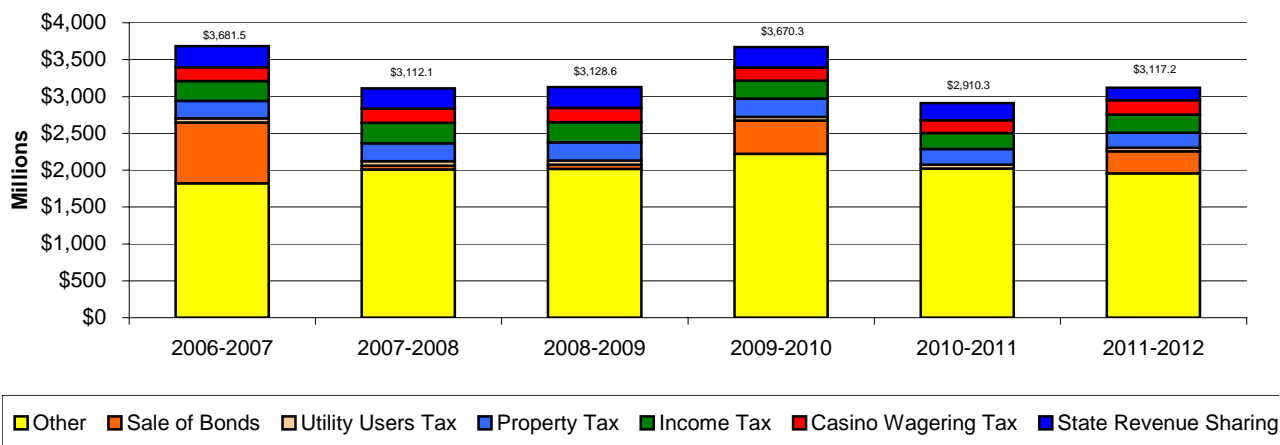


**CITY OF DETROIT
MAJOR REVENUES
FOR FISCAL YEAR 2006-2007 THROUGH FISCAL YEAR 2011-2012**

The following chart and schedule compares the total budgeted revenues and major revenue sources over five fiscal years from 2006-2007 through 2010-2011, and total revenues and major revenues sources in the Mayor’s 2011-2012 Proposed Budget.



Fiscal Year	In Millions							Total
	Property Tax	Income Tax	Utility Users Tax	State Revenue Sharing	Casino Wagering Tax	Sale of Bonds	Other	
2006-2007	237.3	271.4	56.0	284.2	185.0	825.0	1,822.6	3,681.5
2007-2008	245.0	277.6	60.0	276.0	193.2	50.3	2,010.0	3,112.1
2008-2009	245.4	275.0	60.0	281.1	194.8	53.1	2,019.2	3,128.6
2009-2010	245.4	245.0	55.0	276.9	176.6	450.0	2,221.4	3,670.3
2010-2011	214.5	215.0	50.0	234.7	173.4	0.0	2,022.7	2,910.3
2011-2012 (A)	204.8	243.5	48.5	166.6	197.7	300.0	1,956.1	3,117.2

(A) Mayor’s 2011-2012 Proposed Budget

The sections that follow include an analysis of the reasonableness of the budgeted amounts of major revenues in the Mayor’s 2011-2012 Proposed Budget and a comparison to major revenues in the fiscal year 2010-2011 budget including revenues for property tax, income tax, utility users tax, state revenue sharing, casino wagering tax, and other revenues.

STATE REVENUE SHARING

Conclusion

The amount included in the Mayor's 2011-2012 Proposed Budget for State Revenue Sharing is \$6.3 million greater than the amount included in the Governor's 2011-2012 Executive Budget. The Mayor's Proposed Budget includes an estimated reduction in the constitutional portion of State Revenue Sharing of \$11.2 million based on Detroit's population loss determined by the 2010 Census, and a reduction in the statutory portion of State Revenue Sharing of \$57.0 million due to the Governor's proposed elimination of the statutory portion of the shared tax and the implementation of the Economic Vitality Incentive Program. It should be noted that the Governor's Executive Budget has yet to be enacted and is still subject to change.

Analysis of State Revenue Sharing

State Revenue Sharing is the process by which a portion of certain tax revenues imposed and collected by the State of Michigan are distributed to local units of government, including municipalities, as provided by State law. Currently, the State shares a portion of sales tax revenue with local governments.

State Revenue Sharing revenue contained in the Mayor's 2011-2012 Proposed Budget is \$68.2 million less than the amount budgeted for fiscal year 2010-2011. The Mayor's Proposed Budget amount of \$166.6 million is \$6.3 million greater than the amount recommended in the Governor's 2011-2012 Executive Budget. The State Revenue Sharing payments included in the Mayor's 2011-2012 Proposed Budget are compared to the 2010-2011 Budget in the following schedule:

	In Millions		
	Mayor's 2011-2012 Proposed Budget	2010-2011 Budget	Increase (Decrease)
State Revenue Sharing:			
State Sales Tax – Constitutional Portion	\$ 46.9	\$ 58.1	\$ (11.2)
State Sales Tax – Statutory Portion	119.7	176.6	(56.9)
Total State Revenue Sharing to City of Detroit	<u>\$ 166.6</u>	<u>\$ 234.7</u>	<u>\$ (68.1)</u>
Detroit Public Library	(1.0)	(1.3)	0.3
City's Net State Revenue Sharing (A)	<u>\$ 165.6</u>	<u>\$ 233.4</u>	<u>\$ (67.8)</u>

(A) The City's Net Revenue Sharing includes approximately \$34,775 to be paid to the Downtown Development Authority.

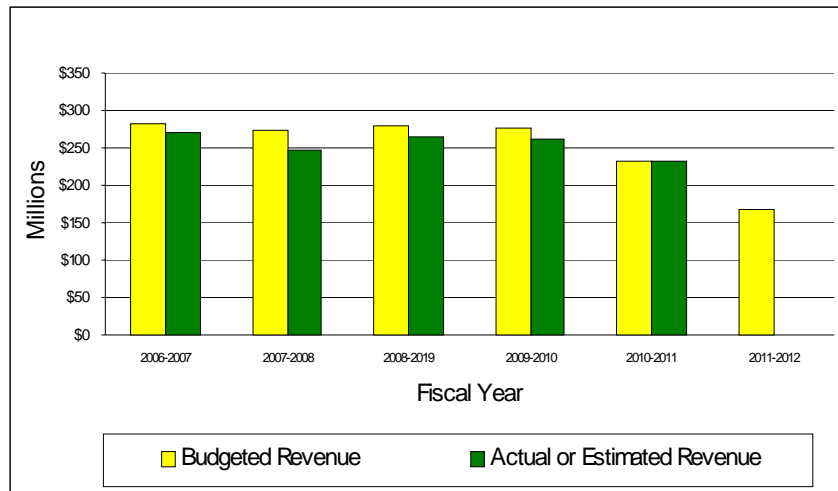
The following schedule compares the City's Net State Revenue Sharing, budget to actual, or estimated actual beginning with the 2006-2007 fiscal year:

Fiscal Year	Dollars In Millions					
	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year	
			Amount	Percentage	Amount	Percentage
2006-2007	282.6	271.1	(11.5)	(4.1)	(8.4)	(3.0)
2007-2008	274.4	248.2	(26.2)	(9.5)	(22.9)	(8.4)
2008-2009	279.5	265.8	(13.7)	(4.9)	17.6	7.1
2009-2010	275.3	262.4	(12.9)	(4.7)	(3.4)	(1.3)
2010-2011 (A)	233.4	231.8	(1.6)	(0.7)	(30.6)	(11.7)
2011-2012 (B)	165.6	N/A	N/A	N/A	N/A	N/A

(A) The fiscal year 2010-2011 actual is an estimate by the Budget Department.

