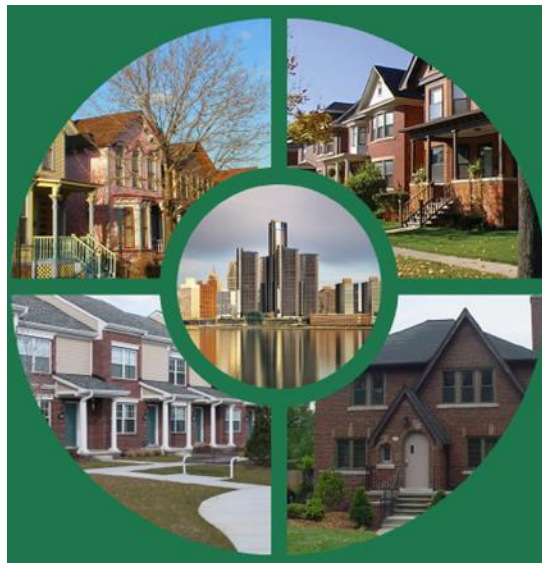




City of Detroit REVENUE ESTIMATING CONFERENCE



George A. Fulton, Ph.D.

Director Emeritus
Research Professor Emeritus
Research Seminar
in Quantitative Economics (RSQE)
Department of Economics
University of Michigan

David P. Massaron

Chief Financial Officer
City of Detroit

Eric Bussis

Chief Economist and Director,
Office of Revenue & Tax Analysis
Michigan Department Of Treasury

Page Intentionally Left Blank



CITY OF DETROIT
OFFICE OF THE CHIEF FINANCIAL OFFICER

Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 1100
Detroit, MI 48226
Phone: (313) 628-2535
Fax: (313) 224-2135
E-Mail: OCFO@detroitmi.gov

**CFO MEMORANDUM
NO. 2019-103-004**

TO: City of Detroit Revenue Estimating Conference Principals

FROM: Tanya Stoudemire, Deputy CFO/Budget Director, City of Detroit *Tanya Stoudemire*

SUBJECT: Proposed FY 2020 – FY 2024 Revenue Estimates Pursuant to State of Michigan Public Act 279 of 1909, Section 4t(1)(d)

DATE: September 11, 2019

1. AUTHORITY

1.1. State of Michigan Public Act 279 of 1909 (PA 279), Section 4t(1)(d), as amended by Public Act 182 of 2014, states the City shall hold a revenue estimating conference in the second week of September and in the third week of February of each year, subject to the following:

1.1.1. A conference shall establish an official economic forecast of major variables of the national, state, and local economies. A conference also shall establish a forecast of anticipated revenues of the city as the conference determines.

1.1.2. The principals of a conference shall be the chief financial officer of the city, the state treasurer or his or her designee from within the department of treasury, and a person affiliated with another public entity, including a state institution of higher education, with experience in economic forecasting and revenue projection selected by the chief financial officer of the city and the state treasurer.

1.1.3. The official forecast of economic and revenue variables of the conference shall be determined by consensus among the conference principals and shall be for the fiscal year in which the conference is being held and the succeeding 2 fiscal years. The conference also shall forecast general fund revenue trendline projections for the city for an additional 2 fiscal years. Conference forecasts of revenues and expenditures shall be based upon the assumption that current law and administrative procedures will remain in effect for the forecast period.

1.1.4. The conference may request and shall receive from officers, departments, agencies, and authorities of the city the assistance and data needed to enable the conference to fulfill its duties.

2. OBJECTIVES

2.1. To provide the City of Detroit Revenue Estimating Conference principals the assistance and data needed to fulfill their duties in establishing the City's official economic and revenue forecast.

2.2. To satisfy the Office of Budget's ongoing revenue estimation and economic forecasting responsibilities in accordance with CFO Directive No. 2018-101-002 Comprehensive Financial Planning.

3. PURPOSE

- 3.1. To submit proposed revenue estimates to the Revenue Estimating Conference principals for their consideration.

4. SCOPE

- 4.1. This Memorandum and the attached report are intended solely to assist the Revenue Estimating Conference principals fulfill their duties pursuant to Section 4t(1)(d) of PA 279.

5. STATEMENT

- 5.1. In accordance with Section 4t(1)(d) of PA 279 and CFO Directive No. 2018-101-002, the Office of Budget prepared the attached revenue estimates for FY 2020 through FY 2024 for consideration by the principals of the City of Detroit September 2019 Revenue Estimating Conference.
- 5.2. Revenue estimates were prepared on a conservative basis to minimize the possibility that economic fluctuations could jeopardize ongoing service delivery during the fiscal year.
- 5.3. Revenue estimates were prepared in consultation with the other OCFO divisions responsible for administering their respective revenues, as well as the City Council's Legislative Policy Division and the Auditor General's Office.



City of Detroit September 2019 Revenue Estimating Conference Report

September 11, 2019

Overview of Revenue Estimating Conference:

State of Michigan Public Act 279 of 1909, Section 117.4t(1)(d), as amended by Public Act 182 of 2014, states the City of Detroit shall hold biannual revenue estimating conferences, which shall establish the official economic forecast and forecast of anticipated revenues of the City. The City holds its Revenue Estimating Conferences in September and February of each fiscal year. The voting principals are the City's Chief Financial Officer (CFO), the State Treasurer (or designee), and a person affiliated with another public entity, including a state institution of higher education, with experience in economic forecasting and revenue projection selected by the CFO and State Treasurer. The voting principals for the September 2019 Revenue Estimating Conference are:

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

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

The estimates that follow include the current fiscal year (FY 2020) and the four succeeding fiscal years (FY 2021 – FY 2024). While there is a greater focus on the General Fund, the estimates also cover the City's grant, enterprise, and special revenue funds. The forecast assumes that current law and administrative procedures will remain in effect for the forecast period.



Summary of Revenue Estimates:

September 2019 Revenue Estimates, General Fund									
<i>(in millions)</i>									
	FY20	FY21		FY22		FY23		FY24	
	Est	Est	% Change	Est	% Change	Est	% Change	Est	% Change
Major Taxes									
Income Tax	\$ 325.0	\$ 333.5	2.6%	\$ 344.0	3.1%	\$ 354.1	2.9%	\$ 364.2	2.9%
State Revenue Sharing	203.1	199.9	-1.6%	201.1	0.6%	202.3	0.6%	203.5	0.6%
Wagering Tax	185.8	187.6	1.0%	189.4	1.0%	191.3	1.0%	193.3	1.0%
Property Tax	131.3	132.8	1.1%	133.1	0.2%	133.4	0.2%	134.5	0.8%
Tax Increment Financing Capture	(14.0)	(14.3)	2.1%	(13.9)	-2.8%	(14.2)	2.2%	(14.6)	2.8%
Net Property Tax	117.3	118.5	1.0%	119.2	0.6%	119.2	0.0%	119.9	0.6%
Utility Users Tax	42.4	43.2	1.9%	44.6	3.2%	46.5	4.3%	48.8	4.9%
To Public Lighting Authority	(12.5)	(12.5)	0.0%	(12.5)	0.0%	(12.5)	0.0%	(12.5)	0.0%
Net Utility Users Tax	29.9	30.7	2.7%	32.1	4.6%	34.0	5.9%	36.3	6.8%
Subtotal, Major Taxes	\$ 861.1	\$ 870.2	1.1%	\$ 885.8	1.8%	\$ 900.9	1.7%	\$ 917.2	1.8%
Other Revenues	\$ 249.1	\$ 233.4	-6.3%	\$ 233.5	0.0%	\$ 234.4	0.4%	\$ 235.8	0.6%
Grand Total, General Fund	\$ 1,110.2	\$ 1,103.6	-0.6%	\$ 1,119.3	1.4%	\$ 1,135.3	1.4%	\$ 1,153.0	1.6%

The estimates include updates for FY 2020 through FY 2024. Total General Fund revenues from FY 2020 to FY 2021 decrease by 0.6%, mainly due to non-recurring items that will not continue beyond FY 2020. By excluding non-recurring items, revenues from FY 2020 to FY 2021 increase by 1.1%, with a similar growth trend projected throughout the forecast period.

