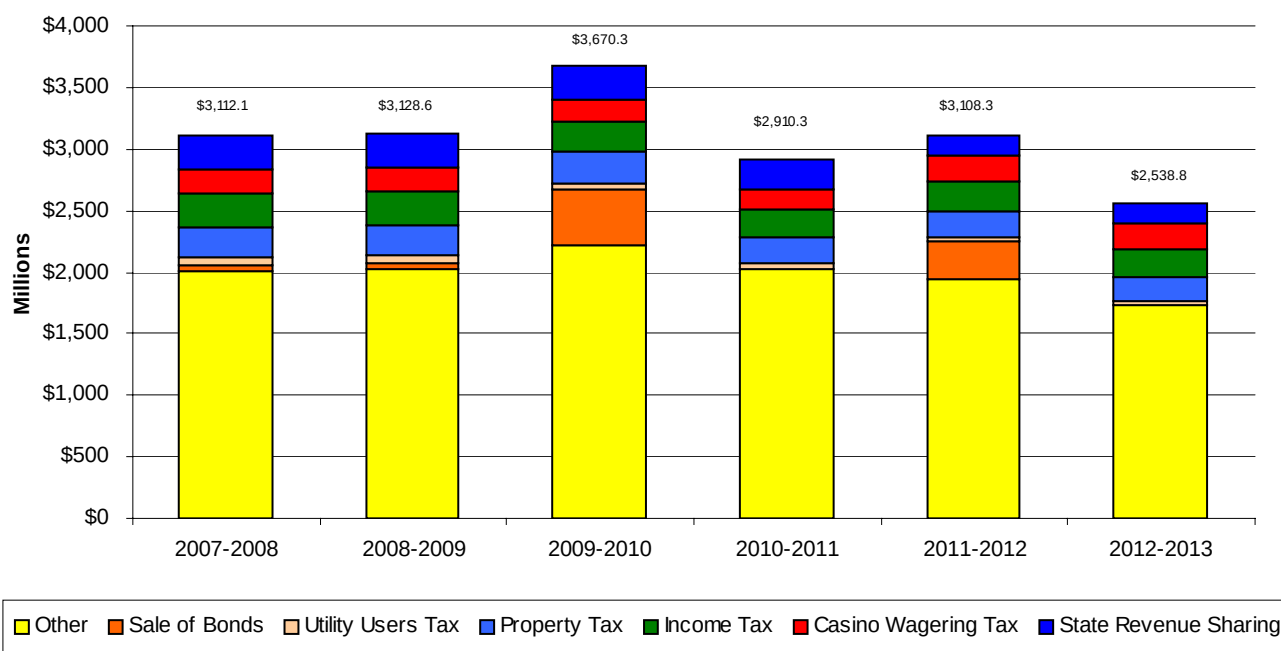


**CITY OF DETROIT
MAJOR REVENUES
FOR FISCAL YEAR 2007-2008 THROUGH FISCAL YEAR 2012-2013**

The following chart and schedule compare the total budgeted revenues and major revenue sources over five fiscal years from 2007-2008 through 2011-2012, and total revenues and major revenues sources in the Mayor's 2012-2013 Proposed Budget.



(A) Mayor's 2012-2013 Proposed Budget

The sections that follow include an analysis of the reasonableness of the budgeted amounts of major revenues in the Mayor's 2012-2013 Proposed Budget and a comparison to major revenues in the fiscal year 2011-2012 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 of State Revenue Sharing included in the Mayor's 2012-2013 Proposed Budget is \$6.2 million greater than the amount included in the fiscal year 2011-2012 budget. The Mayor's Proposed Budget includes a \$4.5 million increase in the constitutional portion of the State Revenue Sharing and an increase of \$1.7 million in the Economic Vitality Incentive Program (EVIP) portion. The City could forfeit the EVIP portion of \$121.4 million if it defaults on the Financial Stability Agreement with the State of Michigan; however, the City would continue to receive the constitutional portion of \$51.4 million.

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 2012-2013 Proposed Budget is \$6.2 million more than the amount budgeted for fiscal year 2011-2012. The Mayor's Proposed Budget amount of \$172.8 million is the same amount recommended in the Governor's 2012-2013 Executive Budget. The schedule below compares the State Revenue Sharing payments included in the Mayor's 2012-2013 Proposed Budget to the 2011-2012 Budget:

	In Millions		
	Mayor's 2012-2013 Proposed Budget	2011-2012 Budget	Increase (Decrease)
State Revenue Sharing:			
State Sales Tax – Constitutional Portion	\$ 51.4	\$ 46.9	\$ 4.5
State Sales Tax – EVIP Portion	121.4	119.7	1.7
Total State Revenue Sharing to City of Detroit	\$ 172.8	\$ 166.6	\$ 6.2
 Detroit Public Library	 (1.0)	 (1.0)	 0.0
City's Net State Revenue Sharing (A)	<u>\$ 171.8</u>	<u>\$ 165.6</u>	<u>\$ 6.2</u>

(A) The City's Net Revenue Sharing includes approximately \$36,225 to be paid to the Downtown Development Authority.

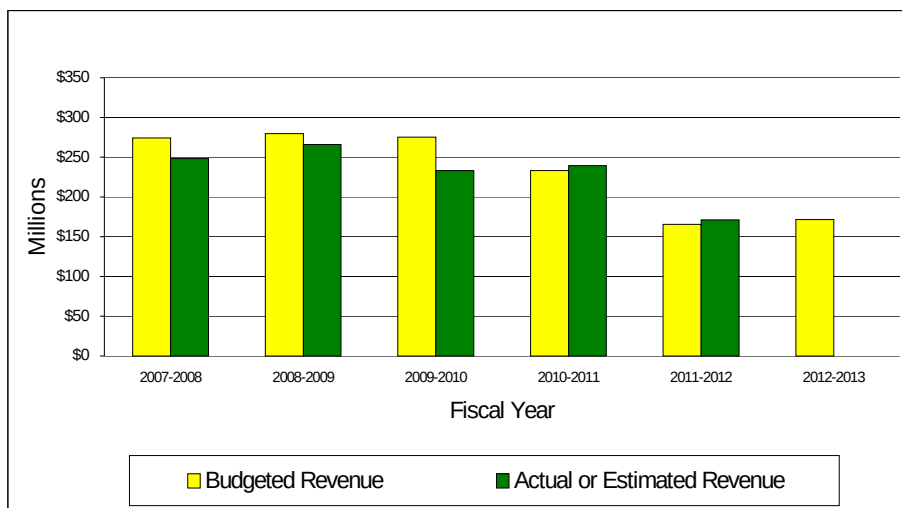
The following schedule compares the City's Net State Revenue Sharing, budget to actual or actual estimate beginning with fiscal year 2007-2008:

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
2007-2008	274.4	248.2	(26.2)	(9.5)	(22.9)	(8.4)
2008-2009	279.5	266.0	(13.5)	(4.8)	17.8	7.2
2009-2010	275.3	233.3	(42.0)	(15.3)	(32.7)	(12.3)
2010-2011	233.4	239.2	5.8	2.5	5.9	2.5
2011-2012 (A)	165.6	171.2	5.6	3.4	(68.0)	(28.4)
2012-2013 (B)	171.8	N/A	N/A	N/A	N/A	N/A

(A) The fiscal year 2011-2012 actual is an estimate by the Budget Department.