(B) The budgeted amount is the only amount available for fiscal year 2011-2012. The other amounts are designated N/A (Not Applicable) in the schedule.

The following chart shows actual State Revenue Sharing for fiscal years 2006-2007 to 2009-2010, the estimated State Revenue Sharing for fiscal year 2010-2011, and the budgeted State Revenue Sharing in the Mayor's 2011-2012 Proposed Budget.



State of Michigan Proposed Legislation and Projection

The Governor's 2011-2012 Executive Budget recommends total State Revenue Sharing payments to Detroit in the amount of \$160.3 million, a \$74.4 million decrease from the \$234.7 million budgeted for fiscal year 2010-2011. The payment of \$160.3 million for State Revenue Sharing includes a portion determined by the State Constitution (constitutional) of \$47.6 million and a portion from the new Economic Vitality Incentive Program (EVIP) of \$112.7 million. The EVIP replaces the statutory portion of revenue sharing, and has three components to be eligible for funding:

1. Municipalities must embrace accountability and transparency;

2. Municipalities must develop plans to consolidate services that will result in taxpayer savings; and
3. Municipalities must begin to address employee compensation in order to continue to qualify for the EVIP. The total payment amount for fiscal year 2011-2012 assumes that an eligible city will qualify for the maximum EVIP

The constitutional portion of State Revenue Sharing payments is based on the 2010 City of Detroit census figure adjusted for the deduction of 50 percent of the institutional population¹ as required in the State Revenue Sharing Act. This portion fluctuates with actual sales tax revenue so the payments to the City of Detroit will also fluctuate during the year.

The State Revenue Sharing Act also provides that the treasurer of any city, village, township, or county who collects money for another governmental authority or agency that levies property taxes shall pay the eligible authority its share of State revenue. Therefore, the City is required to pay \$1.0 million to the Detroit Public Library and \$34,775 to the Downtown Development Authority (DDA) from the \$160.3 million in State Revenue Sharing for the 2011-2012 State fiscal year. These amounts are proportionate to the State Revenue Sharing payments to the City.

¹ The institutional population is the population residing in correctional institutions, detention homes, and training schools for juvenile delinquents; homes for the elderly (for example, nursing homes and convalescent homes); homes for dependent and neglected children; homes and schools for the mentally or physically handicapped; homes for unwed mothers; psychiatric, tuberculosis, and chronic disease hospitals; and residential treatment centers.

MUNICIPAL INCOME TAX REVENUE

Conclusion

Based on Detroit's distressed economy, which is evidenced by the lack of job growth, the escalating rate of population loss, and the continued decrease in Municipal Income Tax revenue, we have concluded that the projected revenue from Municipal Income Tax revenue of \$243.5 million included in the Mayor's 2011-2012 Proposed Budget is overstated.

Analysis of Municipal Income Tax Revenue

Total Municipal Income Tax revenue contained in the Mayor's 2011-2012 Proposed Budget is \$28.5 million more than the amount budgeted for fiscal year 2010-2011. The Municipal Income Tax revenue included in the Mayor's 2011-2012 Proposed Budget is compared to the 2010-2011 Budget in the following schedule:

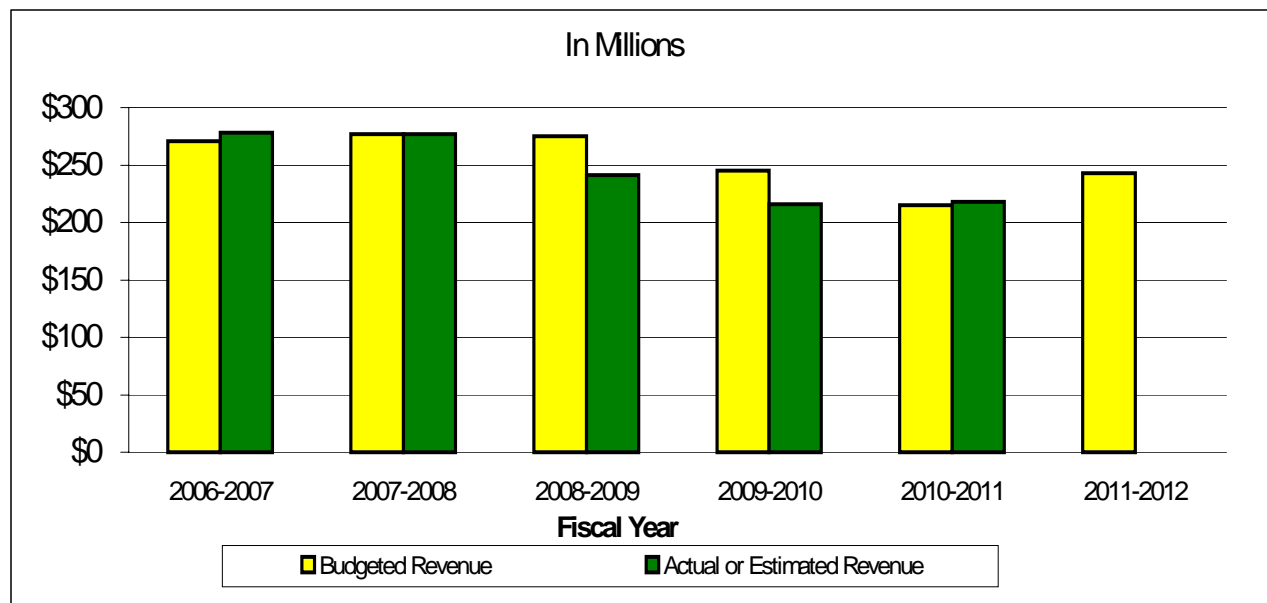
	In Millions		
	Mayor's 2011-2012 Proposed Budget	2010-2011 Budget	Increase (Decrease)
Municipal Income Tax	\$ 243.5	\$ 215.0	\$ 28.5

The following schedule shows budgeted and actual Municipal Income Tax revenue for each fiscal year from 2006-2007 through 2009-2010. The schedule also shows budgeted revenue and estimated actual revenue for the fiscal year ending June 30, 2011, and budgeted Municipal Income Tax revenue for fiscal year 2011-2012 as shown in the Mayor's 2011-2012 Proposed Budget.

Fiscal Year	Dollars In Millions					
	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year	
	Amount	Amount	Amount	Percentage	Amount	Percentage
2006-2007	\$ 271.4	\$ 278.3	\$ 6.9	(2.5)%	\$ (5.8)	(2.0)%
2007-2008	277.6	277.1	(0.5)	(0.2)	(1.2)	(0.4)
2008-2009	275.0	240.8	(34.2)	(12.4)	(36.3)	(13.1)
2009-2010	245.0	216.5	(28.5)	(11.6)	(24.3)	(10.1)
2010-2011 (A)	215.0	218.2	3.2	1.5	1.7	0.8
2011-2012 (B)	243.5	N/A	N/A	N/A	N/A	N/A

- (A) The amount shown in the schedule as actual revenue for fiscal year 2010-2011 is based on the Budget Department's estimate.
- (B) The budgeted amount is the only figure available for fiscal year 2011-2012. The other amounts are designated N/A (Not Applicable) in the schedule.

The following chart compares budgeted Municipal Income Tax revenue to the actual revenue for fiscal years 2006-2007 through 2009-2010, budgeted Municipal Income Tax revenue to the estimated revenue for fiscal year 2010-2011, and budgeted Municipal Income Tax revenue in the Mayor's 2011-2012 Proposed Budget.