Economic Conditions and Outlook:

Whether observed through interest rate spreads between U.S. Treasuries or the movement in the major stock market indices, U.S. markets are generally reflecting an expectation of recession in the near term. Recent releases of economic data for the U.S. have not supported those expectations although there is evidence of weakness in underlying gross domestic product (GDP) data. Second quarter GDP growth slowed to 2.0% from 3.1% in the first quarter of 2019. Personal consumption expenditures propped up GDP growth this quarter due to a large increase in expenditures on durable goods, which include items such as office supplies and cleaning products. Conversely, nonresidential investment shrank for the first time since the first quarter of 2016.¹ GDP growth decelerating is not a surprise: the general consensus among economists has been that GDP would start slowing down as the stimulative effects from the Tax Cuts and Jobs Act of 2017 (TCJA) wore off. What is somewhat unexpected is that for the most recent GDP estimates, the slowdown has been led by nonresidential investment instead of personal consumption. While it is too soon to draw any conclusions, if personal consumption does not stay

¹ U.S. Bureau of Economic Analysis



elevated or if nonresidential investment does not recover, GDP growth may decelerate more than expected.

Outside of GDP data, consumer confidence remains high while consumer expectations have softened. The Conference Board’s Present Situation Index, a measure of consumers’ assessment of current day conditions, reached a 19-year high in August.² Conversely, the Expectations Index and the University of Michigan’s Consumer Sentiment Index fell, both of which seek to measure consumers’ short term outlook on income, spending, and market conditions.^{2 3}

Focusing on local economic conditions, the City’s unemployment rate remains relatively low and has not deviated much within the past few months. Since 2018, labor force levels for the City of Detroit have continued marginal increases suggesting slowly improving labor force participation.⁴ Wage data for Detroit and Wayne County has been mixed. In 2018, the first three quarters of the year grew modestly from 2017. Fourth quarter wages however were effectively flat. Some of the lower activity may be due to local effects of corporate restructuring from Ford and General Motors, particularly since wages grew statewide and nationwide in the same time frame.⁵

Detroit Resident Labor Force and Employment:

Calendar Year	Employed	Unemployed	Labor Force	Unemployment Rate
2009	283,041	94,787	377,828	25.10%
2010	208,289	68,596	276,885	24.80%
2011	206,226	55,117	261,343	21.10%
2012	208,119	49,611	257,730	19.20%
2013	208,943	48,765	257,708	18.90%
2014	209,701	40,275	249,976	16.10%
2015	212,953	28,514	241,467	11.80%
2016	219,906	26,420	246,326	10.70%
2017	224,958	23,112	248,070	9.30%
2018	226,431	22,112	248,543	8.90%
2019 (YTD)	229,082	22,879	251,962	9.10%

Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics
2019 is an average of employment levels reported from January through August.

² Conference Board; August 2019 Consumer Confidence Survey

³ University of Michigan; August 2019 Consumer Sentiment Index

⁴ U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics

⁵ U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages



Risks to the Economic Outlook:

Risks and uncertainties that could negatively impact local economic conditions have shifted away from monetary policy and more toward trade policy and global economic conditions. The Federal Reserve has shifted away from a normalization policy, which involved gradually increasing the federal funds rate and drawing down their balance sheet, to a more accommodative policy by lowering the federal funds rate by a quarter of a percent as of July 30. Chairman Jay Powell stated at the end of August that the Federal Reserve “will act as appropriate to sustain the expansion”⁶ which suggests that the federal funds rate may no longer be increased, but additional rate decreases are not guaranteed in the near term.

Despite the Federal Reserve’s stance, the threat to the current expansion lay in economies overseas that may now be feeling the impacts of U.S. tariffs. Both Germany and China have seen slowdowns in their manufacturing sectors, primarily due to low export orders. The slowdown in activity has been recently reflected in their 2nd quarter GDP growth; China seeing the lowest GDP growth in nearly 30 years⁷ and Germany’s GDP contracting.⁸ Further geopolitical risks involving Hong Kong and Great Britain’s exit from the European Union remain as potential headwinds for global economic activity.

How much these developments will ultimately impact the US manufacturing sector and the overall economy are currently unknown, but some of the effects have become apparent within the last month. In the 2nd quarter of 2019, manufacturing productivity, output, and hours worked decreased from the last quarter driven by reduced activity in nondurable manufacturing. Productivity in nondurable manufacturing, which includes goods such as household appliances and cars, was also down from 2018 with nondurable output materially decreasing for the first time since 2009.⁹ The Purchasing Manager’s Index (PMI) for the manufacturing sector moved into contraction territory in the August release, driven primarily by decreases in new orders.¹⁰ While not yet indicative of a reversal of trend, these observations follow what has been experienced by other major economies thus far. The ongoing impacts are expected to be greater for manufacturing heavy areas such as Detroit compared to the rest of the country, with the timing and magnitude still to be seen.

⁶ Federal Reserve; Board of Governors

⁷ Financial Times; July 15, 2019

⁸ Thompson Reuters; August 22, 2019

⁹ U.S. Bureau of Labor Statistics; Labor Productivity and Costs

¹⁰ Institute for Supply Management; August 2019 Manufacturing ISM Report on Business



Current Year Revenue Estimates Update:

FY 2020 Revenue Estimates									
(in millions)									
	FY 2019			FY 2020		Change Since FY 2019		Change Since Adopted Budget	
	Unaudited Actual	Adopted Budget	Sept 2019 Estimate			\$	%	\$	%
Major Taxes									
Income Tax	\$ 364.9	\$ 324.3	\$ 325.0	\$ (39.9)	-10.9%	\$ 0.7	0.2%		
Recurring	316.2	322.3	323.0	6.8	2.2%	0.7	0.2%		
Non-Recurring	48.7	2.0	2.0	(46.7)	-95.9%	-			
State Revenue Sharing	202.6	204.5	203.1	0.5	0.2%	(1.4)	-0.7%		
Wagering Tax	183.8	184.3	185.8	2.0	1.1%	1.5	0.8%		
Property Tax	127.2	126.5	131.3	4.1	3.2%	4.8	3.8%		
Tax Increment Financing Capture	(12.3)	(11.2)	(14.0)	(1.7)	13.8%	(2.8)	25.0%		
Net Property Tax	114.9	115.3	117.3	2.4	2.1%	2.0	1.7%		
Utility Users Tax	41.5	43.8	42.4	0.9	2.2%	(1.4)	-3.2%		
To Public Lighting Authority	(12.5)	(12.5)	(12.5)	-	0.0%	-	0.0%		
Net Utility Users Tax	29.0	31.3	29.9	0.9	3.1%	(1.4)	-4.5%		
Subtotal, Major Taxes	\$ 895.2	\$ 859.7	\$ 861.1	\$ (34.1)	-3.8%	\$ 1.4	0.2%		
Other Revenues	\$ 200.0	\$ 226.5	\$ 249.1	\$ 49.1	24.6%	\$ 22.6	10.0%		
Recurring	195.0	224.0	230.0	35.0	17.9%	6.0	2.7%		
Non-Recurring	5.0	2.5	19.1	14.1	282.0%	16.6	664.0%		
Grand Total, General Fund	\$ 1,095.2	\$ 1,086.2	\$ 1,110.2	\$ 15.0	1.4%	\$ 24.0	2.2%		

As required, the approved February 2019 Revenue Estimating Conference results were used for the FY 2020 Adopted Budget and total \$1.09 billion after certain fund reclassification shifts for Other Revenues (see Appendix, “Exhibit 3 - FY 2020 February 2019 Revenue Conference to Adopted Budget Fund Reclassification Reconciliation” for detailed breakout). The updated September 2019 General Fund revenue estimates have been increased by \$24.0 million, representing a 2.2% change from the Adopted Budget.