(B) The budgeted amount is the only amount available for fiscal year 2012-2013. The other amounts are designated N/A (Not Applicable) in the schedule.

The following chart shows budgeted and actual State Revenue Sharing for fiscal years 2007-2008 to 2010-2011, the estimated State Revenue Sharing for fiscal year 2011-2012, and the State Revenue Sharing in the Mayor's 2012-2013 Proposed Budget.



State of Michigan Proposed Legislation and Projection

The Governor's 2012-2013 Executive Budget recommends total State Revenue Sharing payments of \$172.8 million to Detroit, a \$6.2 million increase from the \$166.6 million budgeted for fiscal year 2011-2012. The payment of \$172.8 million for State Revenue Sharing includes a portion determined by the State Constitution (constitutional) of \$51.4 million and a portion from the new Economic Vitality Incentive Program (EVIP) of \$121.4 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 2012-2013 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 \$36,225 to the Downtown Development Authority (DDA) from the \$172.8 million in State Revenue Sharing for the 2012-2013 State fiscal year. These amounts are proportionate to the State Revenue Sharing payments to the City.

Financial Stability Agreement

In April 2012, the City of Detroit entered into an agreement with the State of Michigan to bring stability to the City's finances and to improve service delivery to the City's citizens. The agreement stipulates conditions the City must implement in order to receive assistance from the State. However, if the City defaults on the agreement, one of the remedies noted in the agreement is the loss of the EVIP payments. The City would continue to receive the constitutional portion of the State Revenue Sharing.

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

The projected revenue for Municipal Income Tax revenue of \$229.1 million included in the Mayor's 2012-2013 Proposed Budget is reasonable. This number reflects Detroit's distressed economy, which is evidenced by the lack of job growth, the escalating rate of population loss, and the reduction of the income tax rate of one-tenth of a percentage point per year for Detroit Residents and one-fifth of a percentage point for non-residents in 2012-2013.

Analysis of Municipal Income Tax Revenue

Total Municipal Income Tax revenue contained in the Mayor's 2012-2013 Proposed Budget is \$20.9 million less than the amount budgeted for fiscal year 2011-2012. The Municipal Income Tax revenue included in the Mayor's 2012-2013 Proposed Budget is compared to the 2011-2012 Budget in the following schedule:

	In Millions		
	Mayor's 2012-2013 Proposed Budget	2011-2012 Budget	Increase (Decrease)
Municipal Income Tax	\$ 229.1	\$ 250.0	\$ (20.9)

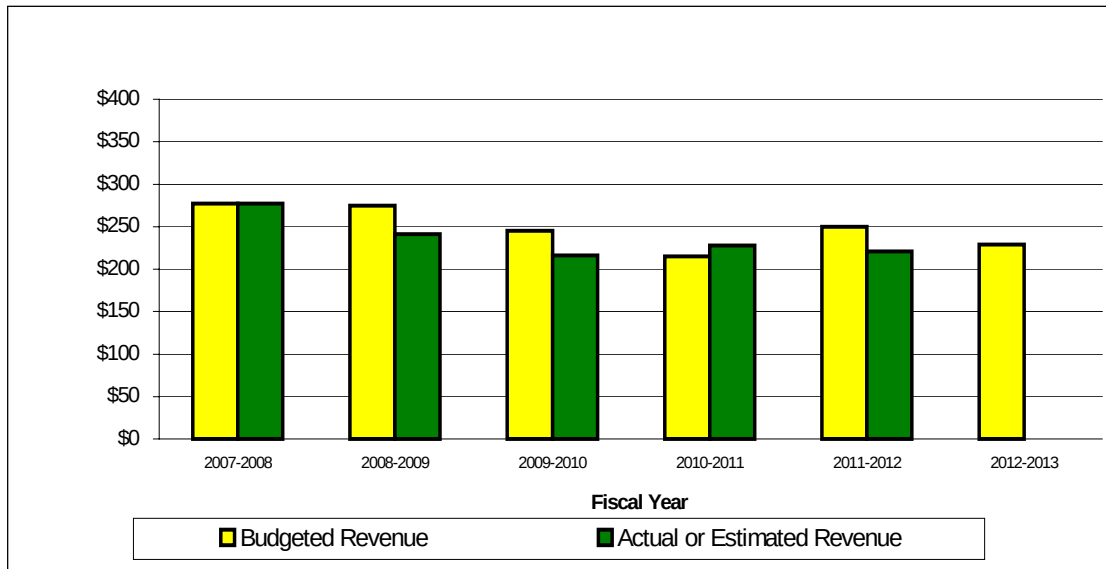
The following schedule shows budgeted and actual Municipal Income Tax revenue for each fiscal year from 2007-2008 to 2010-2011. The schedule also shows budgeted revenue and the Office of the Auditor General estimated actual revenue for the fiscal year ending June 30, 2012, and Municipal Income Tax revenue for fiscal year 2012-2013 as shown in the Mayor's 2012-2013 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
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	215.0	228.3	13.3	6.2	11.8	5.5
2011-2012 (A)	250.0	221.3	(28.7)	(11.5)	(7.0)	(3.1)
2012-2013 (B)	229.1	N/A	N/A	N/A	N/A	N/A

(A) The amount shown in the schedule as actual revenue for fiscal year 2011-2012 is an estimate based on actual year-to-date Municipal Income Tax revenue as of March 30, 2012, and an adjustment based on prior year-to-date collections and growth rate data.

(B) The budgeted amount is the only figure available for fiscal year 2012-2013. The other amounts are designated N/A (Not Applicable) in the schedule.

The following chart further compares budgeted Municipal Income Tax revenue to the actual revenue for fiscal years 2007-2008 through 2010-2011 and the budgeted Municipal Income Tax revenue to the estimated revenue for fiscal year 2011-2012, budgeted Municipal Income Tax revenue in the Mayor's 2012-2013 Proposed Budget.



Income Tax Rates for Fiscal Year 2012-2013

Public Act 500 of 1998 provides for the reduction of income tax rates in the City of Detroit over a ten-year period, beginning July 1, 1999, for residents from 3.0% to 2.0% and for non-residents from 1.5% to 1.0%. In December 2003, and every December thereafter, the City applied for and received from the State Board of Administration a suspension of its income tax rate reduction. This is permitted under PA 500 if three of four conditions are met. However, the City did not meet three of four criteria for a suspension for 2012-2013. The new tax rate effective July 1, 2012 will be 2.4% for residents and 1.2% for non-residents. To offset this reduction in income tax revenues, the corporate tax rate was increased from 1.0% to 2.0% in March 2012 by a revision to the City Ordinance. The reduction of income tax rates for Detroit residents and non-residents will reduce the amount of income tax collections in 2012-2013. The management from the Income Tax Division predicted that the corporate income tax revenue will not be significantly increased in 2012-2013 due to net profit loss carry forward from previous years for some big companies like General Motors.