Income Tax Rates for Fiscal Year 2011-2012

The income of residents and non-residents will continue to be taxed at the rate of 2.5% and 1.25% for the fiscal year 2011-2012, respectively, while the corporate tax rate will be 1.0% until further notice. Public Act 500 of 1998, which requires the City of Detroit to progressively reduce income tax rates for residents and non-residents, was changed in December 2007. The scheduled reduction of income tax rates by one-tenth of a percentage point for residents and one-twentieth of a percentage point for non-residents was suspended for calendar years 2009 and 2010. According to the recent 2010 census report, the population in the City has fallen below 750,000, which could result in a reduction in the income tax rates for residents and non-residents.

Estimated Municipal Income Tax Revenue for Fiscal Year 2010-2011

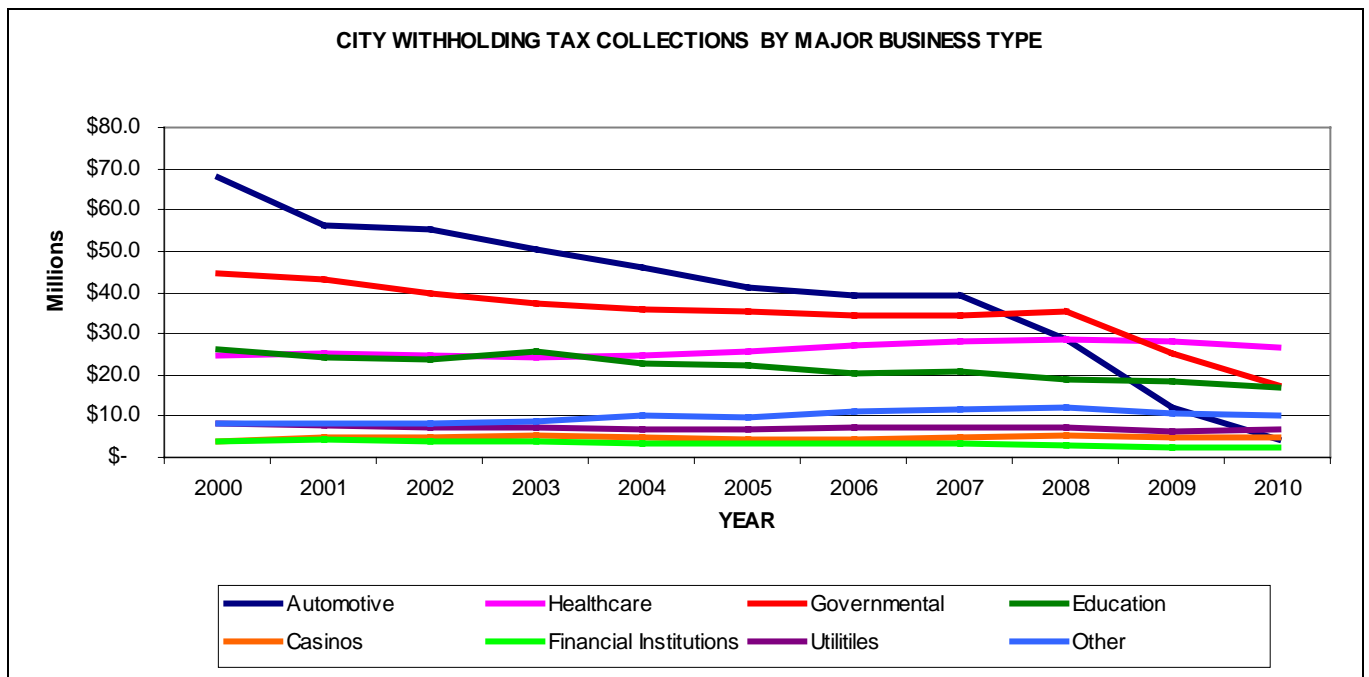
Income tax revenue can be difficult to predict due to various factors such as, population changes over time, employment levels, and changes in taxpayer incomes that directly affect the City's income tax revenue. Perhaps the most significant indicator of future municipal tax collections is the declining trend in municipal income taxes collected. Historical trends reflect the net effect of all the factors affecting a particular measurement.

The Budget Department estimates actual Municipal Income Tax revenue of \$218.2 million for the fiscal year ending June 30, 2011, an amount that is \$3.2 million or 1.5% more than the budgeted amount.

Other Factors Influencing Municipal Income Tax Revenue

The national economy is expected to marginally improve in 2011 and 2012; however, Michigan is expected to remain stable during the same time period. Furthermore, slightly increasing auto sales coupled with slightly increasing market share for domestic auto companies and productivity improvements will cause employment to remain stable. This will cause Michigan's unemployment rate to remain well above the national average. The City's unemployment rate of 20.0% was 9.0% higher than the State's unemployment rate of 11.0% as of February 2011. An unexpected rise in gasoline and fuel costs is causing consumers nationwide to purchase used motor vehicles rather than new ones.

The following chart indicates the decline in the collection of withholding taxes paid to the City of Detroit by major business sectors from 2000 through 2010.



As the above chart indicates the withholding tax collections from the automotive businesses and governmental entities have declined significantly since 2000. The decline experienced in fiscal year 2009-2010 was significantly higher than in the previous eight years.

Using the State of Michigan's annual average of the number of employed from 2003 through 2009, Michigan has lost 539,500 jobs. With the restructuring of General Motors and Chrysler, additional jobs can be expected throughout 2011 and 2012 due to the slight increase in motor vehicle sales. Unemployment levels in the City of Detroit have been consistently higher than the rest of the State.

Another factor affecting Municipal Income Tax revenue is the loss of residents. According to Southeast Michigan Council of Governments (SEMCOG) estimates, the

City's population has decreased by approximately 119,820 residents since the 2000 census. Taxpayers that leave the City will reduce their City tax obligation by 50.0% at a minimum or 100.0% if they are not employed in the City.

The \$243.5 million in Municipal Income Tax revenue included in the Mayor's 2011-2012 Proposed Budget includes \$17.0 million to be received from the Transformation Management Office (TMO) Initiative on Income Taxes. The \$17.0 million represents collection of income taxes that should have been but were not paid in prior years. No documentation was provided to support the projected amount.

PROPERTY TAX REVENUE

Conclusion

Based on our analysis, the net property tax estimate of \$204.8 million and the delinquent property tax estimate of \$16.5 million included in the Mayor's 2011-2012 Proposed Budget are optimistic.

Analysis of Property Tax Revenue

Property Tax Revenue includes the collection of current taxes on both real property (i.e., real estate) and personal property (i.e., machinery and equipment).

Net property taxes and delinquent property taxes included in the Mayor's 2011-2012 Proposed Budget are compared to the fiscal year 2010-2011 Budget in the following tables:

	In Millions		
	Mayor's 2011-2012 Proposed Budget	2010-2011 Budget	Increase (Decrease)
Net Property Taxes	\$ 204.8	\$ 219.5	\$ (14.7)
Less: Uncollectible Accounts Reserve	*Note	(5.0)	*Note
Net Property Taxes	\$ 204.8	\$ 214.5	\$ (9.7)
Delinquent Property Taxes (includes Interest and Penalty)	16.5	10.3	6.2
Total Revenues From Property Taxes	\$ 216.5	\$ 224.8	\$ (8.3)

*Note: The Uncollectible Accounts Reserve amount of \$4.8 million is not reflected in this schedule because the Mayor's 2011-2012 reporting methodology is not consistent with the prior year Proposed Budget.

