

SUMMARY

Analysis of the Mayor's 2013-2014 Proposed Budget

This report provides an overview of the Mayor's 2013-2014 Proposed Budget of \$2,564.5 million and makes comparisons to the 2012-2013 Budget, which totaled \$2,604.9 million. The report includes our analysis and comments related to revenues, appropriations, and other budgetary aspects of City operations included in the Mayor's 2013-2014 Proposed Budget. Also presented in this summary are emerging issues for City Council to consider as they review the Mayor's Proposed Budget.

Conclusion

Based on our analysis, the Office of the Auditor General (OAG) concludes that overall, the Mayor's Proposed Budget is reasonable. However, of particular concern, is the failure to include the prior year's deficit amount in budget appropriations as required by local and state law. In addition, based on our analysis, some of the assumptions used in calculating appropriations are optimistic and therefore, costs maybe underestimated.

Overview of the Mayor's Proposed Budget

The Mayor's 2013-2014 Proposed Budget of \$2,564.5 million is \$40.4 million, or 1.6%, less than the 2012-2013 Budget of \$2,604.9 million. The following schedules details the proposed revenues for fiscal year 2013-2014 compared to revenues in the current fiscal year 2012-2013 adopted budget:

	<u>Dollars In Millions</u>			
	<u>Mayor's 2013-2014 Proposed Budget</u>	<u>2012-2013 Budget</u>	<u>Increase (Decrease)</u>	<u>Percentage Increase (Decrease)</u>
Other Revenues	\$ 1,758.7	\$ 1,798.8	\$ (40.1)	(2.3) %
Municipal Income Tax	239.7	228.0	11.7	5.1
State Revenue Sharing	183.8	172.8	11.0	6.3
Wagering Taxes	173.0	171.0	2.0	1.2
Property Taxes	168.8	192.3	(23.5)	(12.2)
Utility Users Taxes	40.5	42.0	(1.5)	(3.6)
Total Revenues	<u>\$ 2,564.5</u>	<u>\$ 2,604.9</u>	<u>\$ (40.4)</u>	<u>(1.6) %</u>

Revenues included in the proposed budget consist of amounts from Local, State, and Federal sources. The following schedule identifies budgeted revenues and percentages for each governmental source, in the Mayor's 2013-2014 Proposed Budget:

	Mayor's 2013-2014 Proposed Budget (In Millions)	Percent of Total	2012-2013 Budget (In Millions)	Percent of Total
Local sources	\$2,131.0	83.1%	\$2,152.6	82.6%
State sources	325.3	12.7	292.9	11.2
Federal sources	108.2	4.2	159.4	6.2
Total	\$2,564.5	100.0%	\$2,604.9	100.0%

The major decreases in revenues and appropriations are detailed on [Exhibit 1](#) and [Exhibit 2](#) of this report, followed by an overview of revenues, appropriations, other budgetary items, and concerns.

**Composition
of Revenues
By Fund**

	In Millions		
	Mayor's 2012-2013 Proposed Budget	2012-2013 Budget	Increase (Decrease)
All Non-General Funds	\$ 1,443.1	\$ 1,453.6	\$ (10.5)
General Fund	1,121.4	1,151.3	(29.9)
Total Other Revenues All Funds	\$ 2,564.5	\$ 2,604.9	\$ (40.4)

General Fund Revenues

As required by Section 8-213 of the City Charter, and Section 3.1 of the Financial Stability Agreement (also known as the "Consent Agreement"), the Finance Department, Budget Department, City Council's Fiscal Analysis Division, and the Auditor General, held revenue estimating conferences and considered General Fund revenues. The Mayor's Proposed Budget reflects \$0.9 million more revenues than the consensus amount. Based on our analysis, we feel that the 2013-2014 Mayor's Proposed Budget for General Fund Revenues is reasonable.