Estimated Municipal Income Tax Revenue for Fiscal Year 2011-2012

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 from fiscal years 1995-1996 through 2009-2010. Historical trends reflect the net effect of all the factors affecting a particular measurement. The trend in municipal income taxes also indicates that municipal income tax revenue for fiscal years 2010-2011 and 2011-

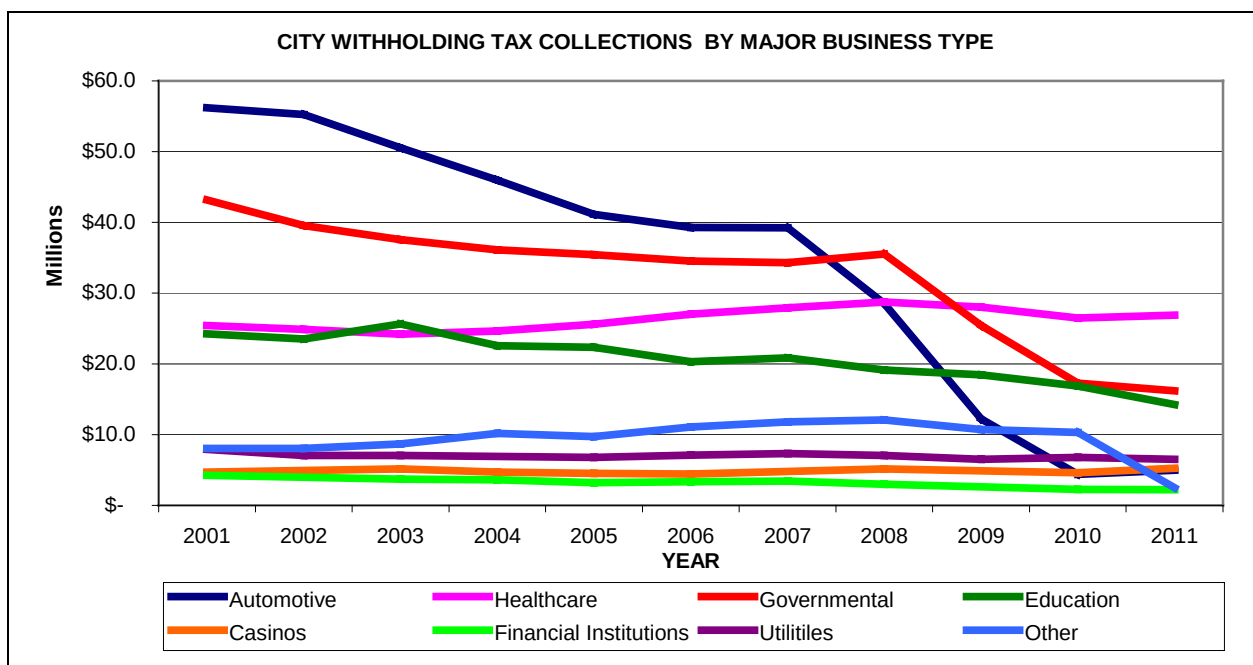
2012 slightly increased from the lowest point of income tax collections in fiscal year 2009-2010.

The Budget Department estimates actual Municipal Income Tax revenue of \$228.3 million for the fiscal year ending June 30, 2012, an amount that is \$21.7 million or 8.7% less than the budgeted amount.

Other Factors Influencing Municipal Income Tax Revenue

The national economy is expected to marginally improve in 2012 and 2013; 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. The City's unemployment rate of 17.8% was 8.4% higher than the State's unemployment rate of 9.4% as of February 2012.

The following chart indicates the decline in the collection of withholding taxes paid to the City of Detroit by major business sectors from 2001 through 2011.



As the above chart indicates the withholding tax collections from the automotive businesses and governmental entities have declined significantly since 2001. The decline experienced in fiscal year 2009-2010 was significantly higher than in the previous eight years.

Using the State of Michigan annual average of the number of employed from 2003 through 2011, Michigan has lost 480,200 jobs. Unemployment levels in the City of Detroit have been consistently higher than the rest of the State. With the restructuring of General Motors and Chrysler, additional jobs can be expected throughout 2012 and 2013 due to the slight increase in motor vehicle sales.

Another factor affecting Municipal Income Tax revenue is the loss of residents. As the result of the 2010 census, the City's population has decreased by 237,493 residents since the 2000 census. According to the Finance Department Income Tax Division, the City received an average of 8,000 partial-year City income tax returns for the past five years. 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 \$229.1 million in Municipal Income Tax revenue included in the Mayor's 2012-2013 Proposed Budget includes \$2.0 million to be collected from the Finance-Compuware Project on Income Taxes. The \$2.0 million represents collection of income taxes that should have been, but were not paid in prior years for non-filers. The project is expected to be completed in July 2012. No supporting documentation was provided to us to support this projection.

PROPERTY TAX REVENUE

Conclusion

Based on our analysis, the net property tax estimate of \$192.3 million and the delinquent property tax estimate of \$5.5 million included in the Mayor's 2012-2013 Proposed Budget are reasonable.

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 2012-2013 Proposed Budget are compared to the fiscal year 2011-2012 Budget in the following table:

	In Millions		
	Mayor's 2012-2013 Proposed Budget	2011-2012 Budget	Increase (Decrease)
General Fund Property Taxes	\$ 126.1	\$ 135.3	\$ (9.2)
Debt Service	66.2	69.5	(3.3)
			\$
Net Property Taxes	\$ 192.3	\$ 204.8	(12.5)
Delinquent Property Taxes (includes Interest and Penalty)	5.5	16.5	(11.0)
Total Revenues From Property Taxes	<u>\$ 197.8</u>	<u>\$ 221.3</u>	<u>\$ (23.5)</u>

The following table compares the Mayor's 2012-2013 Proposed Budget for tax valuations to the 2011-2012 Budget:

Taxable Valuations (Millions)	<u>\$ 8,447.4</u>	<u>\$ 8,755.4</u>	<u>\$ (308.0)</u>
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The following table compares the Mayor's 2012-2013 Proposed Budget for tax rates to the 2011-2012 Budget:

Tax Rates (Per Thousand)			
General City	\$ 19.9520	\$ 19.9520	\$ 0.0000
Debt Service	9.6136	9.5558	0.0578
Total Tax Rate	<u>\$ 29.5656</u>	<u>\$ 29.5078</u>	<u>\$ 0.0578</u>