The following table compares the Mayor's 2011-2012 Proposed Budget for tax valuations to the 2010-2011 Budget:

Taxable Valuations (Millions)	\$ 8,755.4	\$ 9,111.9	\$ (356.5)
-------------------------------	------------	------------	------------

The following table compares the Mayor's 2011-2012 Proposed Budget for tax rates to the 2010-2011 Budget:

Tax Rates (Per Thousand)			
General City	\$ 19.9520	\$ 19.9520	\$ 0.0000
Debt Service	9.5558	8.9157	0.6401
Total Tax Rate	\$ 29.5078	\$ 28.8677	\$ 0.6401

The following table shows budgeted and actual property tax revenue, including amounts for both the General and Debt Service Funds, for each fiscal year from 2006-2007 through 2009-2010. The table also includes budgeted property tax and the Office of the Auditor General's (OAG) estimate of actual property tax for fiscal year 2010-2011 and budgeted property tax revenue as shown in the Mayor's 2011-2012 Proposed Budget.

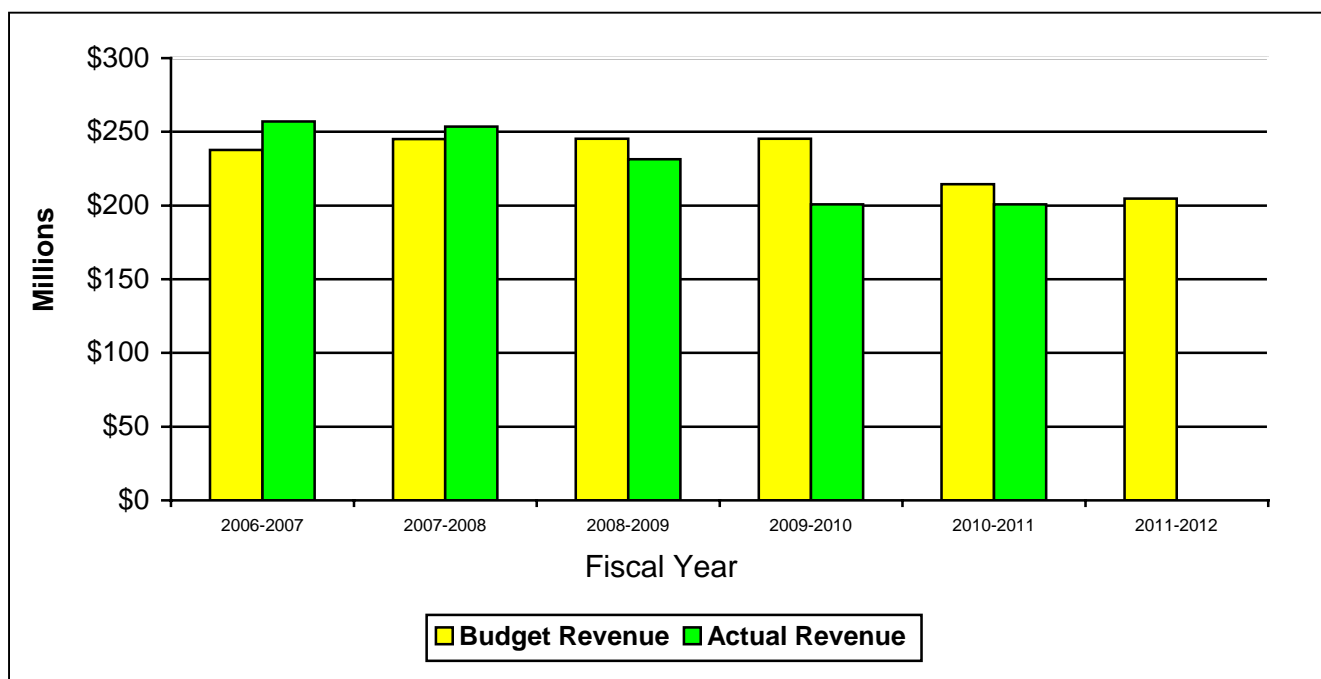
Dollars In Millions

Fiscal Year	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year	
			Amount	Percentage	Amount	Percentage
2006-2007	\$ 237.3	\$ 257.0	\$ 19.7	8.3 %	\$ 13.4	5.5 %
2007-2008	245.0	253.6	8.6	3.5	(3.4)	(1.3)
2008-2009	245.4	231.5	(13.9)	(5.7)	(22.1)	(8.7)
2009-2010	245.4	200.9	(44.5)	(18.1)	(30.6)	(13.2)
2010-2011 (A)	214.5	200.8	(13.7)	(6.4)	(0.1)	0.0
2011-2012 (B)	204.8	N/A	N/A	N/A	N/A	N/A

(A) The actual amount for fiscal year 2010-2011 is an OAG estimate.

(B) The budgeted amount is the only figure available for fiscal year 2011-2012. The other amounts are designated N/A (Not Available) in the table.

The following chart compares budgeted property taxes for both the General and Debt Service Funds to actual collections of property taxes for fiscal years 2006-2007 through 2010-2011. The actual amount for fiscal year 2010-2011 is an estimate by the OAG. The chart also includes the proposed budget amount for fiscal year 2011-2012.



Estimated Net Property Tax for Fiscal Year 2010-2011

The estimated net property tax for fiscal year 2010-2011 of \$214.5 million is overly optimistic. Based on our analysis, the OAG estimates \$13.7 million less in net property tax revenues for fiscal year 2010-2011.

Analysis of Net Property Taxes for Fiscal Year 2011-2012

The Mayor's 2011-2012 Proposed Budget includes net property tax revenue of \$204.8 million, a decrease of \$14.7 million from the 2010-2011 budget of \$219.5 million. The decrease is largely due to \$356.0 million (3.9%) reduction in property tax valuations.

The reduction in real property valuations and tax revenue is a direct reflection of the severe downturn in the real estate market and the challenging economic conditions in the City. In a report published by the Citizens Research Council of Michigan (CRC) the gap between State Equalized Value and Taxable Value has now generally been eliminated and the declining property values are expected to be reflected in future property tax revenue. According to SEMCOG, the overall housing foreclosure rate remains high, with one foreclosure for every 40 housing units in the region. In addition, Detroit is also dealing with enormous population loss.

State law allows local governments to transfer real property taxes that were not paid by March 1st to the local county government for collection. Wayne County Treasurer's Office has a program where they obtain tax anticipation notes to get funding to make advance payments to local governments for the net amount of delinquent taxes. The net amount advanced to the local government is comprised of current delinquent taxes, reduced by the taxes that were not collected by the Treasurer from taxpayers for the previous year's unpaid taxes. An official of the Wayne County Treasurer's Office indicated that advances to the City would be less because of the decline in collections of delinquent property taxes. The official also indicated that Wayne County is uncertain regarding their ability to finance the advances to the cities in the future. If Wayne County were unable to secure financing, the City would receive payments from the County for delinquent taxes, as they are collected. This would significantly reduce the estimated net current property tax revenues for fiscal year 2011-2012.

Based on our review of available data, the net property tax revenue of \$204.8 million included in the Mayor's 2011-2012 Proposed Budget is optimistic.

Analysis of Delinquent Property Taxes for Fiscal Year 2011-2012

The Mayor's 2011-2012 Proposed Budget of \$16.5 million for delinquent property taxes is overly optimistic in comparison to recent historical collection data.

CASINO-RELATED REVENUE

Conclusion

The \$214.8 million in Casino-related Revenue included in the Mayor's 2011-2012 Proposed Budget is questionable. The budgeted amount includes \$20.0 million gained by a temporary increase in the Wagering Tax of 3.0% charged to the three casino operators. The State of Michigan would need to pass legislation approving the increase.