Revenue Consensus Process

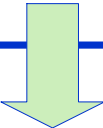
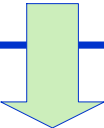
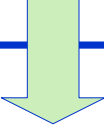
Revenue Estimating Conferences

Finance

Budget Department

Fiscal Analyst

Auditor General



Revenue Consensus

(Final) February 2013

General Fund Revenues

- Income Tax
- Property Tax
- Utility Users Tax
- Wagering Tax
- State Revenue Sharing
- Sale of Property
- Other Revenues
- POC Adjustment

Total 2013-2014 Consensus

\$1,120.5 million

2013- 2014 Mayor's Proposed Budget Adjustments to Revenue Consensus

Increase
State Revenue Sharing
\$7.3 million

Increase
Sale of Property
\$4.0 million

Decrease
Other Revenues
(\$10.4)

Net \$0.9 million
Increase

General Fund Revenues

Total 2013-2014 Mayor's Proposed Budget

\$1,121.4 million

Accumulated Surplus/(Deficit)

An integral part of the City Charter, Financial Stability Agreement, and Michigan Uniform Budgeting and Accounting Act, requires that the Mayor include in the budget the amount of revenue to be applied to reduce any accumulated deficit or, if there is no accumulated deficit, to a budget stabilization account. However, the Mayor's proposed budget contains no funding for the prior year deficit of \$326.6 million or the estimated current year deficit.

The table below compares the Mayor's estimated fiscal year 2012-2013 Accumulated Deficit to our estimate:

	In Millions	
	Mayor's Estimate ^(A)	OAG Estimate ^(B)
Estimated 2013-2014 Accumulated Surplus/ (Deficit)		
2011-2012 Accumulated Deficit (per June 30, 2012 CAFR)	\$ (326.6)	\$ (326.6)
Estimated 2012-2013 Net Operating Deficit	(22.0)	(51.4)
Estimated 2012-2013 Accumulated Deficit	<u>\$ (348.8)</u>	<u>\$ (378.0)</u>

- (A) No details have been provided for the Mayor's estimated deficit.
- (B) OAG projects a net operating deficit of \$51.4 million for the current fiscal year 2012-2013. We determined that the Mayor's estimate is most likely understated due to revenue shortfalls and additional subsidies from the General Fund.

Local Financial Stability and Choice Act – Act 436 Impact on the Budget Process

The Local Financial Stability and Choice Act give broad powers to the Emergency Manager (EM) relative to budgets and financial planning. Governor Rick Snyder exercised his authority under the law, and effective March 28, 2013, appointed Kevyn Orr as the City's Emergency Manager. The EM has the right to amend, revise, approve, or disapprove the budget of the local government, and limit the total amount appropriated or expended. The list below highlights sections of the law pertaining to budgeting and financial planning:

Local Financial Stability and Choice Act Act 436 of 2012

Powers of the Emergency Manager Relative to the Budget Process

Section 9:

Upon appointment, an emergency manager shall act for and in the place and stead of the governing body and the office of chief administrative officer of the local government. The emergency manager shall have broad powers in receivership to rectify the financial emergency and to assure the fiscal accountability of the local government and the local government's capacity to provide or cause to be provided necessary governmental services essential to the public health, safety, and welfare. Following appointment of an emergency manager and during the pendency of receivership, the governing body and the chief administrative officer of the local government shall not exercise any of the powers of those offices except as may be specifically authorized in writing by the emergency manager or as otherwise provided by this act and are subject to any conditions required by the emergency manager.

Section 11:

An emergency manager shall develop and may amend a written financial and operating plan for the local government.

- Conducting all aspects of the operations of the local government within the resources available according to the emergency manager's revenue estimate;
- Within 45 days after the emergency manager's appointment, the emergency manager shall submit the financial and operating plan;
- The emergency manager, within 30 days of submitting the financial and operating plan to the state financial authority, shall conduct a public informational meeting on the plan and any modifications to the plan. This subsection does not mean that the emergency manager must receive public approval before he or she implements the plan or any modification of the plan.