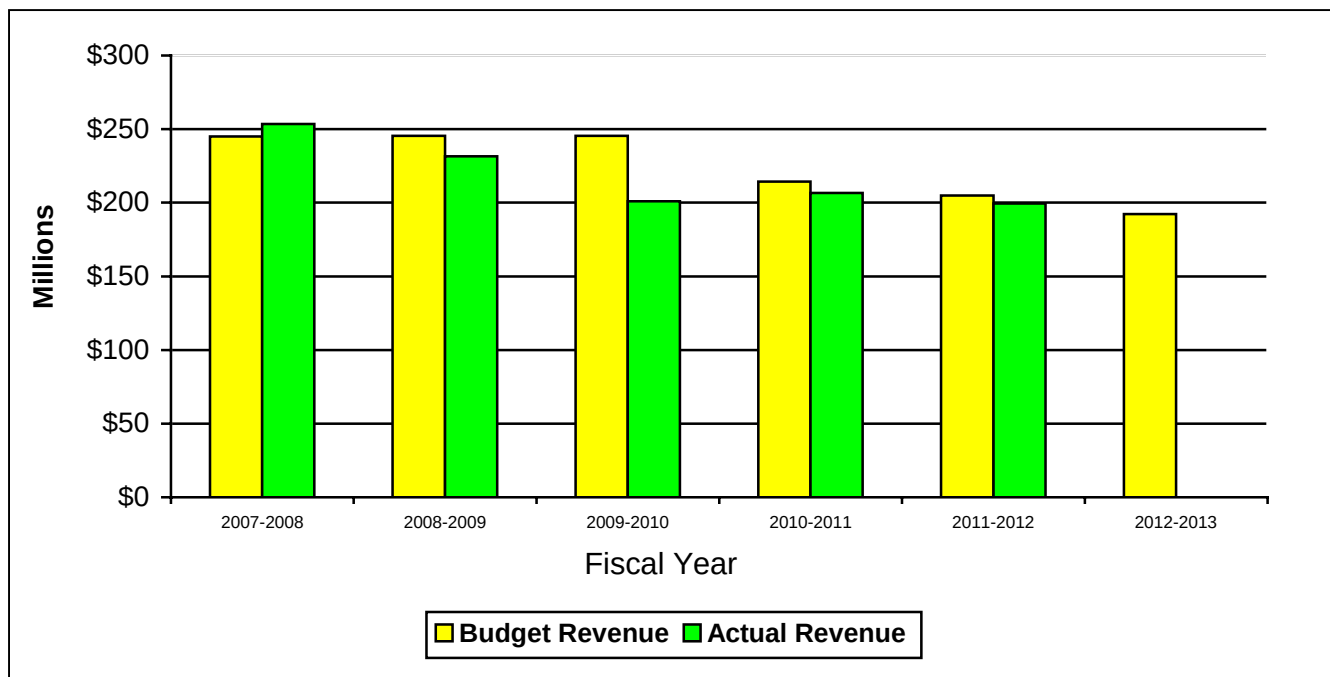
The following table shows budgeted and actual property tax revenue, including amounts for both the General and Debt Service Funds, for each fiscal year from 2007-2008 through 2010-2011. The table also includes budgeted property tax and the Office of the Auditor General's (OAG) estimate of actual property tax for fiscal year 2011-2012 and budgeted property tax revenue as shown in the Mayor's 2012-2013 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
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	214.5	206.6	(7.9)	(3.7)	5.7	2.8
2011-2012 (A)	204.8	199.4	(5.4)	(2.6)	(7.2)	(3.5)
2012-2013 (B)	192.3	N/A	N/A	N/A	N/A	N/A

(A) The actual amount for fiscal year 2011-2012 is an OAG estimate.

(B) The budgeted amount is the only figure available for fiscal year 2012-2013. 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 2007-2008 through 2011-2012. The actual amount for fiscal year 2011-2012 is an estimate by the OAG. The chart also includes the proposed budget amount for fiscal year 2012-2013.



Estimated Net Property Tax for Fiscal Year 2011-2012

The estimated net property tax for fiscal year 2011-2012 of \$204.8 million is reasonable. Based on our analysis, the OAG estimates \$5.4 million less in net property tax revenues for fiscal year 2011-2012.

Analysis of Net Property Taxes for Fiscal Year 2012-2013

The Mayor's 2012-2013 Proposed Budget includes net property tax revenue of \$192.3 million, a decrease of \$12.5 million from the 2011-2012 budget of \$204.8 million. The decrease is largely due to \$308.0 million (3.5%) 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. The City's debt service tax rate continues to increase in part from the decline in taxable value.

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. 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 2012-2013.

Based on our review of available data, the net property tax revenue of \$204.8 million included in the Mayor's 2012-2013 Proposed Budget is reasonable.

Analysis of General Fund Property Tax for Fiscal Year 2012-2013

The Mayor's 2012-2013 Proposed Budget includes General Fund property tax revenue of \$126.1 million, which is a reduction of \$9.2 million from the amended 2011-2012 budget of \$135.3 million. Estimated property tax revenue for the General Fund for the current fiscal year is \$128.4 million. Based on our analysis, the OAG believes that the Mayor's 2012-2013 Proposed Budget for General Fund property tax is reasonable.

Analysis of Delinquent Property Taxes for Fiscal Year 2012-2013

The Mayor's 2012-2013 Proposed Budget of \$5.5 million for delinquent property taxes is reasonable.

CASINO-RELATED REVENUE

Conclusion

Based on our analysis of Casino-Related Revenue included in the Mayor's 2012-2013 Proposed Budget, which consists of \$172.0 million in Total Wagering Tax (wagering tax plus percentage payments), and \$16.8 million in Municipal Service Fee is reasonable. Our estimate of actual total Casino-Related Revenue for the current fiscal year, 2011-2012, is \$12.6 million less than the amount budgeted for fiscal year 2011-2012, thereby adding to the current year's deficit (see second schedule below).

Analysis of Casino-Related Revenue

Total Wagering Tax included in the Mayor's 2012-2013 Proposed Budget is \$25.7 million less than the amount budgeted for fiscal year 2011-2012. The Municipal Service Fee was reduced by \$0.3 million in the proposed budget. Total Casino-Related Revenue included in the Mayor's 2012-2013 Proposed Budget is \$26.0 million less than the amount budgeted for the current fiscal year 2011-2012.

The following schedule compares all Casino-Related Revenue included in the Mayor's 2012-2013 Proposed Budget to the fiscal year 2011-2012 Budget:

	In Millions		
	Mayor's 2012-2013 Proposed Budget	2011-2012 Budget	Increase (Decrease)
Wagering Tax	\$ 150.0	\$ 174.7	\$ (24.7)
Percentage Payments	22.0	23.0	(1.0)
Total Wagering Tax	172.0	197.7	(25.7)
Municipal Service Fee (A)	16.8	17.1	(0.3)
Total Casino Revenue	\$ 188.8	\$ 214.8	\$ (26.0)

(A) The Municipal Service Fee is presented in the Mayor's 2012-2013 Proposed Budget and current fiscal year's 2011-2012 budget in the "Other Revenue" section. The Office of the Auditor General (OAG) includes it here in its analysis of total wagering tax to capture "all casino related revenue" in one topic in this report.