Analysis of Casino-Related Revenue

Total Casino-related Revenue contained in the Mayor's 2011-2012 Proposed Budget is \$24.7 million more than the amount budgeted for fiscal year 2010-2011. The following schedule compares total Casino-related Revenue included in the Mayor's 2011-2012 Proposed Budget to the fiscal year 2010-2011 Budget:

	In Millions		
	Mayor's 2011-2012 Proposed Budget	2010-2011 Budget	Increase (Decrease)
Wagering Tax	\$ 174.7	\$ 149.5	\$ 25.2
Percentage Payments	23.0	23.8	(0.8)
Total Wagering Tax	\$ 197.7	\$ 173.3	\$ 24.4
Municipal Service Fee	17.1	16.8	0.3
Total Casino Revenue	\$ 214.8	\$ 190.1	\$ 24.7

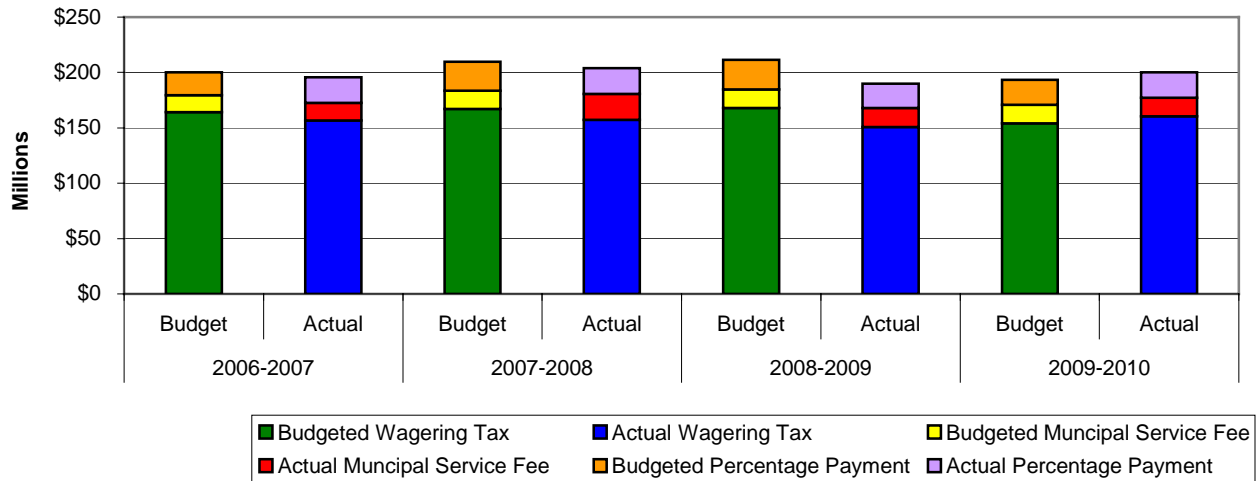
The following schedule shows budgeted and actual casino revenue, including the Municipal Service Fee, for each fiscal year from 2006-2007 through 2009-2010, the budgeted and estimated revenues for fiscal year 2010-2011, and the Mayor's proposed revenues for fiscal year 2011-2012.

Fiscal Year	Dollars In Millions					
	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year	
			Amount	Percentage	Amount	Percentage
2006-2007	\$ 200.2	\$ 195.8	\$ (4.4)	(2.2)%	\$ 24.2	14.1 %
2007-2008	209.8	203.9	(5.9)	(2.8)	8.1	4.1
2008-2009	211.5	190.0	(21.5)	(11.3)	(13.9)	(6.8)
2009-2010	193.5	200.2	6.7	3.3	10.2	5.4
2010-2011 (A)	190.1	191.1	1.0	0.5	(9.1)	(4.5)
2011-2012 (B)	214.8	N/A				

(A) The amount shown in the schedule as actual revenue for fiscal year 2010-2011 is an estimate by the Office of the Auditor General.

(B) The proposed budget recommendation is the only amount available for fiscal year 2011-2012, the actual amount is designated N/A (not applicable) in the schedule.

The chart below compares the budgeted and actual or estimated Casino-related Revenue from fiscal year 2006-2007 through fiscal year 2009-2010.



Wagering Tax

Pursuant to Act 69, P.A., 1997, the City receives Wagering Tax and Municipal Service Fee revenue from the MGM Grand Detroit (MGM), Motor City, and Greektown Casinos. Prior to September 1, 2004, the City's Wagering Tax revenue represented 9.9% of Adjusted Gross Receipts¹. On September 1, 2004, Act 306, P.A., 2004 went into effect, increasing the total Wagering Tax rate paid by the three Detroit casinos to the City an additional 2.0%. Once the Michigan Gaming Control Board certified that the casino operators (licensees) were fully operating for 30 consecutive days, and had complied with the development agreement, the tax was reduce by 1.0%. The current Wagering Tax rate for the three casino operators is 10.9%.

The Mayor's 2011-2012 Proposed Budget includes \$174.7 million in Casino Wagering Taxes, an increase of \$25.2 million from the fiscal year 2010-2011 budget amount of \$149.5 million. The increase is primarily due to a proposed temporary one-year increase of 3.0% in the Wagering Tax rate charged to the three casino operators. The Mayor's proposed budget estimates that the Wagering Tax rate increase could \$20.0 million to gaming revenue. The Wagering Tax increase depends on the State of Michigan amending the gaming statutes. The proposed budget assumes the 3.0% increase will begin on January 1, 2012.

In a joint statement released on April 15, 2011, the three casino operators stated their opposition to the increase. In the statement, the casino operators stated the Detroit gaming industry is the highest taxed industry in the state. In their statement, the casino

¹ *Adjusted Gross Receipts* is a casino's gross receipts less winnings paid to wagerers.

operators stated they invested over \$2.0 billion to build their permanent casinos and incurred high debt levels and an increase in the tax rate would make it difficult for them to repay their debt obligations.

Based on our analysis of casino revenue data, the Mayor's 2010-2011 Proposed Budget for Casino Wagering Tax is questionable. The proposed Wagering Tax revenue amount is based on a statutory change allowing the Wagering Tax rate to be temporarily increased an additional 3.0% for one year.

Development Agreement Percentage Payments

In the Mayor's 2011-2012 Proposed Budget, \$23.0 million is budgeted for Casino Development Agreement percentage payments, a decrease of \$0.8 million from fiscal year 2010-2011. The Casino Development Agreements include terms that require the assessment of an additional 1.0% on the casinos' Adjusted Gross Receipts beginning January 1, 2006. Another portion of the Casino Development Agreement percentage payments is based on a "trigger point" of \$400.0 million. When a casino's Adjusted Gross Receipts reach \$400.0 million in any calendar year, the City receives a payment of \$4.0 million, and is entitled to an additional 1.0% of the Adjusted Gross Receipts above \$400.0 million. Based upon our analysis of casino revenue data, the Mayor's 2011 –2012 Proposed Budget percentage payments amount is questionable.

Municipal Service Fee

The Municipal Service Fee is collected from casino operators to offset expenditures incurred by the City as a result of the casinos' requirements for public safety services. The amount of the Municipal Service Fee is the greater of 1.25% of Adjusted Gross Receipts or \$4.0 million per licensee. This fee is paid to the City on the anniversary date of each casino's opening.