The September 2019 estimates reflect slight upward adjustments to income tax, wagering tax, and property tax based on both FY 2019 collections and revised economic assumptions. The FY 2019 unaudited actuals include revenues posted through June 2019, as well as known pending adjustments. FY 2020 State Revenue Sharing revenue estimates have been adjusted downward since the Adopted Budget due to reduced State Sales Tax assumptions from the State of Michigan. Utility Users Tax revenue estimates have also been reduced slightly due to FY 2019 collections through June 2019 and updated economic assumptions. Other Revenues have been adjusted upward compared to the Adopted Budget largely due to updated Investment Earnings assumptions and the one-time \$16.6 million sale of the Millennium Parking Garage. The garage sale and other one-time sales of city real property are categorized as non-recurring revenues.



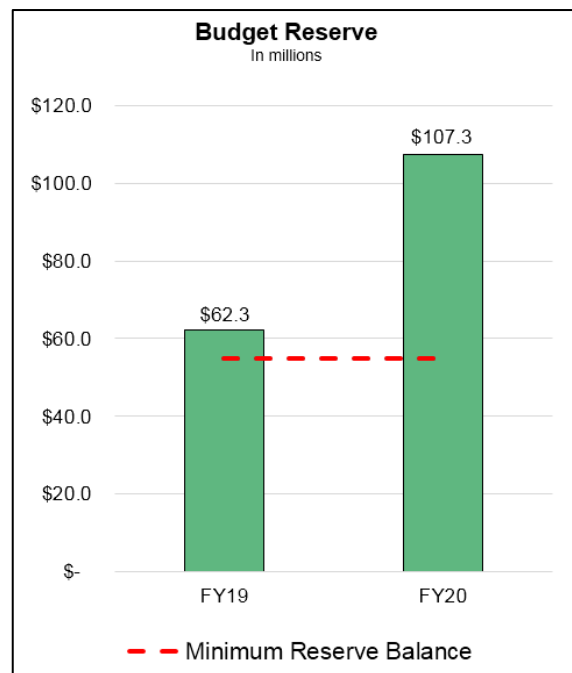
Compared to unaudited FY 2019 actuals, FY 2020 revenues are expected to increase overall by 1.4%. The 1.4% change reflects a 4.6% increase in recurring revenue, which is mostly driven by a \$35 million difference in Other Revenues. A large portion of this amount is based on differences in the budget presentation versus prior year actuals. For example, \$12 million is comprised of budget neutral pass-through contributions to Risk Management Fund that are budgeted but do not post as General Fund actuals revenue, as well as \$9.5 million in Parking Fees shifting from the Parking Fund to the General Fund beginning in FY 2020. FY 2019 unaudited actuals are subject to change, pending final audited results that will be reflected in the forthcoming FY 2019 Comprehensive Annual Financial Report.

Non-recurring revenues decrease 60.7% compared to the unaudited FY 2019 actuals. FY 2019 includes \$48.7 million in one-time Income Tax collections not expected to continue into FY 2020, and are not factored in the Income Tax forecast. Of this amount, \$23 million represents one-time corporate collections, and \$6.7 million is comprised of assessments. The remaining \$19 million represents Income Tax collections posted in the adjustment period that will require further analysis once FY 2019 revenues are finalized. The \$2 million non-recurring in FY 2020 represents anticipated assessments. By excluding the non-recurring collections, the base Income Tax comprised of individual, corporate, and partnerships is estimated to increase 2.2%.

Budget Reserve:

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

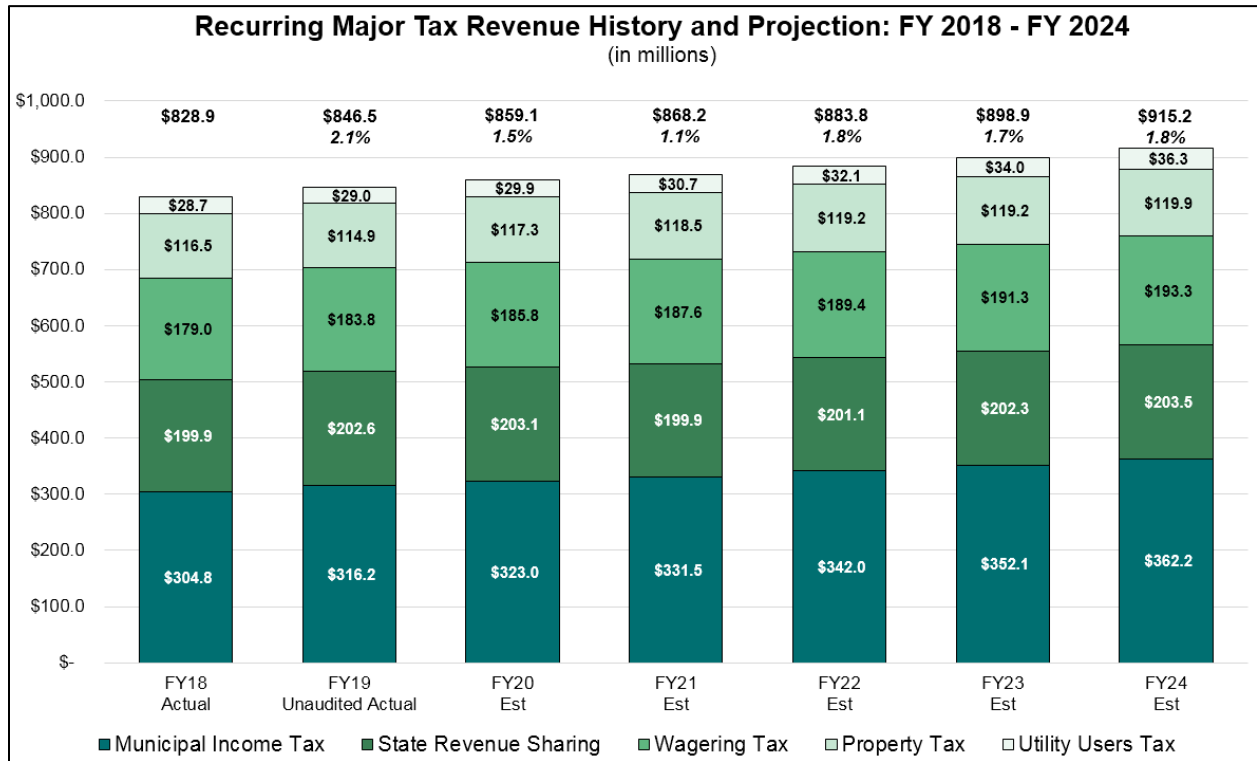
- Measures to assure adequate reserves for mandated and other essential programs and activities in the event of an overestimation of revenue, an underestimation of expenditures, or both.
- Include a general reserve fund for each fiscal year to cover potential reductions in projected revenues or increases in projected expenditures equal to no less than 5% of the projected expenditures for the fiscal year.



As of June 30, 2018, the City's Budget Reserve totaled \$62.3 million, which exceeded the minimum requirement of 5% of the projected expenditures for FY 2019. The FY 2020 Adopted Budget provided for an ending budget reserve balance of \$107.3 million, or nearly 10% of projected expenditures. This balance provides additional budget flexibility in the event of unanticipated economic risks.



Summary of Major Taxes:



The FY 2020 and FY 2021 – 2024 four-year forecast assumes a total growth trend consistent with prior-year actuals since FY 2016. Total recurring major revenue collections have increased each year from FY 2016 to FY 2019, with an average annual growth rate of 2% throughout the duration of this period. This growth trend is expected to continue through FY 2024.