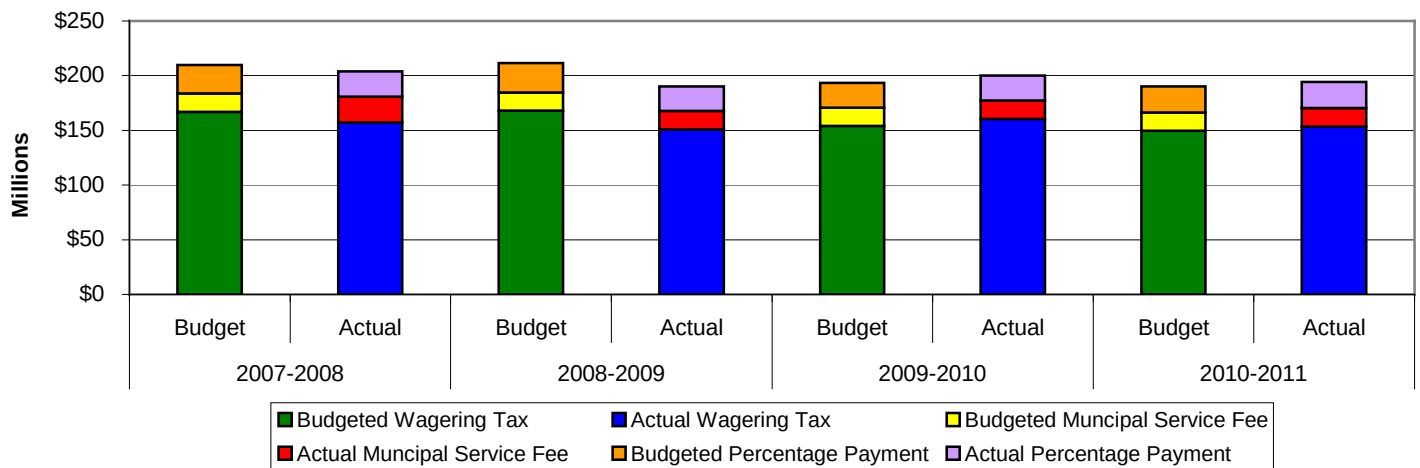
The following schedule reflects total budgeted and actual Casino Revenue (including the Municipal Service Fee) for each fiscal year from 2007-2008 through 2010-2011; the budgeted and estimated revenue for fiscal year 2011-2012, and the Mayor's proposed revenues for fiscal year 2012-2013.

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
2007-2008	\$ 209.8	\$ 203.9	\$ (5.9)	(2.8)%	\$ 8.1	4.1 %
2008-2009	211.5	190.0	(21.5)	(10.2)	(13.9)	(6.8)
2009-2010	193.5	200.2	6.7	3.5	10.2	5.4
2010-2011	190.1	194.3	4.2	2.2	(5.9)	(2.9)
2011-2012 (A)	214.8	202.2	(12.6)	(5.8)	7.9	4.1
2012-2013 (B)	188.8	N/A	N/A	N/A	N/A	N/A

(A) The amount shown in the schedule as actual revenue for fiscal year 2011-2012 is an estimate by the OAG.

(B) The proposed budget recommendation is the only amount available for fiscal year 2012-2013, 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 2007-2008 through fiscal year 2010-2011.



It should be noted that total casino revenue actually received, including the Municipal Service Fee, has not exceeded \$203.9 million over the past four years, and our estimate of actual total casino revenue for fiscal 2011-2012 is \$202.2 million. That is \$12.6 million less than the \$214.8 million in total casino revenue (including the Municipal Service Fee) budgeted for the current fiscal year 2011-2012.

Wagering Tax

Based on our analysis of historical data and other current related economic factors, the Mayor's 2012-2013 Proposed Budget of \$150.0 million in the Wagering Taxes is reasonable. It represents a decrease of \$24.7 million from the current fiscal year 2011-2012 budget amount of \$174.7 million.

The decrease is due primarily to the elimination of the proposed one-year increase of \$20.0 million in the previous year's budget, and expectations of competition from four casinos opening in the State of Ohio – Cincinnati, Cleveland, Columbus, and Toledo - and casino expansion in the State of Indiana during the fiscal year. Despite state economists predicting an increase in employment and disposable income for the next two calendar years, rising oil prices could offset the expected increase in disposable income spent on entertainment. The full economic impact on the City's wagering tax as a result of the new competition is unknown at this time.

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%.

Public Act 306 of 2004 also provides for a 1% reduction in wagering tax, once the Michigan Gaming Control Board certifies that a casino operator (licensee) is fully operating for 30 consecutive days, and has complied with the development agreement. The 1% reduction (tax rollback) is retroactive to the first day the licensee was fully operational. In late 2007, MGM and Motor City Casinos were certified and their wagering tax was reduced. In February 2010, the City of Detroit and Greektown Casino reached a settlement agreement regarding the permanent operational status of Greektown Casino. Although the Michigan Gaming Board approved Greektown Casino's wagering tax rollback in March 2010, as part of the Settlement Agreement, Greektown Casino waived its right to seek a refund of any wagering tax, affected by the tax rollback, paid to the City from February 15, 2009 through February 15, 2010.

Development Agreement Percentage Payments

The Mayor's 2012 –2013 Proposed Budget of \$22.0 million for Percentage Payments is \$1.0 million less than the previous year's budget of \$23.0 million, due primarily to expected competition from new casinos as described in the Wagering Tax write-up above. Considering the uncertainty of the economic impact of the new competition, and the \$24.7 million reduction in the Wagering Tax, in our opinion, the Mayor's 2012 –2013 Proposed Budget of \$22.0 million for Percentage Payments is reasonable.

The Casino Development Agreement includes terms that require the assessment of an additional 1.0% on the casinos' Adjusted Gross Receipts beginning January 1, 2006. In

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

addition, 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.

Municipal Service Fee

The Mayor's 2012-2013 Proposed Budget of \$16.8 million for Municipal Service Fee revenue is reasonable. The budget provides appropriations of \$6.7 million to fund 61 police officers, and \$4.0 million to fund 28 Fire and Emergency Medical Service (EMS) employees for the three casinos. This represents no change for the Fire/EMS Unit and a decrease of 17 positions for the Police Gaming Unit from the prior year's budget. The Mayor expects the budgeted revenue amount of \$16.8 million for the fiscal year 2012-2013 Municipal Service Fee to fully fund the expenditures for these services.

The fiscal year 2011-2012 Municipal Service Fee revenue is budgeted at \$17.1 million. As of March 31, 2012, the City has collected \$6.3 million in Municipal Service Fee revenue from all three Detroit Casinos combined. The Administration expects that year-end accruals for July and August will increase the current year's revenue to approximately \$17.0 million.

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 following schedule compares total casino appropriations funded by the Municipal Service Fee and the Public Safety Services provided in the Mayor's 2012-2013 Proposed Budget to the fiscal year 2011-2012 budgeted appropriations and services:

	In Millions		
	Mayor's 2012-2013 Proposed Budget	2011-2012 Budget	Increase (Decrease)
Municipal Service Fee	\$ 16.8	\$ 17.1	\$ (0.3)
Public Safety Services Provided:			
Police	\$ 6.7	\$ 9.4	\$ (2.7)
Fire (including EMS)	4.0	4.2	(0.2)
Total			
Appropriations	\$ 10.7	\$ 13.6	\$ (2.9)
Municipal Service Fee Surplus	\$ 6.1	\$ 3.5	\$ 2.6

UTILITY USERS TAX REVENUE

Conclusion

The Mayor's 2012-2013 Proposed Budget amount of \$42.0 million of Utility Users Tax is reasonable.