Section 12:

An emergency manager may take 1 or more of the following additional actions:

- Receive and disburse on behalf of the local government all federal, state, and local funds earmarked for the local government. These funds may include, but are not limited to, funds for specific programs and the retirement of debt;
- Require and approve or disapprove, or amend or revise, a plan for paying all outstanding obligations of the local government;
- Amend, revise, approve, or disapprove the budget of the local government, and limit the total amount appropriated or expended;
- Receive and disburse on behalf of the local government all federal, state, and local funds earmarked for the local government. These funds may include, but are not limited to, funds for specific programs and the retirement of debt;
- Require and approve or disapprove, or amend or revise, a plan for paying all outstanding obligations of the local government.

Section 21:

Before the termination of receivership and the completion of the emergency manager's term, or if a transition advisory board is appointed under section 23, then before the transition advisory board is appointed, the emergency manager shall adopt and implement a 2-year budget, including all contractual and employment agreements, for the local government commencing with the termination of receivership.

**COMPONENTS OF THE NET DECREASE IN REVENUES
IN THE MAYOR'S 2013-2014 PROPOSED BUDGET**

	Increase/(Decrease) In Millions
	<hr/>
Other Reimbursements	\$ (58)
Michigan Occupational Skills Training Grant	(32)
Property Taxes (Including Reserve)	(20)
Work Force Investment Act Grant	(16)
Community Service Block Grant	(8)
Sale of Electricity and Steam	(5)
Subsidy from General Fund	22
Sales & Charges for Services	17
State Revenue Sharing	12
Municipal Income Tax	12
Health Grants	12
Mass Transportation Funds	7
POC Transaction	6
Home Investment Grant	5
Revenue from Operations	5
All Other Revenue	1
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Net Decrease in Revenues	<u><u>\$ (40)</u></u>

**COMPONENTS OF THE NET DECREASE IN APPROPRIATIONS
IN THE MAYOR'S 2013-2014 PROPOSED BUDGET**

	Increase/(Decrease) In Millions
<u>Other Expenses</u>	
The decrease in other expenses results from removing \$79 million of the prior year deficit from the budget, reducing training expenses by \$35 million, and reducing miscellaneous expenses by \$25 million. Reducing the decrease is a \$25 million increase in contributions	\$ (111)
<u>Operating Services</u>	
The decrease in operating services results from a \$26 million reduction in insurance expense, a \$3 million decrease in rents and utilities, and a \$1 million reduction in purchased services.	(30)
<u>Salaries and Wages</u>	
The decrease in salaries and wages is primarily the result of 509 fewer positions included in the 2013 -2014 budget than in the 2012-2013 budget	(17)
<u>Operating Supplies</u>	
The decrease in operating supplies results from a net \$4 million reduction in office and operating supplies offset by a \$1 million increase in repair and maintenance expenses.	(3)
<u>Employee Benefits</u>	
The increase in employee benefits is the result of \$52 million of additional appropriations to cover the costs of employees' pensions and an increase of \$31 million in employee benefit costs.	83
<u>Fixed Charges</u>	
The increase in fixed charges is the result of \$16 million retirement of debt principal and a \$3 million rise in interest on bonded debt	19
<u>Professional and Contractual Services</u>	
The increase in professional and contractual services results primarily from an \$11 million increase in contractual obligations to medical-organizations and \$1 million net increase in personal and professional services.	12
<u>Capital Equipment</u>	
The increase in capital equipment results from increasing the appropriation for major repairs (other than buildings) by \$10 million and vehicle acquisitions by \$2 million. Offsetting the increase is a \$5 million reduction in the acquisition of equipment and reference library materials.	7
Net Decrease in Appropriations	\$ (40)

Overview of Major Revenues

Municipal Income Tax

In Millions		
2013-2014 Proposed Budget	2012-2013 Budget	Increase/ (Decrease)
\$239.7	\$228.0	\$11.7

- ✚ The projected revenue for Municipal Income Tax is reasonable and the increase reflects the job growth in the automotive industry that is improving corporate income tax revenue.
- ✚ The proposed budget amount also reflects Detroit's distressed economy, the escalating rate of population loss, and legislative changes that would defer the scheduled tax rate reduction for Detroit residents and non-residents in 2013-2014.