Summary of Economic Drivers:

Forecasted Economic Inputs by Fiscal Year

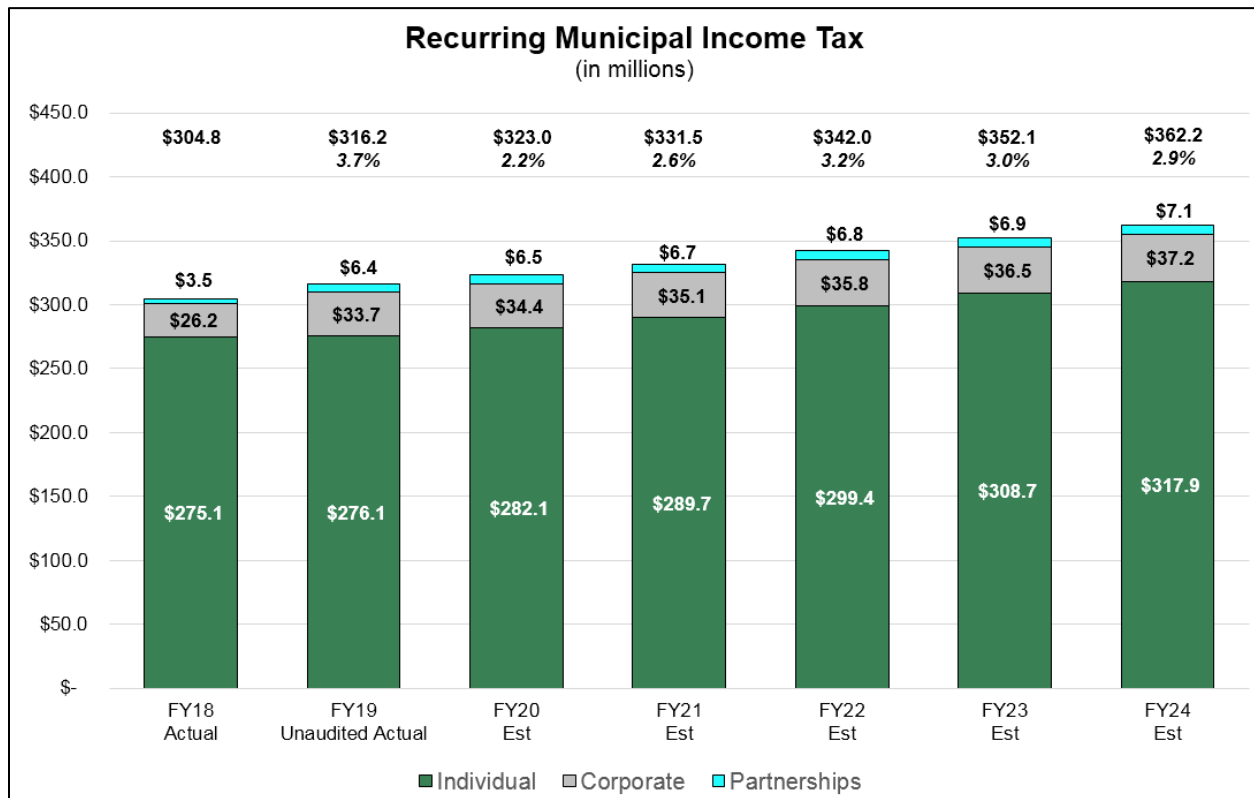
Major Revenue	Economic Input	FY2020	FY2021	FY2022	FY2023	FY2024
Municipal Income Tax	Resident Employment Growth ¹	0.85%	0.94%	1.42%	1.13%	1.08%
	Non Resident Employment Growth ¹	0.54%	0.87%	1.35%	1.04%	0.97%
	Annual Wage Growth ²	1.68%	1.78%	1.91%	1.96%	1.88%
	Corporate	2.00%	2.00%	2.00%	2.00%	2.00%
Property Tax	U.S. Consumer Price Index for All Urban Consumers (U.S. CPI-U) ³	2.40%	2.60%	2.60%	2.50%	2.50%
State Revenue Sharing	Sales Tax Forecast	5.50%	2.00%	2.00%	2.00%	2.00%
	City/State Population Ratio ⁴	7.20%	7.20%	6.80%	6.80%	6.80%
Wagering Tax	Average Rate of Change 2010-2018 ⁵	1.00%	1.00%	1.00%	1.00%	1.00%
Utility Users Tax	Average Household Unit Growth ⁶	0.24%	0.28%	0.53%	0.79%	0.78%
	Weighted Forecasted Natural Gas Prices ⁷	1.44%	0.80%	1.26%	2.03%	2.23%
	Weighted Forecasted Electricity Prices ⁷	0.40%	0.83%	1.49%	1.56%	1.84%

Sources:

- (1) U.S. Census and Local Area Unemployment Statistics
- (2) Quarterly Census of Unemployment and Wages
- (3) FY 2020 uses the 2018 US CPI-U stated by the State Tax Commission, FY 2021-2024 uses the 2019-2022 US CPI-U forecasted by the Congressional Budget Office
- (4) Decennial 2010 U.S. Census
- (5) Michigan Gaming Control Board
- (6) U.S. Census
- (7) U.S. Energy Information Administration



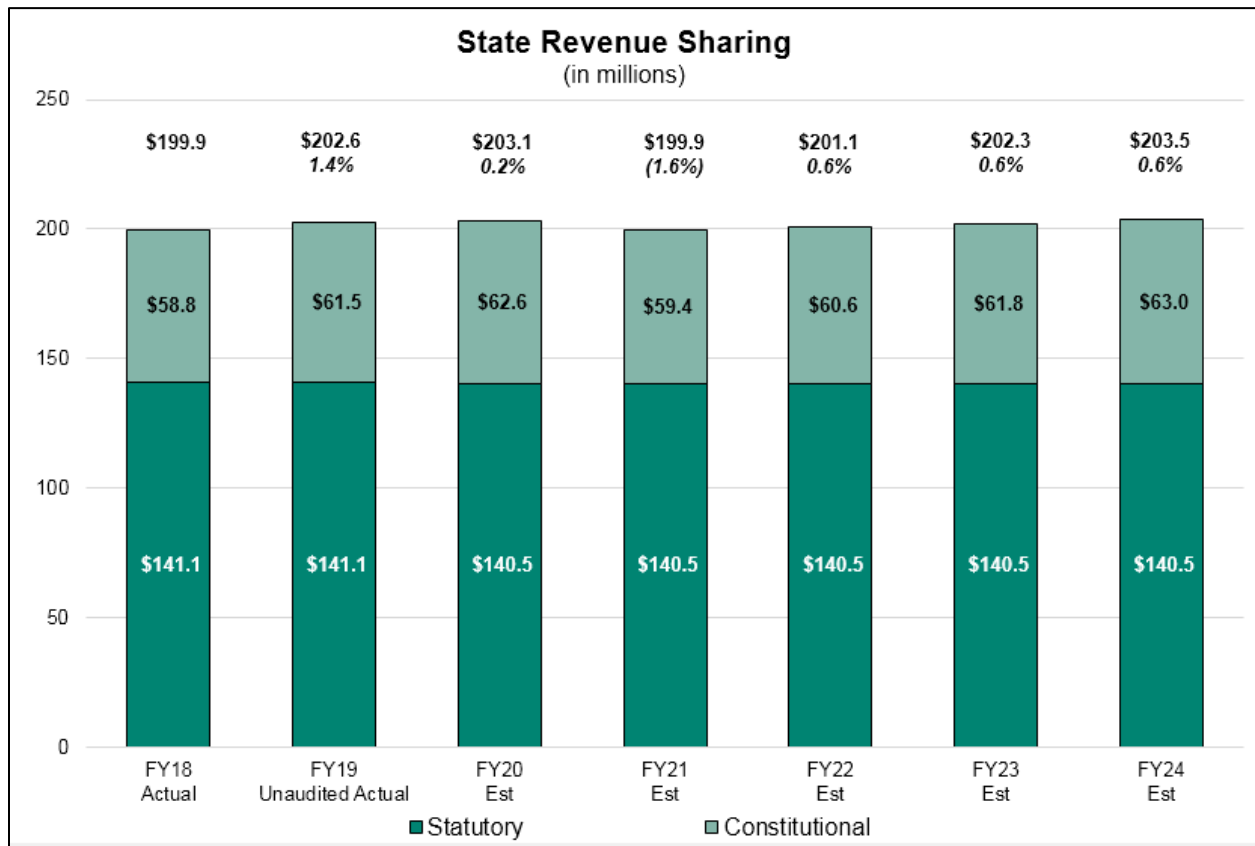
Municipal Income Tax:



In accordance with the City Income Tax Act (Public Act 284 of 1964, as amended), the City levies a municipal income tax on income from all sources with few exemptions. The current tax rates are 2.4% for residents, 1.2% for non-residents, and 2.0% for corporations, which are the maximum allowed by State law. The primary drivers behind income tax revenue are resident employment levels, non-resident employment levels, and wages. The base year employment estimates are tied to observed local area employment data, and employment growth rates for each employment category are projected independently. Wage growth is projected using observed regional wage data and is assumed to be uniform for each employment category. The FY 2020 estimate represents a 2.2% increase compared to unaudited FY 2019 actuals. The FY 2020 – FY 2021 forecast incorporates an anticipated GDP growth slowdown (1.7% in FY 2020, and 1.4% in FY 2021). Significant corporate tax growth has been observed in the past two years, and the forecast assumes a 2% annual growth rate in corporate tax revenue from FY 2020 – FY 2024. The forecast does not include potential upside from new development projects or improved compliance efforts.



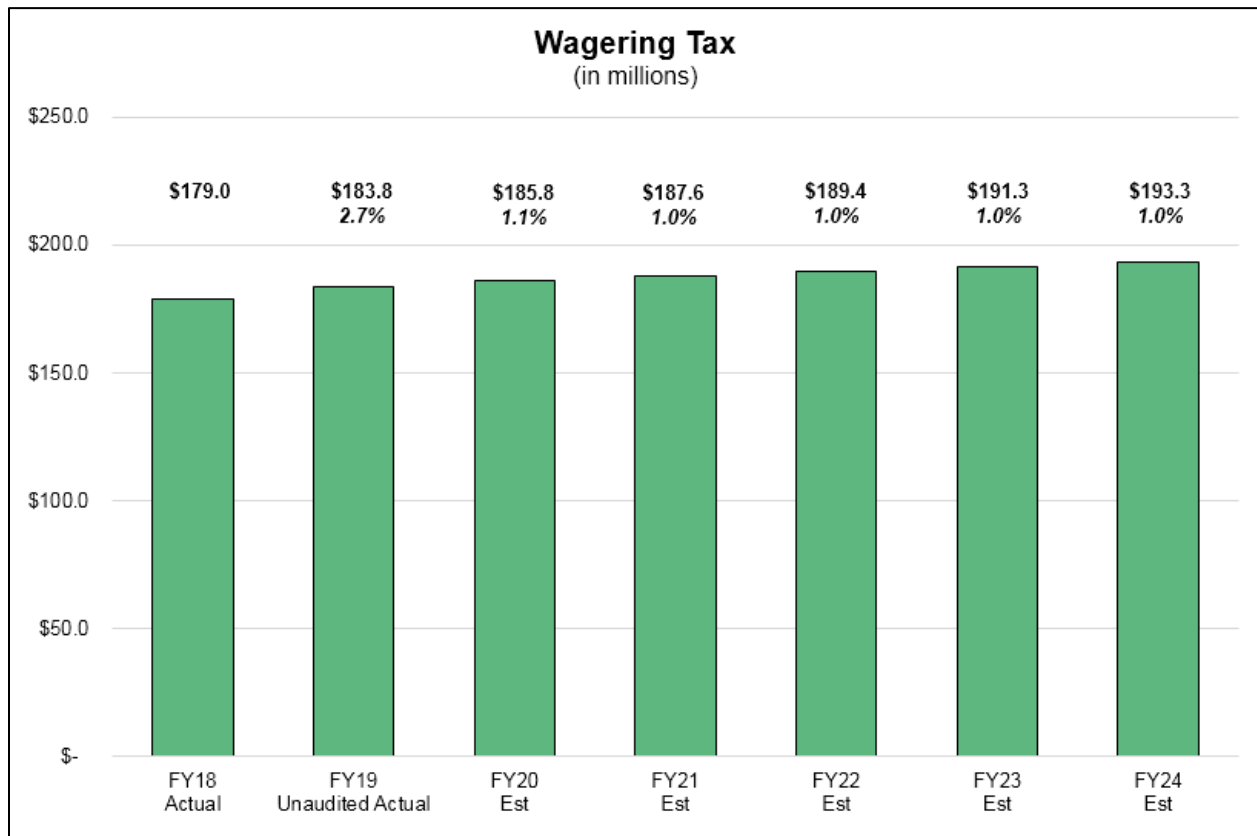
State Revenue Sharing:



Revenue sharing payments from the State come from two components: constitutional (30%) and statutory (70%). The State Constitution of 1963, Article IX, Section 10, as amended, requires constitutional revenue sharing payments to municipalities based on 15% of the 4% portion of Michigan’s sales tax collections. The State allocates amounts to municipalities based on population as of the last decennial Census. Statutory revenue sharing payments have an underlying formula distribution. However, they are effectively set annually in the State budget and have been held flat in recent years. The forecast assumes growth in the constitutional share based on forecasted State sales tax growth, and includes increases from online sales tax enforcement based on amounts approved by the State of Michigan’s May 2019 Consensus Revenue Estimating Conference. The \$3.2 million reduction assumed in FY 2021 is due to anticipated population declines from the upcoming 2020 Census when compared to the 2010 Census base. The forecast does not assume changes to the annual statutory allocation of \$140.5 million, nor does it include any potential additional supplemental appropriations, which occurred in FY 2018 and FY 2019. As of the September 2019 Revenue Estimating Conference, the State has not enacted its FY 2020 Budget.



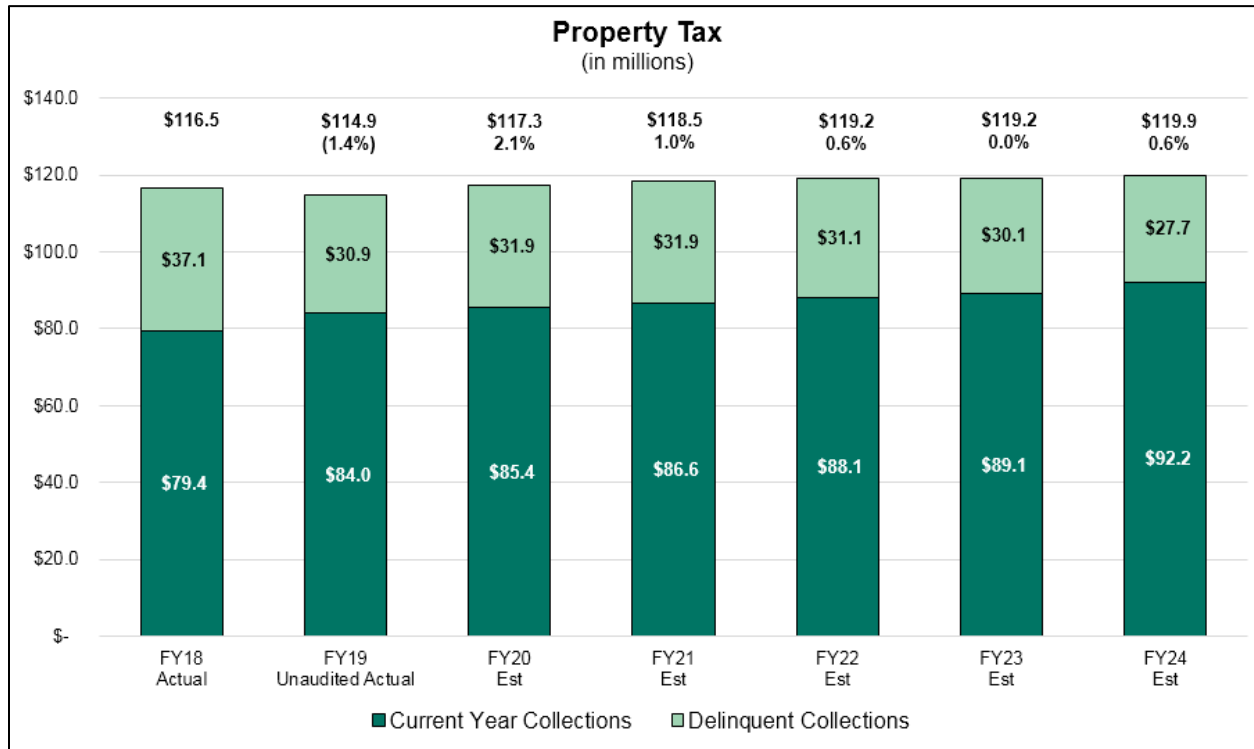
Wagering Taxes:



In accordance with the Michigan Gaming Control and Revenue Act (Initiated Law 1 of 1996, as amended), a tax on adjusted gross receipts is applied to the three casinos operating in Detroit. The current City wagering tax rate is 11.9% (10.9% in State law, plus 1% pursuant to the casinos’ development agreements with the City). The casinos also pay the City a supplemental 1% tax if their gross receipts exceed \$400 million in a calendar year. The City also assesses a municipal service fee from each casino of 1.25% of adjusted gross receipts or \$4 million, whichever is greater (included separately in the “Other Revenues” category). The FY 2020 – FY 2024 forecast assumes the annual growth for adjusted gross receipts to be constant at 1%. The unaudited FY 2019 growth rate of 2.7% compared to FY 2018 Actuals is based on gross receipts. The forecast does not reflect potential changes to casino tax rates and state regulations, including any future revenues associated with proposed initiatives to authorize and tax online gaming and sports betting.



Property Tax:

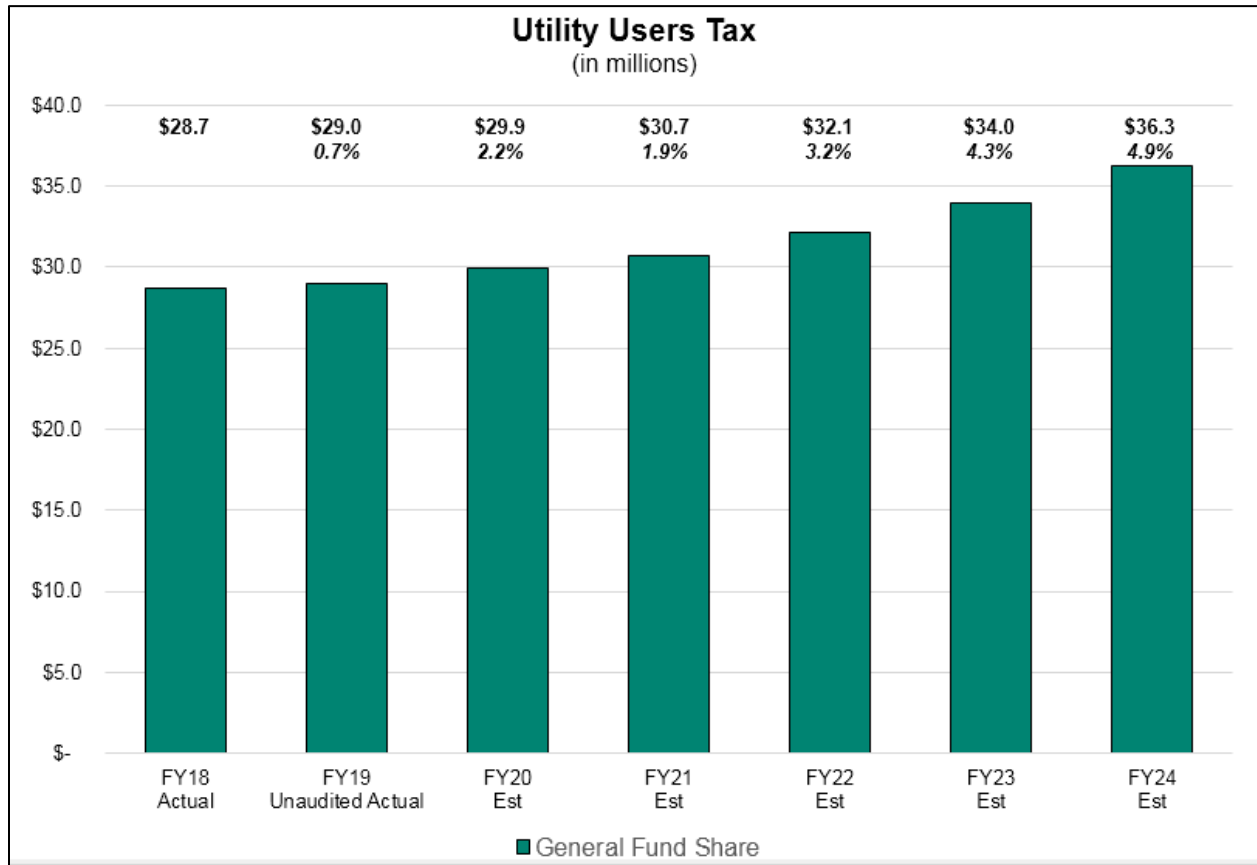


In accordance with the General Property Tax Act (Public Act 206 of 1893, as amended), the City levies taxes on real and personal property. Collections consist of current year taxes, delinquent taxes, and related auction proceeds. The City currently levies 19.952 mills for general operating purposes.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

Declines in revenue from FY 2018 to FY 2019 are primarily due to reductions in the tax roll from residential reappraisals and the State-mandated phase-out of industrial personal property, as well as changes in tax increment financing (TIF) capture distributions and one-time audit adjustments. The primary driver for growth during the forecast period is a lagged inflation rate defined by the State Tax Commission (US Consumer Price Index for Urban Consumers lagged by one year) applied to the reported FY 2019 base, which is defined as the cap for growth in taxable value under the State constitution (i.e., Proposal A). The FY 2019 collection rate of 83.6% is also held constant throughout the forecast period. Other components, such as payments from Wayne County for delinquent real property tax collections and revenue capture by TIF authorities, are also factored into the forecast based on current and historical observations. The forecast does not include prospective gains from additions to the tax base or uncapping of taxable value.



Utility Users Tax:



In accordance with the City Utility Users Tax Act (Public Act 100 of 1990, as amended), the City levies a 5% tax on consumption of electricity, gas, steam, and telephone services. Annual changes in the revenue forecast are largely based on inflation adjustments for natural gas and electricity prices, while assuming an average growth rate in household units that is consistent with prior-year trends. The actual General Fund collections and revenue estimates are net of \$12.5 million that are designated to the Public Lighting Authority.