Analysis of Utility Users Tax Revenue

Total Utility Users Tax revenue contained in the Mayor's 2012-2013 Proposed Budget is equal to the amount budgeted in fiscal year 2011-2012. The Utility Users Tax revenue included in the Mayor's 2012-2013 Proposed Budget is compared to the fiscal year 2011-2012 Budget in the following schedule:

In Millions			
	Mayor's 2012-2013 Proposed Budget	2011-2012 Budget	Increase (Decrease)
Utility Users Tax Revenue	\$ 42.0	\$ 42.0	\$ 0

The following schedule shows budgeted and actual Utility Users Tax revenue for fiscal years 2007-2008 through 2010-2011. The schedule also shows budgeted revenue and estimated revenue for the fiscal year ending June 30, 2012, and budgeted Utility Users Tax revenue as shown in the Mayor's 2012-2013 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
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	50.0	44.6	(5.4)	(10.8)	0.4	0.9
2011-2012 (A)	42.0	40.0	(2.0)	(4.8)	(4.6)	(10.3)
2012-2013 (B)	42.0	N/A	N/A	N/A	N/A	N/A

(A) The amount shown in the schedule as actual revenue for fiscal year 2011-2012 is the Budget Department's estimate.

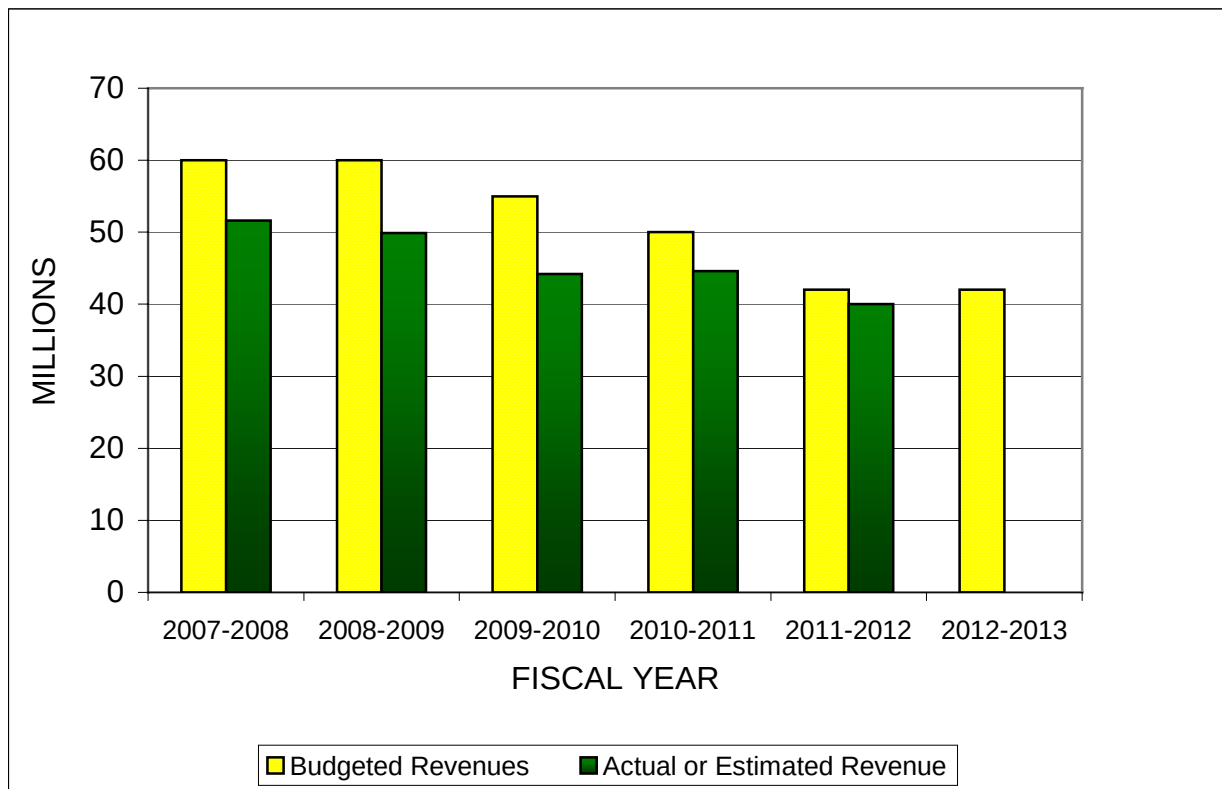
(B) The budgeted amount is the only figure available for fiscal year 2012-2013. The other amounts are designated N/A (Not Available) in the schedule.

The City Utility Users Tax Act, MCL 141.1152 et. seq., allows cities with a population greater than 600,000 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 act was revised through PA 57 of 2011 because of the release of the 2010 census, dropping the population threshold from 750,000 to 600,000.

The Budget Department estimated Utility Users Tax revenue for fiscal year 2011-2012 is \$40.0 million. However, the Office of the Auditor General's estimated Utility Users Tax revenue for fiscal year 2011-2012 based on nine months of actual revenue and a projection for the final three months of the year based on five-year average of 4th quarter receipts is \$42.6 million.

Detroit's economic downturn including high unemployment, increased foreclosures, and less consumption of utilities has lead to a steady decline in Utility Users Tax revenue since fiscal year 2006-2007. However, based on our analysis, the Mayor's 2012-2013 Proposed Budget for Utility Users Tax revenue of \$42.0 million is realistic.

The following chart compares budgeted Utility Users Tax revenue to actual revenue for fiscal years 2007-2008 through 2010-2011, budgeted Utility Users Tax revenue to the actual revenue estimated by the Budget Department for fiscal year 2011-2012, and the proposed Utility Users Tax revenue budgeted for fiscal year 2012-2013:



OTHER REVENUES

Conclusion

Based on our analysis the estimate for Other Revenues of \$1,730.6 million for fiscal year 2012-2013, and the \$1,947.2 million estimate for the current fiscal year 2011-2012 included in the Mayor's 2012-2013 Proposed Budget are optimistic.

The Budget Consensus Working Group comprised of representatives from the Finance Department Administration, the Budget Department, Fiscal Analysis, and the Office of the Auditor General (OAG), reached a consensus that Other Revenues for the General Fund in the Mayor's 2012-2013 Proposed Budget were overstated by \$4.3 million. This is reviewed in detail later in this report.

Analysis of Other Revenues

The Mayor's 2012-2013 Proposed Budget for Other Revenues is \$216.6 million (or 11.1%) less than the amount budgeted for fiscal year 2011-2012. As presented in the Mayor's Proposed Budget, Other Revenues has been divided into eight categories, and is compared by category to the fiscal year 2011-2012 budget in the following schedule:

	Dollars in Millions			
	Mayor's 2012-2013 Proposed Budget	2011-2012 Budget	Increase (Decrease)	Percentage Increase (Decrease)
Sales and Charges for Services	\$ 1,175.3	\$ 1,147.0	\$ 28.3	2.5 %
Revenue From Use of Assets	20.5	42.7	(22.2)	(52.0)
Grants, Shared Taxes and Revenue	88.9	263.7	(174.8)	(66.3)
Other Taxes, Assessments, and Interest	96.5	108.9	(12.4)	(11.4)
Federal and State Transportation Funds	61.5	72.0	(10.5)	(14.6)
Fines, Forfeits, and Penalties	21.0	43.4	(22.4)	(51.6)
Licenses, Permits and Inspection Charges	30.0	32.1	(2.1)	(6.5)
Contributions, Transfers, and Miscellaneous (CTM)	236.9	237.4	(0.5)	(0.2)
Total Other Revenues	<u>\$ 1,730.6</u>	<u>\$ 1,947.2</u>	<u>\$ (216.6)</u>	<u>(11.1) %</u>

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

- *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.
- *Contributions, Transfers, and Miscellaneous* – Various revenues and contributions for one fund, and an expenditure for another fund; also includes interest on the Pension Obligation Bonds, and the Sewerage State Revolving Loan Fund.

