiscal years. The participants reviewed and recommended revenue estimates/projections for Fiscal Year 2016 through Fiscal Year 2021. Discussions included a forecast of economic conditions that impact the City of Detroit revenues presented by Dr. Eric Scorsone, of Michigan State University.

OVERVIEW OF CONFERENCE RESULTS

The September 2016 consensus estimate for General Fund revenues for FY 2016 is $1,045.8 million. The vast majority of the General Fund revenues, over 75%, are from the Major Revenues: Taxes and State Revenue Sharing.



The FY 2016 General Fund Adopted Budget is $1,071.5 million. This represents a $25.8 million variance between the September FY 2016 consensus estimate and the FY 2016 General Fund Adopted Budget. This variance is due to an increase in the major revenues of $48.3 million, offset by a decrease in the reinvestment initiatives of $37.1 million and a decline in the city's departmental revenues (including asset sales) of $37 million.

FY 2016 EM BUDGET

General Fund (in millions)	**FY 2016 Baseline Budget**	**One Time/ Reinvestment Initiatives**	**FY 2016 Total Budget**	**2016 February Consensus Estimate**	**2016 September Consensus Estimate**	**Variance (September Consensus to Budget)**	**Variance (September Consensus to February)**
Major Revenues (Taxes and State Revenue Sharing)	**$ 751.5**		**$ 751.5**	**$ 786.4**	**799.8**	**$ 48.3**	**$ 13.4**
Reinvestment Initiatives		40.7	40.7	7.2	3.7	(37.1)	(3.5)
Use of reserve funds (2016 only)		49.0	49.0	49.0	49.0	0.0	0.0
Asset Sales (real and equipment)	9.9		9.9	9.9	3.7	(6.2)	(6.2)
Other revenues (less asset sales and reserve)	220.4		220.4	196.0	189.6	(30.8)	(6.4)
Total (adjusted for bond sales)	**$ 981.8**	**$ 89.7**	**$ 1,071.5**	**$ 1,048.5**	**$ 1,045.8**	**$ (25.8)**	**$ (2.7)**

The September 2016 consensus estimate reflects a $2.7 million (0.3%) decrease from the February 2016 consensus estimate of $1,048.5 million. This variance between the September and February consensus estimates is due to an increase in the major revenues of $13.4 million, offset by a decrease in the reinvestment initiatives of $3.5 million and a decline in the city's departmental revenues (including asset sales) of $12.6 million.

SEPTEMBER 2016 REVENUE CONSENSUS COMPARISON

When comparing September FY 2016 revenue estimates to FY 2015 CAFR, September FY 2016 revenues have decreased $14 million. However, FY 2015 CAFR includes the following one-time activity: $43.3 million Hardest Hit grant revenues and bankruptcy-related recoveries of $23 million and FY 2016 includes a one-time $49 million revenue from budget reserve. When taking into account one-time activity, the September FY 2016 revenues are $3.3 million more than the FY 2015 CAFR.

$ In millions	FY 2015 Actuals (CAFR)	FY 2016 September Consensus Estimates	Variance FY 2016 Sept Consensus to FY 2015 Actuals	2016			
				EM 2-Year Budget	Feb 2016 Consensus	Sept 2016 Consensus	Variance Sept 2016 to Feb 2016 Consensus
Income Taxes	$263.4	$268.0	$4.6	$268.4	$264.0	$268.0	$4.0
Property Taxes	126.4	127.9	1.5	100.8	117.0	127.9	10.9
Utility Users Taxes	37.9	35.2	(2.7)	15.9	37.0	35.2	(1.8)
Wagering Taxes	172.5	174.3	1.8	169.0	173.5	174.3	.8
State Rev Sharing	194.8	194.4	(.4)	197.4	194.9	194.4	(.5)
Other Revenues	264.8	246.0	(18.8)	320.0	262.1	246.0	(16.1)
Total General Fund	$1,059.8	$1,045.8	($14.0)	$1,071.5	$1,048.5	$1,045.8	($2.7)