State Revenue Sharing

In Millions		
2013-2014 Proposed Budget	2012-2013 Budget	Increase/ (Decrease)
\$183.8	\$172.8	\$11.0

- ✚ State Revenue Sharing includes a \$2.3 million increase in the constitutional portion and an increase of \$8.7 million in the Economic Vitality Incentive Program (EVIP) portion.

Casino-Related Revenue

In Millions		
2013-2014 Proposed Budget	2012-2013 Budget	Increase/ (Decrease)
\$173.0	\$171.0	\$2.0

- ✚ The proposed budget amount is the revenue consensus estimate and it is reasonable.
- ✚ The wagering revenue estimate recognizes downward pressure on revenues resulting from the opening of four casinos in Ohio by the end of 2013.

Utility Users Tax

In Millions		
2013-2014 Proposed Budget	2012-2013 Budget	Increase/ (Decrease)
\$40.5	\$42.0	\$(1.5)

- ✚ The proposed budget of \$40.5 million is slightly optimistic based on the trends of utility users tax collections and other factors affecting these revenues.
- ✚ The OAG estimates utility users tax collections in fiscal year 2012-2013 and fiscal year 2013-2014 will range between \$37.4 million to \$38.2 million.

Overview of Major Revenues *(continued)*

Property Tax

<i>In Millions</i>		
2013-2014 Proposed Budget	2012-2013 Budget	Increase/ (Decrease)
\$168.8	\$192.3	\$(23.5)

- ✚ The decrease is largely due to a 1.7% reduction in property tax valuations.
- ✚ The proposed 2013-2014 budget of \$168.8 million is slightly optimistic based on the continued decline in collection rates and the impending phase out of personal property taxes.

Other Revenues

<i>In Millions</i>		
2013-2014 Proposed Budget	2012-2013 Budget	Increase/ (Decrease)
\$1,758.7	\$1,798.8	\$(40.1)

- ✚ Sales and Charges for Services in the General Fund decreased by \$53.6 million largely due to receiving bond proceeds in the current fiscal year.
- ✚ Sales and Charges for Services for all other funds increased by \$33.1 million due to:
 - Increased revenues for Water and Sewerage sales of \$12.9 million;
 - Increase in Other Reimbursements of \$10.4 million;
 - Increase in Medicare D reimbursements of \$8.0 million.
- ✚ Grants, Shared Taxes and Revenue includes a reduction of \$47.1 million of federal, state and other grant revenues resulting from the elimination of funding for Detroit Workforce Development Department (\$44.5 million), Human Services (\$7.0 million), and reductions in other non-general fund revenues (\$7.2 million).
- ✚ These reductions are offset by an increase in grant funding for the Health Department of \$11.6 million.

Overview of Major Appropriations

Pensions

<i>In Millions</i>		
2013-2014 Proposed Budget	2012-2013 Budget	Increase/ (Decrease)
\$255.6	\$203.3	\$52.3

- ✚ The significant increase in pension costs are due to increases in actuarial rates.
- ✚ The proposed amount is reasonable, except for the exclusion of pension contributions for certain DDOT employees, and a small overestimation of pension contributions for general city employees.

Employee Benefits (Excluding Pensions)

<i>In Millions</i>		
2013-2014 Proposed Budget	2012-2013 Budget	Increase/ (Decrease)
\$278.8	\$248.3	\$30.5

- ✚ The increase is mainly in hospitalization costs.
- ✚ The proposed amount is reasonable if the City implements employee benefits reforms as stipulated in the Financial Stability Agreement.

Salaries and Wages

<i>In Millions</i>		
2013-2014 Proposed Budget	2012-2013 Budget	Increase/ (Decrease)
\$500.0	\$517.0	\$(17.0)

- ✚ The decrease is the net effect of a decrease of 509 positions from fiscal year 2012-2013 budgeted positions.
- ✚ The proposed amount appears reasonable except for the overtime portion.