The following table shows the composition of Other Revenues by Fund:

	Dollars in Millions		
	Mayor's 2012-2013 Proposed Budget	2011-2012 Budget	Increase (Decrease)
All Funds (Excluding General Fund)	\$ 1,339.9	\$ 1,515.8	\$ (175.9)
General Fund	390.7	431.4	(40.7)
Total Other Revenues	<u>\$ 1,730.6</u>	<u>\$ 1,947.2</u>	<u>\$ (216.6)</u>

The \$216.6 million projected decrease in Total Other Revenues is comprised of \$40.7 million decrease in the General Fund and \$175.9 million decrease in all other funds.

	Dollars in Millions		
	General Fund	All Other Funds	Increase (Decrease)
Sales and Charges for Services	\$ (1.0)	\$ 29.3	\$ 28.3
Revenue From Use of Assets	(2.8)	(19.4)	(22.2)
Grants, Shared Taxes and Revenue	(0.1)	(174.7)	(174.8)
Other Taxes, Assessments, and Interest	(7.1)	(5.3)	(12.4)
Federal and State Transportation Funds	0.0	(10.5)	(10.5)
Fines, Forfeits, and Penalties	(15.6)	(6.8)	(22.4)
Licenses, Permits and Inspection Charges	(2.1)	0.0	(2.1)
Contributions, Transfers, and Miscellaneous (CTM)	(12.0)	11.5	(0.5)
Total Other Revenues	<u>\$ (40.7)</u>	<u>\$ (175.9)</u>	<u>\$ (216.6)</u>

Major Decreases in Other Revenues for the General Fund

- *Other Taxes, Assessments, and Interest* - A net decrease of \$7.1 million resulting from lower prior year property taxes revenues and decreases in the taxable values of special district properties (Industrial Facility Tax, Renaissance and Neighborhood Enterprise Zone Tax).
- *Fines, Forfeits, and Penalties* - The Mayor's Proposed Budget for 2012-2013 does not include any revenues from legislation relating to House Bill 4308 – License Renewal Revenue which lowers the threshold for any person renewing their license from six unpaid parking tickets to three. The expected shortfall of \$9.8 million in the current fiscal year 2011-2012 is addressed later in this report. In addition, revenues relating to Property Tax Penalties decreased by \$5.6 million.
- *Revenue From Use of Assets* – Non-departmental Earnings on investments was reduced by \$2.0 million.
- *Contributions, Transfers, and Miscellaneous (CTM)* – General Fund CTMs decreased by \$17.5 million offset by a gain in Other Debt Service (Pension Certificates) of \$5.5 million. The gross decrease is comprised of:
 - o Miscellaneous Receipts decreased due to excluding \$10 million of proposed revenues from an local entertainment contract.
 - o Transfers from other Funds were decrease by \$7.5 million as a result of reductions in Insurance Premiums (\$5.8 million) and Parking Advances (\$1.6 million).

Major Decreases in Other Revenues for All Funds (Excluding General Fund)

- *Sales and Charges for Services* – The Mayor's Proposed 2012-2013 budget for revenues resulting from sales and charges for services for all other funds,

excluding the General Fund increased by \$29.3 million. Proposed revenues increased for Water and Sewage sales by \$43.0 million due to water rate increases, offset by decreases in the Solid Waste Fee revenues of \$10.5 million and Transportation revenues of \$5.0 million.

- *Grants, Shared Taxes and Revenue* – The Mayor's Proposed Budget includes a reduction of \$174.7 million of federal, state and other grant revenues resulting from the elimination of funding for Detroit Workforce Development Department (\$52.9 million), Heath & Wellness Promotion (\$59.4 million), and Human Services (\$70.1 million). These reductions were offset by an increase in grant funding for the Fire Department of \$10.7 million.
- *Revenue From Use of Assets* - Earnings on investments was reduced by \$18.4 million due to decreases in Water and Sewage earnings.
- *Federal and State Transportation Funds* – Decreased by \$10.5 million; detail was requested from the Budget Department but was not provided.

Other Revenues - Actuals Trend Analysis (Excluding CTMs)

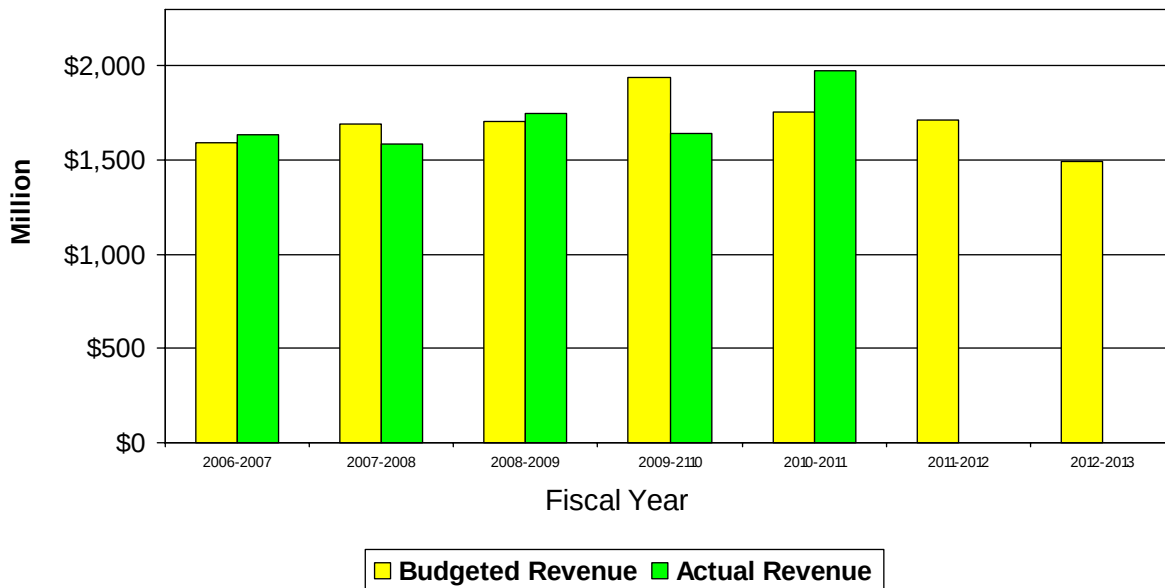
Based on a trend analysis of Other Revenues excluding Contributions, Transfers, and Miscellaneous (CTMs), we found that the total amount and frequency of CTMs varied significantly to the extent that our year-to-year comparison of Other Revenues was highly skewed. Since the majority of CTMs represented had no net effect on the budget as a whole, we eliminated the CTM category in the comparative schedules and charts that follow.