Other Revenue:

September 2019 Revenue Estimates, Recurring Other Revenue - General Fund									
(in thousands)									
	FY20	FY21		FY22		FY23		FY24	
	Est	Est	% Change	Est	% Change	Est	% Change	Est	% Change
Department									
Buildings, Safety Engineering and Environmental	\$ 4,543	\$ 4,592	1.1%	\$ 4,592	0.0%	\$ 4,592	0.0%	\$ 4,592	0.0%
Public Works	4,370	4,370	0.0%	4,370	0.0%	4,370	0.0%	4,370	0.0%
Office of the Chief Financial Officer	5,249	5,379	2.5%	5,512	2.5%	5,648	2.5%	5,787	2.5%
Fire	19,155	19,457	1.6%	19,766	1.6%	20,080	1.6%	20,400	1.6%
Health	2,548	2,571	0.9%	2,595	0.9%	2,619	0.9%	2,643	0.9%
Human Resources	1,161	1,190	2.5%	1,220	2.5%	1,244	2.0%	1,268	2.0%
Civil Rights, Inclusion and Opportunity	402	402	0.0%	402	0.0%	402	0.0%	402	0.0%
Law	1,977	2,016	2.0%	2,056	2.0%	2,096	1.9%	2,137	2.0%
Mayor's Office	50	50	0.0%	50	0.0%	50	0.0%	50	0.0%
Municipal Parking	22,185	22,185	0.0%	22,185	0.0%	22,185	0.0%	22,185	0.0%
Non-Departmental	119,973	120,686	0.6%	121,529	0.7%	122,402	0.7%	123,290	0.7%
Housing & Revitalization	2,153	2,153	0.0%	2,153	0.0%	2,153	0.0%	2,153	0.0%
Police	4,324	4,324	0.0%	4,324	0.0%	4,324	0.0%	4,324	0.0%
Public Lighting	1,400	1,200	-14.3%	1,000	-16.7%	800	-20.0%	600	-25.0%
Planning and Development	25	25	0.0%	25	0.0%	25	0.0%	25	0.0%
Appeals and Hearings	1,897	1,897	0.0%	1,897	0.0%	1,897	0.0%	1,897	0.0%
General Services	20,463	20,608	0.7%	20,758	0.7%	20,493	-1.3%	20,645	0.7%
Board of Zoning Appeals	90	90	0.0%	90	0.0%	90	0.0%	90	0.0%
City Council	19	19	0.0%	19	0.0%	19	0.0%	19	0.0%
36th District Court	18,000	18,000	0.0%	18,000	0.0%	18,000	0.0%	18,000	0.0%
City Clerk	3	3	0.0%	3	0.0%	3	0.0%	3	0.0%
Elections	5	1,300	25900.0%	5	-100%	5	0.0%	5	0.0%
Total, Other Revenue - General Fund	\$ 229,993	\$ 232,518	1.1%	\$ 232,551	0.0%	\$ 233,498	0.4%	\$ 234,887	0.6%

Excludes non-recurring revenue items pertaining to sales and use of assets that are not based on trend.

The Other Revenue category includes various revenues administered by individual departments related to their activities. Such departmental revenues include various fees, fines, and other charges. Examples include business licenses, inspection charges, permits, emergency medical services fees, blight tickets, parking fees and fines, court fees and fines, and various cost reimbursements.

Recurring revenues are estimated to be \$230.0 million in FY 2020, and are expected to increase by 1.1% in FY 2021 to \$232.5 million. The FY 2020 – FY 2024 General Fund estimates do not include non-recurring sales and use of assets that are not based on trend; therefore, the \$16.6 million one-time sale of Millennium Garage in FY 2020 is not reflected in the above table.

The gradual annual decline in Public Lighting Authority is related to the decommissioning of the City's former public lighting electrical grid. From FY 2020 – FY 2024, the majority of departmental revenues are based on modest trend growth or flat annual collections, with the exception of the Public Lighting Department item noted above and the Department of Elections for anticipated presidential primary reimbursements in FY 2021.



Non-General Fund Revenues:

September 2019 Revenue Estimates, Non-General Fund								
(in thousands)								
	FY20	FY21	FY22		FY23		FY24	
	Est	Est	% Change	Est	% Change	Est	% Change	Est
Special Revenue Fund								
City of Detroit Capital Projects	\$ 600	\$ -	-100.0%	\$ -		\$ -		\$ -
Civil Rights, Inclusion and Opportunity Fund	1,000	1,000	0.0%	1,000	0.0%	1,000	0.0%	1,000
Community Development Block Grant	32,788	32,788	0.0%	32,788	0.0%	32,788	0.0%	32,788
Construction Code Fund	24,480	24,480	0.0%	24,480	0.0%	24,480	0.0%	24,480
Donated Funds	7,451	7,451	0.0%	7,451	0.0%	7,451	0.0%	7,451
Drug Law Enforcement Fund	2,225	2,225	0.0%	2,225	0.0%	2,225	0.0%	2,225
Elections Voter's Education Donations	3	3	0.0%	3	0.0%	3	0.0%	3
Fire Grants Fund	84	84	0.0%	60	-28.6%	60	0.0%	60
Health Grants Fund	26,429	27,222	3.0%	28,039	3.0%	28,880	3.0%	29,746
Homeland Security Grants Fund	977	977	0.0%	977	0.0%	977	0.0%	977
Library	32,941	32,241	-2.1%	32,843	1.9%	33,551	2.2%	34,276
Major Street	97,951	102,151	4.3%	102,751	0.6%	102,751	0.0%	102,751
Mayor's Office Grants Fund	148	148	0.0%	148	0.0%	148	0.0%	148
Planning Department Grants	250	250	0.0%	250	0.0%	250	0.0%	250
Police Grants Fund	6,075	6,075	0.0%	6,075	0.0%	6,075	0.0%	6,075
Public Act 48 of 2002 Fund	3,000	3,000	0.0%	3,000	0.0%	3,000	0.0%	3,000
Public Lighting Decommissioning Reserve Fund	312	312	0.0%	312	0.0%	312	0.0%	312
Recreation/General Services Grants Fund	980	5	-99.5%	5	0.0%	5	0.0%	5
Sinking Interest & Redemption ¹	64,466	62,657	-2.8%	47,816	-23.7%	43,991	-8.0%	40,532
Solid Waste Management	51,325	51,462	0.3%	51,723	0.5%	52,111	0.8%	52,499
Special Housing Rehab Programs	6,881	6,881	0.0%	6,881	0.0%	6,881	0.0%	6,881
Urban Development Action and Discretionary Grants	2,676	2,676	0.0%	2,676	0.0%	2,676	0.0%	2,676
Enterprise Fund								
Airport Operation and Maintenance	2,348	2,348	0.0%	2,348	0.0%	2,348	0.0%	2,348
Detroit Water and Sewerage Department ²	578,507	514,846	-11.0%	514,846	0.0%	514,846	0.0%	514,846
Transportation	138,607	139,030	0.3%	139,461	0.3%	139,901	0.3%	140,350
Total, Non-General Fund Revenue	\$ 1,082,505	\$ 1,020,313	-5.7%	\$ 1,008,158	-1.2%	\$ 1,006,710	-0.1%	\$ 1,005,679

(1) Forecast based on current debt service schedule.
(2) FY20 includes \$63.7m in one-time drawdown of bond fund resources.

Non-General Fund revenues include enterprise, grant and special revenue funds. Major examples include water and sewer bills, bus fares, solid waste fees, intergovernmental aid for roads and transit, library taxes, and other dedicated revenues. The FY 2020 and FY 2021 variances in the Detroit Water and Sewerage Department (DWSD) is largely explained by the anticipated drawdown of one-time bond fund resources. However, the DWSD will provide a comprehensive update during FY 2021 budget development.



Potential Risks to the Revenue Forecast:

In addition to the economic outlook risks discussed earlier in this report, the following represent additional fiscal risks to the proposed revenue forecast:

- Adverse federal and state policy actions (tax and budget policy, local limitations).
- Increased competition in gaming and risks of past trends not continuing.
- Adverse changes in property tax foreclosure activity.
- Property tax appeals.

Potential Revenue Improvements:

The September 2019 revenue estimates do not take into consideration potential changes to existing tax law or proposed State and local policies that have an impact on City revenues. The following potential statewide policy initiatives could yield additional revenue for the City.

- Increased State-shared revenues from recreational marijuana sales.
- Potential increases in the statutory share of State Revenue sharing.
- State-shared revenues from internet gaming and sports betting.