Other Expenses

<i>In Millions</i>		
2013-2014 Proposed Budget	2012-2013 Budget	Increase/ (Decrease)
\$330.7	\$441.2	\$(110.5)

- ✚ The OAG could not conclude on the reasonableness of the proposed budget for other expenses.
- ✚ The proposed budget does not include an amount for the prior year's deficit, which accounts for \$78.5 million of the decrease.
- ✚ The decrease in travel and training costs of \$34.7 million is not explained.
- ✚ Miscellaneous costs decreased by \$24.7 million. Of this amount, \$14 million relates to moving restructuring expenditures to specific organization appropriations.
- ✚ The decreases are offset by a \$24.4 million increase in Other Financial Uses and Transfer costs.

Overview of Other Budget Items

General Fund Subsidy Payments

<i>In Millions</i>		
2013-2014 Proposed Budget	2012-2013 Budget	Increase/ (Decrease)
\$64.6	\$45.2	\$19.4

- ✚ Per the Budget Department DDOT's increased subsidy of \$14.2 million is due primarily to a mix of revenue shortfalls and increases in legacy costs.
- ✚ The People Mover is dependent upon receiving the general fund subsidy, and is proposed to receive a \$4.5 million subsidy. The People Mover did not receive a subsidy in the prior budget.

Detroit Department of Transportation

<i>In Millions</i>		
2013-2014 Proposed Budget	2012-2013 Budget	Increase/ (Decrease)
\$136.6	\$110.5	\$26.1

- ✚ DDOT's revenues included in the proposed budget are optimistic.
- ✚ Anticipation of more claims payments in fiscal year 2013-2014 resulted in a \$16.7 million increase in DDOT's Claims Fund appropriation.
- ✚ Increases in salaries and wages for Vehicle Maintenance and Transportation accounts for most of the \$4.9 million increase in operations.
- ✚ DDOT stands to lose millions of dollars in operational and capital equipment funding resulting from a change in the split of Southeast Michigan's federal transit funding, and could require more funding from the General Fund.

Solid Waste Management Fund

<i>In Millions</i>		
2013-2014 Proposed Budget	2012-2013 Budget	Increase/ (Decrease)
\$41.4	\$39.1	\$2.3

- ✚ The increase in solid waste revenues resulted from a consensus of the analyses performed during the revenue estimating conference.

Risk Management

<i>In Millions</i>		
2013-2014 Proposed Budget	2012-2013 Budget	Increase/ (Decrease)
\$51.5	\$101.6	\$(50.1)

- ✚ The decrease in the fund is based on a five-year average of payouts for claims, workers' compensation, and lawsuits.
- ✚ In addition, \$20 million has been subtracted as cash saving due to an expected healthy fund balance at the end of fiscal year 2012-2013 that exceeds statutory minimums.

Accumulated Surplus/(Deficit)

<i>In Millions</i>		
2013-2014 Proposed Budget	2012-2013 Budget	Increase/ (Decrease)
\$0.0	\$(78.5)	\$78.5

- ✚ The Mayor's proposed budget contains no funding for the prior year deficit or the estimated current year deficit. Per the Budget Department, the decision was based on the need to maintain basic public services and an understanding of the Financial Stability Agreement, which allows a longer timeline to eliminate the deficit.

Emerging Issues

- ✚ Regional Transit Authority
 - New authority to oversee operations and funding of DDOT and the People Mover;
 - Loss of grant funds for DDOT under the SEMCOG's temporary fiduciary responsibilities.
- ✚ Neighborhoods
 - Michigan State Tax Commission plans to investigate the City's property tax assessments;
 - Growing trend across America to design communities that address the needs of an aging population;
 - Preventing vacant property deterioration as a way to impede the spread of blight in communities
- ✚ Sensible Ways to Save Money and Raise Revenue
 - Adopt revenue enhancing opportunities submitted by the Municipal Parking Contractor;
 - Taxes on nonresident athletes;
 - Save money by enhancing online and electronic services such as E-auctions, direct debit and e-billing for certain city services, online publishing of brochures and other city documents, and survey employees for other sensible cost saving ideas.