Note:

- Utility Users Tax Budget FY 2015 actuals and FY 2016 consensus are shown at gross amounts and include the $12.5M for the Public Lighting Authority.
- The FY 2016 Consensus estimate for State Revenue Sharing was revised downward in the 2016 February Consensus Conference by the Revenue Conference Principals after receiving additional information from the MI Department of Treasury.
- Other Revenues FY 2015 Actuals do not include the budgeted Prior Years Surplus amount of $151.3 million and exit financing/bond proceeds (CAFR adjustment, shown as Other Financing Sources).
- Other Revenues FY 2016 Actuals*do not include $9M for Fire Escrow funds allocated to Blight remediation that did not post to the General Fund or Public Lighting revenues of $26 million not realized by the General Fund; reimbursements by DTE were made directly to the contractor.
- Other Revenues excludes bond proceeds in both FY 2015 and 2016 of $154.9 million and $245.0 million, respectively.

SEPTEMBER 2016 REVENUE CONSENSUS RESULTS

The September 2016 conference includes a consensus estimate for Fiscal Year-end 2016 and determined revenue projections for Fiscal Years 2017, 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 *							
Sept 2016 Consensus	$ 273.4	$ 117.0	$ 35.0	$ 177.8	$ 195.3	$ 211.7	**$ 1,010.2**
Feb 2016 Consensus	266.6	117.0	37.0	175.2	195.9	218.1	**1009.8**
Variance Sept over Feb	2.6%	0.0%	-5.4%	1.5%	-0.3%	-2.9%	0.0%
* (Total excludes budget surplus of $67.85 million)							
FY 2018							
Sept 2016 Consensus	$ 278.8	$ 117.0	$ 35.0	$ 181.4	$ 196.3	$ 213.4	**$ 1,021.9**
Feb 2016 Consensus	269.3	117.6	37.0	177.0	196.9	220.9	**1018.7**
Variance Sept over Feb	3.5%	-0.5%	-5.4%	2.5%	-0.3%	-3.4%	0.3%
FY 2019							
Sept 2016 Consensus	$ 284.4	$ 117.0	$ 35.0	$ 185.0	$ 197.2	$ 214.0	**$ 1,032.6**
Feb 2016 Consensus	272.0	118.2	37.0	178.8	197.9	222.6	**1,026.4**
Variance Sept over Feb	4.6%	-1.0%	-5.4%	3.5%	-0.3%	-3.9%	0.6%
Long Term Trend							
FY 2020	$ 290.1	$ 117.0	$ 35.0	$ 188.7	$ 198.2	$ 216.2	**$ 1,045.2**
	2.0%	0.0%	0.0%	2.0%	0.5%	1.0%	1.2%
FY 2021	$ 295.9	$ 117.0	$ 35.0	$ 192.5	$ 199.2	$ 219.9	**$ 1,059.5**
	2.0%	0.0%	0.0%	2.0%	0.5%	1.7%	**1.4%**

Note: The FY 2017 Consensus estimates for State Revenue Sharing was revised downward in the 2016 February Consensus Conference by the Revenue Conference Principals after receiving additional information from the MI Department of Treasury.

MAJOR REVENUES DISCUSSION

The City of Detroit has five major revenues that represent over 75% of General Fund revenues per the fiscal year 2015 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 2016, and project revenues for the current Fiscal Year 2017 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 processing the City's resident and non-resident individual income tax returns. Taxpayers had an opportunity to e-file their city tax returns for the first time. An estimated 100,000 new tax returns were filed in 2016. The City continued to process withholding activity, corporate and partnership returns for this first year of the transition to the state. Processing of this activity will subsequently transfer to the State on January 1, 2017. The City pre-funded refunds in 2016.