The following table shows budgeted and actual Other Revenues for each fiscal year from 2006-2007 through 2010-2011. The table also includes budgeted Other Revenues for fiscal year 2011-2012, and budgeted Other Revenues as shown in the Mayor's 2012-2013 Proposed Budget.

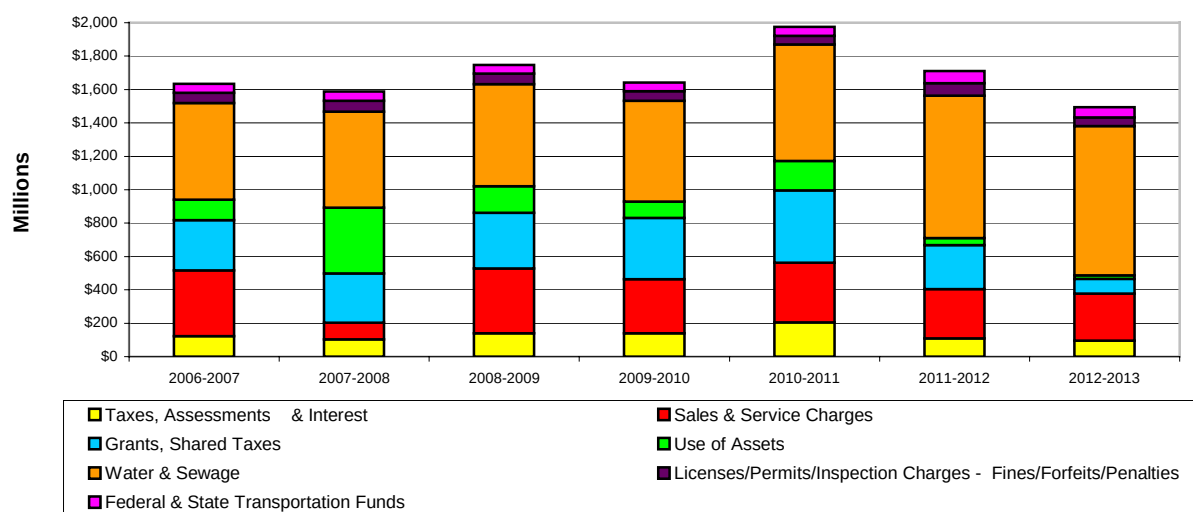
Fiscal Year	Dollars In Millions					
	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year	
			Amount	Percentage	Amount	Percentage
2006-2007	\$ 1,595.5	\$ 1,634.7	\$ 39.2	2.5 %	\$ (27.7)	(1.7) %
2007-2008	1,691.4	1,588.4	(103.0)	(6.1)	(46.3)	(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	1,758.2	1,974.9	216.7	12.3	332.7	20.3
2011-2012 ^(A)	1,709.8	N/A	N/A	N/A	N/A	N/A
2012-2013 ^(A)	1,493.7	N/A	N/A	N/A	N/A	N/A

^(A) Budgeted amounts are the only figures available for fiscal years 2011-2012 and 2012-2013. The other amounts are designated N/A (Not Available) in the schedule.

The following chart compares budgeted Other Revenues to actual Other Revenues for fiscal years 2006-2007 through 2010-2011. The chart also includes budgeted amounts for fiscal years 2011-2012 and 2012-2013. Actual amounts are not available for these years.



The following chart and schedule separates Water and Sewage fees from *Sales and Charges for Service in fiscal years 2006-2007 through 2012-2013 (excluding fiscal year 2007-2008)* and from *Revenue From Use of Assets in fiscal year 2007-2008*, comparing the total actual revenues of Other Revenues sources over five fiscal years, from 2006-2007 through 2010-2011, to budgeted total revenues of Other Revenues sources for fiscal years 2011-2012 through 2012-2013.



In Millions								
Fiscal Year	Water & Sewage	Sales & Service Charges	Grants, Shared Taxes	Taxes, Assmnts & Interest	Rev From Use of Assets	Licen/Prmt /Inspt Fns/Forfts/ Pnlty	State and Federal Transportation	Total Net of CMT
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	698.6	359.2	433.2	204.2	175.0	50.9	53.8	1,974.9
2011-2012 (A)	851.8	295.2	263.7	108.9	42.7	75.5	72.0	1,709.8
2012-2013 (B)	894.8	280.5	88.9	96.5	20.5	51.0	61.5	1,493.7

(A) 2011-2012 Adopted Budget

(B) Mayor's 2012-2013 Proposed Budgets

It should be noted that the Mayor's 2012-2013 Proposed Budget for total Other Revenues excluding *CTM* is expected to be \$216.1 million less than the 2011-2012 Adopted Budget. This is primarily due to the net \$174.8 million projected decrease in revenues from *Grants, Shared Taxes, and Revenue* resulting from the elimination of funding for Detroit Workforce Development Department, Heath & Wellness Promotion, and Human Services.

Revenue generated by Water and Sewage fees over a five-year period beginning in fiscal year 2006-2007 through fiscal year 2010-2011 averaged \$613.0 million. Water and Sewage fees of \$698.6 million were collected during fiscal year 2010-2011, which is an increase of \$85.6 million from the average and estimates for fiscal years 2011-2012 and 2012-2013 have increased by \$238.8 million and \$281.8 million respectively. It should be noted that Water and Sewage fees now make up over fifty percent of the current year and proposed Other Revenues budgets, excluding *CTMs*.

Analysis of Other Revenues (General Fund Only)

The Mayor's 2012-2013 Proposed Budget includes Other Revenues for the General Fund of \$390.7 million. Revenues from Sales and Charges for Services account for 55.0% or \$214.7 million of the total, and 33.5% or \$131.0 million comes from Contributions, Transfers, and Miscellaneous revenues.

Based on our review of available data, and an analysis of actual revenues, the current revenues proposed for Sales and Charges for Services is overestimated by \$9.4 million relating specifically to sales of electrical services. In addition revenues from Licenses, Permits, and Inspection Charges are overestimated by \$1.0 million.

The Budget Consensus Working Group comprised of representatives from the Finance Department Administration, the Budget Department, Fiscal Analysis, and the Office of the Auditor General (OAG), reached a consensus that Other Revenues for the General Fund in the Mayor's 2012-2013 Proposed Budget were overstated by \$4.3 million, versus OAG's estimate of \$10.4 million detailed above.

Estimate of Other Revenues (*General Fund Only*) for Fiscal Year 2011-2012

The Mayor's 2012-2013 Proposed Budget includes Other Revenues for the General Fund in the current fiscal year 2011-2012 of \$431.4 million. Based on our review of available data, and trend analysis of actual revenues, the revenues are overestimated by \$88.7 million. Shortages are estimated in the following Other Revenues:

	Dollars in Millions Estimated Over/(Under) Budget
Other Reimbursements	\$ 17.1
Other Fees	13.5
Sales of Electricity and Steam	15.8
Parking Fines	12.0
Interest on Property Tax and Penalties	10.2
Licenses, Permits, & Inspections	7.0
Personal Services and Administration Fees	6.3
All Other	6.8
Total Other Revenues Estimated	
2011-2012 Deficit	\$ 88.7