The Mayor's 2011-2012 Proposed Budget includes \$17.1 million of Municipal Service Fee revenue. The budget provides appropriations of \$9.4 million to fund 78 police officers, and \$4.2 million to fund 28 Fire and Emergency Medical Service (EMS) employees for the three casinos. This represents a decrease of eight positions for the Fire/EMS Unit and no change for Police Gaming Unit from the prior year's budget. The Mayor expects the budgeted revenue amount of \$17.1 million for the fiscal year 2011-2012 Municipal Service Fee to fully fund the expenditures for these services.

The fiscal year 2010-2011 Municipal Service Fee revenue is budgeted at \$16.8 million. As of March 31, 2011, the City has collected \$8.1 million in Municipal Service Fee revenue from all three Detroit Casinos.

The following schedule on the following page compares total casino appropriations funded by the Municipal Service Fee and the Public Safety Services provided in the Mayor's 2011-2012 Proposed Budget to the fiscal year 2010-2011 budgeted appropriations and services:

	In Millions		
	Mayor's 2011-2012 Proposed Budget	2010-2011 Budget	Increase (Decrease)
Municipal Service Fee	\$ 17.1	\$ 16.8	\$ 0.3
Public Safety Services Provided:			
Police	\$ 9.4	\$ 9.4	\$ --
Fire (including EMS)	4.2	4.5	(0.3)
Total Appropriations	\$ 13.6	\$ 13.9	\$ (0.3)
Municipal Service Fee Surplus	\$ 3.5	\$ 2.9	\$ 0.6

UTILITY USERS TAX REVENUE

Conclusion

The Mayor's 2011-2012 Proposed Budget amount of \$48.5 million of Utility Users Tax is optimistic, considering the downturn in Detroit's economy and the last two years of collections.

Analysis of Utility Users Tax Revenue

Total Utility Users Tax revenue contained in the Mayor's 2011-2012 Proposed Budget is \$1.5 million less than the amount budgeted in fiscal year 2010-2011. The Utility Users Tax revenue included in the Mayor's 2011-2012 Proposed Budget is compared to the fiscal year 2010-2011 Budget in the following schedule:

	In Millions		
	Mayor's 2011-2012 Proposed Budget	2010-2011 Budget	Increase (Decrease)
Utility Users Tax Revenue	\$ 48.5	\$ 50.0	\$ (1.5)

The following schedule shows budgeted and actual Utility Users Tax revenue for fiscal years 2006-2007 through 2009-2010. The schedule also shows budgeted revenue and estimated revenue for the fiscal year ending June 30, 2011, and budgeted Utility Users Tax revenue as shown in the Mayor's 2011-2012 Proposed Budget.

Fiscal Year	Dollars In Millions					
	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year	
			Amount	Percentage	Amount	Percentage
2006-2007	\$ 56.0	\$ 53.8	\$ (2.2)	(3.9) %	\$ (6.2)	(10.3) %
2007-2008	60.0	51.6	(8.4)	(14.0)	(2.2)	(4.1)
2008-2009	60.0	49.9	(10.1)	(16.8)	(1.7)	(3.3)
2009-2010	55.0	44.2	(10.8)	(19.6)	(5.7)	(11.4)
2010-2011 (A)	50.0	44.0	(6.0)	(12.0)	(0.2)	(0.5)
2011-2012 (B)	48.5	N/A	N/A	N/A	N/A	N/A

(A) The amount shown in the schedule as actual revenue for fiscal year 2010-2011 is the Budget Department's estimate.

(B) The budgeted amount is the only figure available for fiscal year 2011-2012. The other amounts are designated N/A (Not Available) in the schedule.

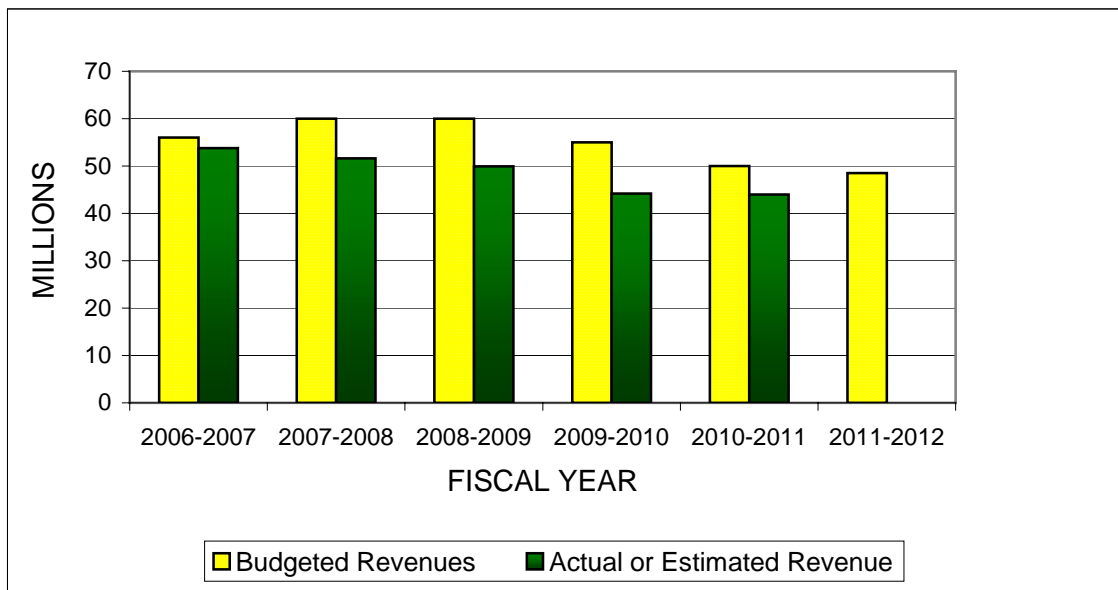
The City Utility Users Tax Act, MCL 141.1152 et. seq., allows cities with a population greater than 750,000 to assess up to a 5.0% tax on users for intrastate telephone services (excluding cellular telephone services) and electric, steam, and gas utilities. The current rate charged for Utility Users Tax in the City of Detroit is 5.0%, billed by the public utilities, with 1.0% of the actual amount collected retained by the public utility.

The Mayor's 2011-2012 Proposed Budget assumes that the City will be able to collect 100% of the projected utility tax revenues, in spite of the release of the 2010 census results which reports the City's current population at 713,777 residents.

Estimated revenue for Utility Users Tax for fiscal year 2011-2012 is \$48.5 million. The \$48.5 million includes projected tax revenue gained from an audit performed by Tax Management Associates (TMA), under a contract with the City. According to the Finance Department Income Tax Division, TMA identified \$1.2 million in Utility Users Tax due from various non-profit organizations and businesses that were erroneously given exemption status by DTE for the period April 2006 to January 2010. The Income Tax Division has collected approximately \$0.4 million of the identified amount. Income Tax Division staff stated that the balance will be collected through litigation procedures. The litigation process will be time consuming and costly and will not impact the 2011-2012 budget.

Detroit's economic outlook indicates high unemployment, increased foreclosures, and less consumption of utilities. Furthermore, Utility Users Tax revenue has steadily declined since fiscal year 2006-2007. Based on our analysis, the Mayor's 2011-2012 Proposed Budget for Utility Users Tax revenue of \$48.5 million is optimistic.

The following chart compares budgeted Utility Users Tax revenue to actual revenue for fiscal years 2006-2007 through 2009-2010, budgeted Utility Users Tax revenue to the actual revenue estimated by the Budget Department for fiscal year 2010-2011, and the proposed Utility Users Tax revenue budgeted for fiscal year 2011-2012:



OTHER REVENUE

Conclusion

Based on limited information provided, our analysis indicates that the Mayor's 2011-2012 Proposed Budget of \$1,956.1 million for Other Revenue appears reasonable. We requested detailed support from the Budget Department for certain proposed changes to the budget for Other Revenue to assist in our analysis, but it was not provided.