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%

- Income Tax FY 2016 year-end collections are estimated to increase by 1.5% over the February 2016 revised consensus estimate of $264 million. The year over year growth rate is 1.7%. Actual income tax withholdings increased by 3.2% for the fiscal year.
- The September 2016 consensus estimate includes reinvestment initiatives to increase delinquent income tax collections; such as use of an outside collection agency, hiring of additional staff to perform field audits and e-filing of the City's tax returns.
- The September 2016 consensus revised upward the February estimate for FY 2016 to $268 million from $264 million. Anticipated increased refund activity from the State tempered overall collections in FY 2016. Income tax collections for FY 2017 continue its upward trend with growth estimated at 2.0%. Projections for FY 2018 through FY 2021 maintain a growth rate of 2%.

- The September 2016 consensus estimates considered improved local economic conditions based upon blue chip economic forecasts as presented by Dr. Eric Scorsone, 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	$127.9
% change	(19.1%)	(10.1%)	(2.6%)	(2.3%)	1.2%

- Property Tax collections for FY 2015 benefited from an internal process change in the handling of checks received by mail. This activity was previously administered through a lockbox arrangement, but now checks are processed in-house eliminating a 6- 8 week lag in cash receipts. In addition, the city received unanticipated proceeds of $6 million from the Wayne County auction of foreclosed property. Again, actual collections were enhanced by an internal change in processing that included the summer tax levy in the auction bids.

- The FY 2016 Adopted Budget of $100.8 million assumed a 10% decline in collections that the prior year's actual collections did not confirm. FY 2016 year-end results are currently $127.9 million. This represents a 1.2% increase over FY 2015 actual collections. The previous consensus estimate was increased to reflect actual collection activity. The original estimate was based on a continued decline in property taxable values due to required citywide reassessments and foreclosure activity. Improvement in the City's collection rate from 50% to over 70% is a factor in increased collections for FY 2015 and FY 2016.

- The September consensus lowered property tax revenues for FY 2017 to $117.0 million, the same as the February consensus estimate. This is 8.5% less than FY 2016 year-end collections of $127.9 million, due to concerns regarding future reductions to the Wayne County Revolving Fund payments. In addition, personal property tax valuations for FY 2017 were reduced by 13% (Industrial Facilities Personal Property taxes declined by 55%).

- 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 2017 indicates a continued decline in assessed values, but at a slower rate 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. The citywide reassessment of residential properties continues and is expected to be completed by December 2016 impacting property tax collections for 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	$35.2
% change	(10.8%)	(11.3%)	20.1%	(10.6%)	(7.1%)

- The September consensus estimate for FY 2016 was lowered to $35 million; this was a $2 million decline over the previous consensus estimate based on Fiscal Year-end 2016 results.
- The September 2016 consensus revised downward to $35 million our previous FY 2017 estimate for Utility Users' Taxes. This downward revision was based on lower natural gas prices; lower utility consumption; and the prior year's actual collections. We estimate similar collections for FY 2018 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%

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%

- Original Wagering Tax estimates recognized downward pressure on revenues resulting from the opening of casinos in Ohio. Although Detroit's casino revenues did not decline to levels previously speculated by some, the City's budget anticipated continued downward pressure on revenues for Fiscal Years 2015 and 2016.
- September 2016 consensus estimate revised the previous consensus upward due to increased actual collections in FY 2016. Consensus estimate for FY 2017 was increased to $177.8 million, a 1.5% increase over the previous consensus and adopted budget. The trend line forecast for Fiscal Years 2018 through 2021 includes a growth factor of 2%, increased from 1% recommended in the February consensus conference.

State Revenue Sharing

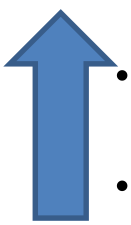
Revenue Sharing payments from the State are derived from two components: constitutional and statutory. Constitutional payments are guaranteed under the State Constitution and are calculated as 15% of 4% of the State Sales Tax gross collections. Statutory payments are based upon municipalities meeting 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	$194.4
% change	(28%)	5.9%	4.1%	2.6%	(.2%)

- Fiscal Year-end Revenue Sharing payments for 2016 of $194.4 million were $.4 million less than the FY 2015 actuals and $3 million less than the FY 2016 Budget of $197.4 million. Prior consensus estimate of $194.9 million was 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 May 2016 Consensus Revenue Estimates and FY 2016 appropriation.