Additionally, the following City initiatives could provide further improved revenues:

- Revenue gains from continued economic development projects throughout the city.
- Property tax collection rate improvements from the City's Plan Ahead Property Tax Savings Program.
- Potential increases in property tax revenue from additional increases in taxable value from uncapping as property sales occur and as abatements expire.
- Income tax collection improvements from new withholding legislation for employers outside the city.
- Departmental revenue gains from initiatives in early stages, such as EMS billing improvements, new parking initiatives, and other revenue optimization efforts.
- Revenues collected from one-time sales of City-owned real property and other non-recurring revenues that are not anticipated in these estimates.



Appendix:

Exhibit 1 - Changes from the February 2019 Revenue Conference, FY 2020 – FY 2023:

September 2019 Revenue Estimates vs. FY 2020 Adopted Budget Revenue Estimates												
(in millions)												
Major Taxes	FY20			FY21			FY22			FY23		
	Feb	Sept	% Change	Feb	Sept	% Change	Feb	Sept	% Change	Feb	Sept	% Change
Income Tax	\$ 324.3	\$ 325.0	0.2%	\$ 332.7	\$ 333.5	0.2%	\$ 343.0	\$ 344.0	0.3%	\$ 352.2	\$ 354.1	0.5%
State Revenue Sharing	204.5	203.1	-0.7%	202.2	199.9	-1.1%	204.0	201.1	-1.4%	205.9	202.3	-1.7%
Wagering Tax	184.3	185.8	0.8%	186.2	187.6	0.8%	188.0	189.4	0.7%	189.9	191.3	0.7%
Property Tax	126.5	131.3	3.8%	127.6	132.8	4.1%	128.6	133.1	3.5%	129.6	133.4	2.9%
Tax Increment Financing Capture	(11.2)	(14.0)	25.0%	(11.5)	(14.3)	24.3%	(11.8)	(13.9)	17.8%	(12.1)	(14.2)	17.4%
Net Property Tax	115.3	117.3	1.7%	116.1	118.5	2.1%	116.8	119.2	2.1%	117.5	119.2	1.4%
Utility Users Tax	43.8	42.4	-3.2%	44.1	43.2	-2.0%	44.5	44.6	0.2%	45.2	46.5	2.9%
To Public Lighting Authority	(12.5)	(12.5)	0.0%	(12.5)	(12.5)	0.0%	(12.5)	(12.5)	0.0%	(12.5)	(12.5)	0.0%
Net Utility Users Tax	31.3	29.9	-4.5%	31.6	30.7	-2.8%	32.0	32.1	0.3%	32.7	34.0	4.0%
Subtotal, Major Taxes	\$ 859.7	\$ 861.1	0.2%	\$ 868.8	\$ 870.2	0.2%	\$ 883.8	\$ 885.8	0.2%	\$ 898.2	\$ 900.9	0.3%
Other Revenues¹	\$ 226.5	\$ 249.1	10.0%	\$ 227.4	\$ 233.4	2.6%	\$ 227.5	\$ 233.5	2.6%	\$ 228.9	\$ 234.4	2.4%
Grand Total, General Fund	\$ 1,086.2	\$ 1,110.2	2.2%	\$ 1,096.2	\$ 1,103.6	0.7%	\$ 1,111.3	\$ 1,119.3	0.7%	\$ 1,127.1	\$ 1,135.3	0.7%

(1) FY20 Change from February to September largely explained by addition of \$16.6m one-time sale of Millennium Garage, as well as a \$4m increase in Investment Earnings based on FY19 activity and updated information.

Exhibit 2 - General Fund Revenues by Major Use:

September 2019 Revenue Estimates, General Fund										
(in millions)										
Major Taxes	FY20	FY21	% Change	FY22	% Change	FY23	% Change	FY24	% Change	
	Est	Est		Est		Est		Est		Est
Income Tax	\$ 325.0	\$ 333.5	2.6%	\$ 344.0	3.1%	\$ 354.1	2.9%	\$ 364.2	2.9%	
State Revenue Sharing	203.1	199.9	-1.6%	201.1	0.6%	202.3	0.6%	203.5	0.6%	
Wagering Tax	185.8	187.6	1.0%	189.4	1.0%	191.3	1.0%	193.3	1.0%	
Property Tax	131.3	132.8	1.1%	133.1	0.2%	133.4	0.2%	134.5	0.8%	
Tax Increment Financing Capture	(14.0)	(14.3)	2.1%	(13.9)	-2.8%	(14.2)	2.2%	(14.6)	2.8%	
Net Property Tax	117.3	118.5	1.0%	119.2	0.6%	119.2	0.0%	119.9	0.6%	
Utility Users Tax	42.4	43.2	1.9%	44.6	3.2%	46.5	4.3%	48.8	4.9%	
To Public Lighting Authority	(12.5)	(12.5)	0.0%	(12.5)	0.0%	(12.5)	0.0%	(12.5)	0.0%	
Net Utility Users Tax	29.9	30.7	2.7%	32.1	4.6%	34.0	5.9%	36.3	6.8%	
Subtotal, Major Taxes	\$ 861.1	\$ 870.2	1.1%	\$ 885.8	1.8%	\$ 900.9	1.7%	\$ 917.2	1.8%	
Other Revenue										
Contributions and Transfers	\$ 17.1	\$ 17.1	0.0%	\$ 17.1	0.0%	\$ 17.1	0.0%	\$ 17.1	0.0%	
Fines, Forfeits and Penalties	21.3	21.3	0.0%	21.3	0.0%	21.3	0.0%	21.3	0.0%	
Interest and Penalties on Taxes	0.3	0.3	0.0%	0.3	0.0%	0.3	0.0%	0.3	0.0%	
Intergovernmental Revenues	3.2	3.2	0.0%	3.2	0.0%	3.3	3.1%	3.3	0.0%	
Licenses, Permits and Inspection Charges	11.5	11.7	1.7%	11.8	0.9%	11.9	0.8%	12.0	0.8%	
Miscellaneous	2.4	2.2	-8.3%	2.0	-9.1%	1.4	-30.0%	1.2	-14.3%	
Other Revenue	7.1	8.8	23.9%	8.1	-8.0%	8.6	6.2%	9.2	7.0%	
Other Taxes, Assessments, and Interest	28.3	28.1	-0.7%	27.7	-1.4%	27.4	-1.1%	27.0	-1.5%	
Revenues from Use of Assets	11.6	11.6	0.0%	11.6	0.0%	11.6	0.0%	11.6	0.0%	
Sales & Charges for Services	128.1	129.1	0.8%	130.4	1.0%	131.5	0.8%	132.8	1.0%	
Sales of Assets and Compensation for Losses	18.2	-	-100.0%	-	0.0%	-	-	-	-	
Subtotal, Other Revenue	\$ 249.1	\$ 233.4	-6.3%	\$ 233.5	0.0%	\$ 234.4	0.4%	\$ 235.8	0.6%	
Grand Total, General Fund	\$ 1,110.2	\$ 1,103.6	-0.6%	\$ 1,119.3	1.4%	\$ 1,135.3	1.4%	\$ 1,153.0	1.6%	



Exhibit 3 - FY 2020 February 2019 Revenue Conference to Adopted Budget Fund Reclassification Reconciliation:

FY 2020 Adopted Budget vs. February 2019 Revenue Conference Reconciliation	
<i>\$ in thousands</i>	
General Fund	FY 2020
February 2019 Revenue Estimating Conference	\$ 1,077,711
Municipal Parking - Fee Shift to General Fund	9,238
Police - Towing Shift to Special Revenue Fund	(765)
FY 2020 Adopted Budget*	\$ 1,086,184
Other Funds	FY 2020
February 2019 Revenue Estimating Conference	\$ 1,121,127
Special Revenue Fund - Shift Police Towing from General Fund	765
Parking Fund - Shift Parking Fee Revenue to General Fund	(9,238)
DWSD - Budget Submission Adjustments	(34,025)
FY 2020 Adopted Budget	\$ 1,078,629
* Includes recurring revenues only and excludes use of prior-year fund balance.	