Analysis of Other Revenue

The Mayor's 2011-2012 Proposed Budget for Other Revenue is \$66.6 million (or 3.3%) less than the amount budgeted for fiscal year 2010-2011. Other Revenue according to the Mayor's 2011-2012 Proposed Budget has been divided into eight categories, and is compared by category to the fiscal year 2010-2011 budget in the following schedule:

	Dollars in Millions			
	Mayor's 2011-2012 Proposed Budget	2010-2011 Budget	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Sales and Charges for Services	\$ 1,146.8	\$ 1,088.0	\$ 58.8	5.4 %
Revenue From Use of Assets	42.7	125.6	(82.9)	(66.0)
Grants, Shared Taxes and Revenue	270.3	283.0	(12.7)	(4.5)
Other Taxes, Assessments, and Interest	108.4	119.3	(10.9)	(9.1)
Federal and State Transportation Funds	72.0	72.0	0.0	0.0
Fines, Forfeits, and Penalties	43.4	36.0	7.4	20.6
Licenses, Permits and Inspection Charges	32.1	34.3	(2.2)	(6.4)
Contributions, Transfers, and Miscellaneous (CTM)	240.4	264.5	(24.1)	(9.1)
Total Other Revenue	\$ 1,956.1	\$ 2,022.7	\$ (66.6)	(3.3) %

The following is a brief description of the types and sources of revenue that are included in each category (excluding *Contributions, Transfers, and Miscellaneous [CTM]*):

- *Sales and Charges for Services* - Revenue generated from maintenance and construction, electrical, steam, solid waste, recreation, hospitals, water and sewage, utilities, transportation, reimbursements, and other minor sales and service fees.
- *Revenue From Use of Assets* - Earnings on investments, various interest earnings, building rentals, parking facilities, marina rentals, concessions, and equipment rentals.

- *Grants, Shared Taxes and Revenue* - State Shared Taxes and Grants such as: Community Development Block Grants; Health Grants; Transportation Grants; Employment and Training Grants; Head Start Program; HOME Program; and Police Grants.
- *Other Taxes, Assessments, and Interest* - Special assessments, Industrial Facilities Tax and other miscellaneous taxes.
- *Federal and State Transportation Funds*.
- *Fines, Forfeits, and Penalties* - Ordinance, court and parking fines, property tax penalties, and various fines, forfeits, and penalties.
- *Licenses, Permits and Inspection Charges* - Various permits and licenses, safety inspection charges, and construction inspection charges.

The \$66.6 million projected decrease in Total Other Revenue is primarily due to the \$83.0 million or 66.0% projected decrease in the *Revenue From Use of Assets* category.

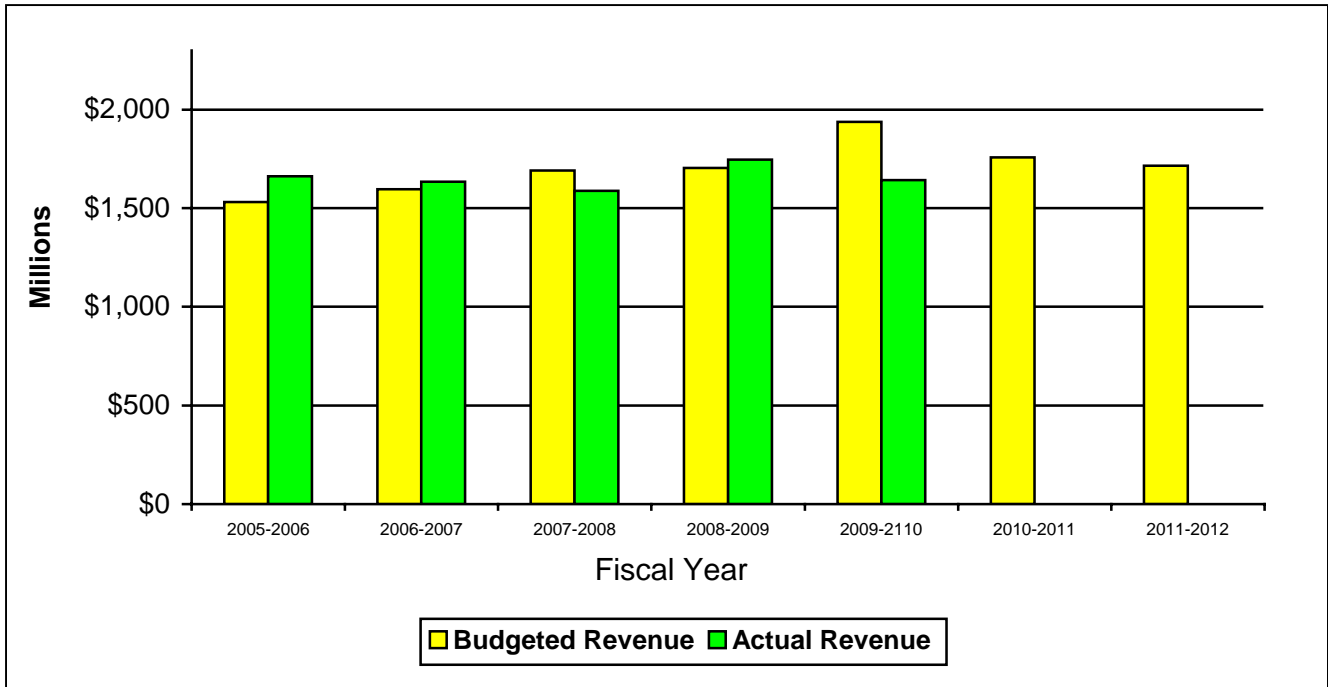
Based on a trend analysis of CTMs, we found that the total amount and frequency of CTMs varied significantly to the extent that our year-to-year comparison of Other Revenue was highly skewed. Since the majority of CTMs represented revenue for one fund, and an expenditure for another fund, and had no net effect on the budget as a whole, we eliminated the CTM category in the comparative schedules and charts that follow. The CTM category includes items such as the interest on the Pension Obligation Bonds, and the Sewerage State Revolving Loan Fund.

The following table shows budgeted and actual Other Revenue for each fiscal year from 2005-2006 through 2009-2010. The table also includes budgeted Other Revenue for fiscal year 2010-2011, and budgeted Other Revenue as shown in the Mayor's 2011-2012 Proposed Budget.

Fiscal Year	Dollars In Millions						
	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year		
			Amount	Percentage	Amount	Percentage	
2005-2006	\$ 1,531.2	\$ 1,662.4	\$ 131.2	8.6 %	\$ (29.1)	(1.7) %	
2006-2007	1,595.5	1,634.7	39.2	2.5	(27.7)	(1.7)	
2007-2008	1,691.4	1,588.4	(103.0)	(6.1)	(46.3)	(2.8)	
2008-2009	1,705.0	1,746.5	41.5	2.4	158.1	10.0	
2009-2010	1,939.0	1,642.2	(296.8)	(15.3)	(104.3)	(6.0)	
2010-2011 (A)	1,758.2	N/A	N/A	N/A	N/A	N/A	
2011-2012 (A)	1,715.7	N/A	N/A	N/A	N/A	N/A	

(A) The budgeted amount is the only figure available for fiscal years 2010-2011 and 2011-2012. The other amounts are designated N/A (Not Available) in the schedule.

The following chart compares budgeted Other Revenue to actual Other Revenue for fiscal years 2005-2006 through 2009-2010. The chart also includes budgeted amounts for fiscal years 2010-2011 and 2011-2012. Actual amounts are not available for these years.