- The September 2016 consensus estimate for FY 2017 is $195.3; 0.3% lower than the February consensus of $195.9 million.



- FY 2018 through FY 2021 includes a growth rate of 0.5% based on growth in Constitutional payments from Sales Tax revenues; assumes statutory payments to remain flat.

- Risks from economic trends forecasting lower National/Local Sales Tax Revenues, in addition to challenges to the state budget due to several 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.

SEPTEMBER 2016 CONSENSUS FORECAST						
Other- Departmental General Fund Revenues						
(in millions)	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Baseline (on-going) revenues	**$ 193.4**	**$ 204.1**	**$ 203.0**	**$ 203.0**	**$ 205.0**	**$ 208.7**
One Time Activity	**294.0**	**67.9**	**-**	**-**	**-**	**-**
Reinvestment Initiatives	**3.6**	**7.6**	**10.5**	**11.1**	**11.2**	**11.3**
Total	**$ 491.0**	**$ 279.6**	**$ 213.5**	**$ 214.1**	**$ 216.2**	**$ 220.0**

- Other Revenues forecast for FY 2016 includes $193.4 million from on-going sources, $49 million for use of budget reserve funds, reinvestment initiatives of $3.6 million. Bond sale proceeds of $245 million are recorded as a one-time activity involving the sale of exit financing debt. The February consensus estimated $507.1 million in Other Revenues, inclusive of bond proceeds and budget reserves. This represents a decrease of $16.1 million over the February consensus, primarily due to reductions in on-going, baseline revenues ($12.5) million and a decrease in reinvestment initiatives of ($3.6) million from the previous consensus estimate.

- Other Revenues projections for FY 2017 include the use of $67.85 million in the prior years' budget surplus to fund capital improvement projects and blight. FY 2017 consensus shows a $1.4 million decrease in on-going, baseline revenues to $204.1 million from the February consensus of $205.5 million. Reinvestment initiatives decreased to $7.6 million, declining by $5 million over the previous consensus. Year over year comparison shows both baseline and reinvestment initiatives increasing by 6% and 105%, respectively, over Fiscal Year 2016 results.

- Projections for on-going, baseline revenues remain flat for FY 2018 and FY 2019, with reinvestment initiatives ranging from $10.5 to 11.1 million. This represents a 1.2% decrease in baseline revenues and a 33.1% decrease in the reinvestment initiatives. FY 2020 and FY 2021 forecast includes a 0.8% growth rate on baseline and reinvestment revenues.

- Noteworthy changes to Departmental Revenues:

    1. Consensus estimates for sales of equipment and real estate 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. Parking Advance revenue and related expense of $6.6 million recorded in the Non-departmental agency budget in FY 2016 were deleted. This activity was required under the Parking Revenue bonds covenant that has subsequently been satisfied with the repayment of the outstanding debt. A similar transaction recorded in the Municipal Parking Department fund was also deleted.

    4. Fire Escrow revenues of $9 million to fund blight remediation was deleted as this transaction resulted in a direct transfer to the Detroit Land Bank, (non- General Fund transaction).

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

        - *Fire Department*- initiatives related to grants transferred to special revenue funds, certain initiatives deleted for FY 2016, not expected to be realized, still in early stage of implementation. Revenues included in the forecast for FY 2017 through FY 2021.
        - *Municipal Parking* - certain revenue initiatives still under implementation- reduced to $2.56 million in FY 2016, increasing to $3.5 million by FY 2021.

- *Office of the Chief Financial Officer-* revenues reduced in FY 2016 for delay in restructuring activity due to staffing. Revenues included in core/ongoing revenues.
- *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 2016, not expected to be realized. Restructuring initiatives expected to generate revenues of $1.2 million beginning in FY 2017.

6. Restructuring initiatives for Human Rights and 36th District Court are expected to generate $0.120 and $0.9 million, respectively, in FY 2016. A similar amount is anticipated for FY 2017 with a gradual increase in revenues projected for the forecast period.

7. Reimbursement for the 2016 Presidential Primary Election was included in FY 2016 revenues, now deferred to FY 2017 for the Elections Department. The September 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 claims 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 $49.5 to $50.9 million for Fiscal Year-end 2016 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)

FUND NAME	FY 2016 Revised Adopted Budget	FY 2016 February Consensus	FY 2016 September Consensus	FY 2017 Consensus Projection	FY 2018 Consensus Projection	FY 2019 Consensus Projection
Community Dev Block Grant Fund	$ 30.7	$ 40.4	$ 37.2	$ 29.9	$ 28.4	$ 24.4
UDAG and Discretionary Grants	2.80	6.86	8.00	8.00	8.00	8.00
Sec 108 Loans - Development	-	-		-	-	-
Neighborhood Stabilization Program I/III (Note	-					
Department Grant Funds (Note 2):	-					
- **Airport Grants Fund**	-	-		-	-	-
- **Fire Grants Fund**	-	2.00	2.00	2.00	2.00	14.40
- **General Services Dept. Grants Fund**	-					
- **Health Grants Fund**	-	23.70	25.70	25.70	25.70	25.70
- **Homeland Security Grants Fund**	-	0.80	0.20	0.20	0.20	0.20
- **Mayor's Office Grants Fund**	-	0.09	0.07	0.07	0.07	0.07
- **Police Grants Fund**	-	6.47	5.47	5.47	5.47	5.47
- **Dept. of Public Works Grants Fund**	-					
- **Recreation**	-	0.47	3.40	0.47	0.47	0.47
- **Environmental Affairs Grants**	-					
Construction Code Fund	19.50	20.60	21.50	21.50	21.50	21.50
- **Fire Recovery Fund (Fire Escrow)**	-	-		-	-	-
Drug Law Enforcement Fund	1.00	1.60	1.80	1.80	1.80	1.80
- **Federal Forfeiture Funds**	-	-		-	-	-
Library Funds	30.50	33.00	33.00	33.20	33.20	33.20
Quality of Life - Special Revenue (Note 3)	-	-		-	-	-
Major and Local Streets Fund	56.60	56.60	56.60	67.50	72.00	83.00
PA 48 2002 Fund	2.50	2.50	2.50	2.20	2.20	2.20
Solid Waste Management	40.60	44.00	46.70	47.00	47.00	47.00
General Grants (Phase out to Dept Grants)	31.20	0.80	-	-	-	-
Sinking Interest & Redemption	61.80	61.80	61.80	68.00	66.70	66.70
Special Hsg Rehab programs (HRD Dept)	6.63	6.07	6.07	4.20	4.20	4.20
Airport Funds *	1.50	1.50	1.10	1.10	1.10	1.10
Municipal Parking Funds	17.40	8.20	11.30	9.00	8.20	8.20
Transportation Funds (DDOT) **	141.80	140.00	133.10	133.10	133.10	133.10
Sewage Disposal Funds	716.00	-		-	-	-
Water Funds	570.30	-		-	-	-
Detroit Water & Sewerage Department- Retail		667.30	667.30	667.30	667.30	667.30
Retirement Systems	-	-		-	-	-
Trust Funds	-	-		-	-	-
TOTAL	$ 1,730.8	$ 1,124.8	$ 1,124.8	$ 1,127.7	$ 1,128.6	$ 1,148.0