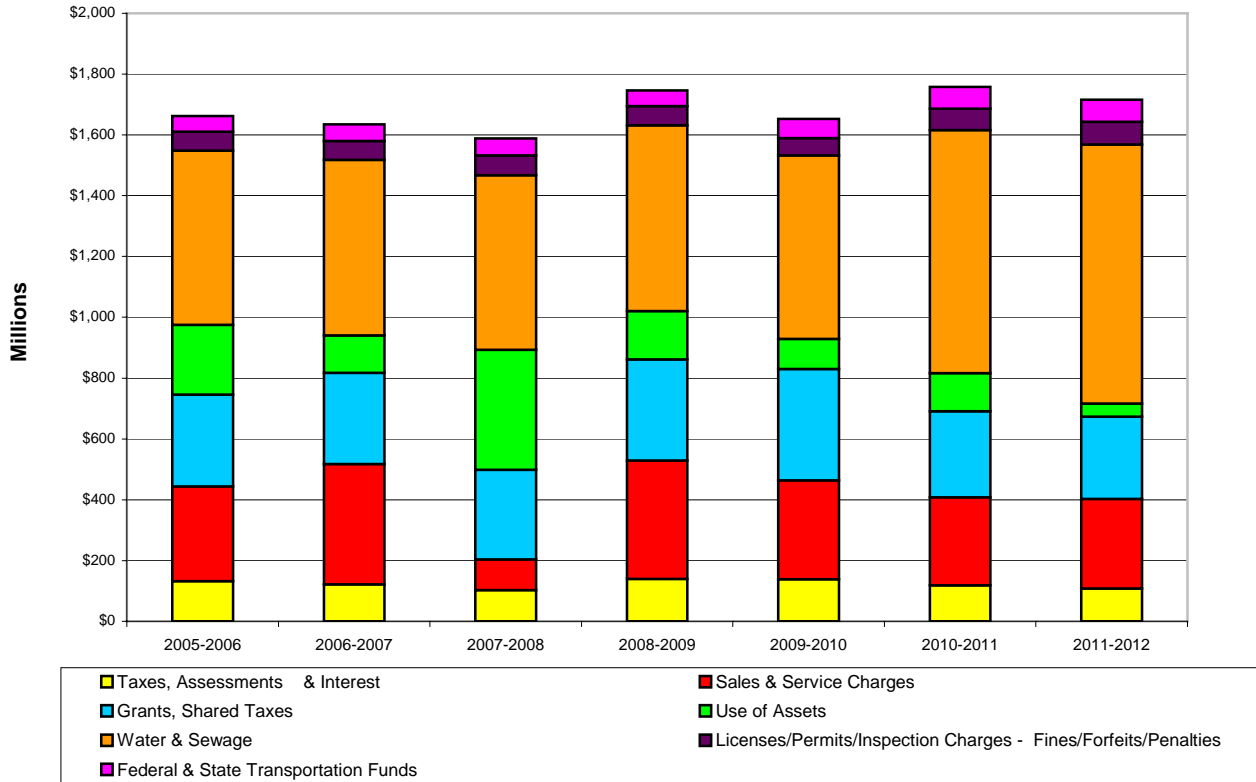


During fiscal years 2005-2006 through 2006-2007, actual Other Revenue were significantly greater than budgeted revenue. However, during fiscal year 2007-2008 budgeted revenue exceeded actual Other Revenue by \$103.0 million primarily driven by a net deficit of \$139.3 million in *Revenue From Use of Assets*, a net deficit of \$33.1 million in the *Other Taxes, Assessments, and Interest*, and a net deficit of \$4.7 million in the *Licenses, Permits and Inspection Charges*. A portion of the deficit was offset by net overages in *Grants, Shared Taxes and Revenue, and Sales and Charges for Service/Sale of Assets* by \$60.9 million and \$22.4 million respectively.

During fiscal year 2008-2009 actual revenue exceeded budgeted revenue by \$41.5 million, which was primarily driven by an increase of \$81.4 million in *Grants, Shared Taxes and Revenue* and an increase in *Revenue From Use of Assets* of \$93.1 million, offset by a net deficit in *Sales and Service Charges and Fines, Forfeits, and Penalties* of \$109.2 million and \$11.3 million respectively.

During fiscal year 2009-2010 budgeted revenue exceeded actual revenue by \$296.5 million, which can be attributed to the \$237.1 million shortfall of *Revenue From Use of Assets*. The budgeted amount included an anticipated \$275.0 million from securitizing the expected future revenue of the Detroit-Windsor tunnel, the PLD, and MPD.

The following chart and schedule separates Water and Sewage fees from *Sales and Charges for Service in fiscal years 2005-2006 through 2011-2012 (excluding fiscal year 2007-2008)* and from *Revenue From Use of Assets in fiscal year 2007-2008*, comparing the total actual revenues of Other Revenue sources over five fiscal years, from 2005-2006 through 2009-2010, to budgeted total revenues of Other Revenue sources for fiscal years 2010-2011 through 2011-2012.



In Millions								
Fiscal Year	Water & Sewage	Sales & Service Chrgs	Grants, Shared Taxes	Taxes, Assmnts & Intrst	Rev From Use of Assets	Licen/Prmt /Inspt Fns/Forfts/ Pnlty	State and Federal Transporta tion	Total Net of CMT
2005-2006	\$ 573.4	\$ 311.3	\$ 301.5	\$ 132.9	\$ 229.4	\$ 61.8	\$ 52.1	\$ 1,662.4
2006-2007	577.7	395.0	300.5	122.2	123.1	62.3	54.1	1,634.9
2007-2008	573.7	100.5	294.8	103.3	394.9	66.2	55.0	1,588.4
2008-2009	611.3	389.4	332.1	140.0	159.4	62.7	51.6	1,746.5
2009-2010	603.6	325.0	366.7	138.9	98.1	56.9	53.0	1,642.2
2010-2011 (A)	799.5	288.5	283.0	119.3	125.6	70.3	72.0	1,758.2
2011-2012 (B)	851.8	295.0	270.3	108.4	42.7	75.5	72.0	1,715.7

- (A) 2010-2011 Adopted Budget
- (B) Mayor's 2011-2012 Proposed Budget

It should be noted that the Mayor's 2011-2012 Proposed Budget for total Other Revenue excluding *CTM* is expected to be \$42.5 million less than the 2010-2011 Adopted Budget. This is primarily due to a \$83.0 million projected decrease in revenue from *Revenue From Use of Assets*, offset by *Sales and Charges For Service Water and*

Sewerage revenue, which are anticipated to generate \$52.3 million more than budgeted in the current fiscal year.

Revenue generated by Water and Sewage fees over a five-year period beginning in fiscal year 2005-2006 through fiscal year 2009-2010 averaged \$588.0 million. Estimates for fiscal years 2010-2011 and 2011-2012 have increased by \$211.5 million and \$263.8 million respectively. Although, Water and Sewage fees of \$603.4 million were collected during fiscal year 2009-2010, which is an increase of \$15.4 million from the average, it appears that the estimate of \$851.8 million in the Mayor's 2011-2012 Proposed Budget is very optimistic. It should be noted that Water and Sewage fees during the trend period made up approximately one third of the Other Revenue budget, excluding *CTM*.

The Mayor's 2011-2012 Proposed budget includes an increase of \$7.4 million in *Fines, Forfeits, and Penalties*. This can be mainly attributed to the anticipated increase of Parking Fine collections of \$7.8 million if legislation is passed on House Bill 4308.