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

Note 2: Department 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 2015: $668,064; FY 2016-$666,053; and FY 2017 and FY 2018 - $785,731.
** Totals include Contributions from the General Fund: DDOT: FY 2015- $63.3 million; FY 2016-$61.5 million and the same for FY 2017- 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 2016 Budget includes a General Fund contribution of $666,053 which is expected to be paid. Consensus projections for FY 2017 and FY 2018 increase the contribution to $785,731 recognizing the most likely level of support from the General Fund based on historical trends. Enterprise revenues of $1.1 million are expected for FY 2017 and forecasted for FY 2018 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 ($2.0 to $2.1 million) for FY 2017 through FY 2019. Revenues from the enterprise activity are projected at $21.5 million for the forecast period.

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 through 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. 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 2017 through 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 for FY 2017 through FY 2019 is estimated as $11.4 million from on-going, baseline operations and one-half- $3.4 million of its budgeted reinvestment initiatives of $6.8 million. Total agency revenues estimated for FY 2016 is $25.3 million; $23 million is projected for the FY 2017 through FY 2019 forecast period.

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 2016 consensus projects total revenues of $44 million and assumes similar collection rates for FY 2017 through FY 2019. The September consensus increased revenue expectations to $47 million for the forecast period.

- 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 and September 2016 consensus projects revenues of $33 million for this fund for the forecast period.

Major and Local Street Funds

Activity recorded in this fund provides for the construction and maintenance of streets, bridges, traffic signals and non- motorized improvements. This fund accounts 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 $56 to $83 million for Fiscal Year-end 2016 through FY 2019.

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 derived from a separate debt service millage on real and personal property located in the city of Detroit. The budgeted debt service schedules require funding totaling $61.8 to $68 million for the forecast period. This does not reflect the August 2016 refunding of bonds that will lower principal and interest requirements for debt service.

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 $667 million are projected for Fiscal Year-end 2016 and the forecast period FY 2017 through 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 and blight spending.

POSSIBLE DOWNWARD ADJUSTMENTS TO FORECAST

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

- Trigger of a Headlee roll-back in property tax millage assessed due to possible loss in the personal property tax base, in combination with near zero/negative inflation factor.
- Risks to estimated property tax collections due to the impact of Wayne County chargebacks netted against the delinquent accounts revolving fund payment.
- Continued property valuation declines; foreclosure activity remaining at high levels in the near future.
- Possible negative impact in reductions to personal property tax collections due to state legislation.
- 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.
- 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.
- Declines in Sales and Charges for Services due to economic factors.

- Implementation risks due to deferred/delayed results from the City's restructuring efforts.
- Reinvestment initiatives resulting in lower than expected revenue collections/growth.
- Proposed casino developments in Lansing and Romulus could dampen Detroit casino's long-term revenue projections.

POTENTIAL UPWARD ADJUSTMENTS TO FORECAST

- Ongoing improvements to collection efforts in FY 2016 results in additional tax revenues not currently reflected in the consensus estimates.
- 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.
- The potential for increased economic development to increase the city's tax base and generate additional revenues for the city.

Conference Participants

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City of Detroit
Office of the Deputy Mayor for
Economic Policy, Planning & Strategy

DETROIT REVENUE FORECASTING CONFERENCE

September 22, 2016

Carol O'Cleireacain, PhD

1. There have been two formal consensus revenue forecasting conferences in the City of Detroit already in 2016:
   - ✓ February, which focused on preparing for the FY2017 budget forecast.
   - ✓ May update, which examined collections in FY2016 with implications for the upcoming FY2017 budget.

2. Given the short time lapse since May and that we are only into the third month of FY2017, I am not re-working my commentary from those two events. The city refinanced a series of bonds backed by distributable state aid over the summer through the State's Finance Authority. Although this is basically a State credit, S&P affirmed its Detroit GO 'B' credit rating (from year earlier) and reiterated that S&P judges the Detroit economy as "very weak" and with a "limited tax base." [1]

<u>Risks Facing Detroit's Revenue Forecast for FY2017</u>

Uncertainties in the Economic Outlook

The September Blue Chip consensus forecast is for real growth in US GDP of 1.5% in 2016 and 2.2% in 2017 – both down from the 2.6% of 2015. On a q4/q4 basis, the Blue Chip consensus is 1.8% in 2016 and 2.2% in 2017 and the CBO sees growth of 2% in 2016 and 2.4% in 2017.[2] The current economic expansion, at 7 years, is now longer than the postwar average (about 5 years). Forecasters are notoriously bad at calling a cycle's turning point, preferring "likelihood" or probability estimates. The CBO points out that "over the past 30 years, expansions that have lasted at least 6 years and that are characterized by a relatively low unemployment rate...have tended to fall into recession within 2 years."(p.53) Note that even as the Blue Chip "consensus continues to predict that economic growth and inflation in 2017 will exceed the increases registered in 2016," September's survey participants put the odds of a recession in 2017 at 24%.

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[1] Standard & Poor's Ratings Direct. Michigan Finance Authority Detroit, Michigan; General Obligation; Miscellaneous Tax. July 21, 2016. **[S&P]** Moody's Investor Service. Issuer In-depth. City of Detroit, MI*: New Income Tax Revenue Bonds Provide Greater Credit Protection than City's General Obligation*. August 12, 2015. **[Moody's]**

[2] *Blue Chip Economic Indicators for September 2016*. CBO https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51908-2016_Outlook_Update_OneCol-2.pdf

In the longer term, CBO is expecting annual growth of only 2% over the coming decade, as compared to the average of 3.2% per year from 1950-2015.[3] This is in line with a widely held view of "secular stagnation," i.e. that there has been a fundamental structural change in the sources of economic growth in the US economy and that the long term growth path of the US economy is about half what it used to be.

Detroit City Income Tax

In my previous remarks at these consensus forecasting events, I have stressed the institutional constraints on forecasting the city's income tax: the number of individual tax filers had been falling and our data and analytics have been poor.

Fortunately, the new partnership with the State – e-filing, processing and enforcement of the City's income tax for 2015 onwards – changes our information and analytics. The good news is that we had about 100,000 new filers for 2015 than for 2014. The bad news is that so far this has not resulted in increased revenue.

Why? Well, the tax revenue has been coming in through employer withholding during the tax year, as in prior years (at least 85%), mostly from nonresidents working in Detroit (whose tax rate is 1.2%). E-filing simply made filing easier. <u>The largest potential source of income tax revenue that we are missing is from Detroit residents, whose tax rate is 2.4%</u>. Two out of three residents work outside the city, where withholding is <u>not</u> required by law. Their employers withhold for federal and state taxes, but <u>not</u> for Detroit taxes, so the city does not receive a big chunk of our rightful revenue. The state is sending enforcement letters to taxpayers who live in Detroit, filed a 2015 return, but did not pay the tax owed. However, the State concedes if there is no response to the letters, further collection efforts will have limited results.

Withholding is the major collection tool for the income tax everywhere. The Mayor, and I, have worked to impress on the State the need for <u>universal withholding. If universal withholding had been in place for 2015 we would already have collected somewhere between an additional $10 million and $25 million; instead, the State is trying to chase it down.</u> Until city income tax withholding is modernized to match the reality of where people work, the City-State income tax partnership will be held hostage to collecting from residents who face the shock of a lump-sum payment. Not only unfair, this is an expensive, inefficient and outmoded way to collect taxes and does not improve efforts to forecast revenues accurately.

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[3] CBO attributes about three-fifths of this slower growth to slower growth in the labor force and two-fifths to slower growth in productivity. CBO *Why is CBO's Projection of GDP Growth Slower than Past Rates of Growth?* *https://www.cbo.gov/publication/51976?utm_source=feedblitz&utm_medium=FeedBlitzEmail&utm_content=812526&utm_campaign=0* *[accessed Sept. 8, 2016]*