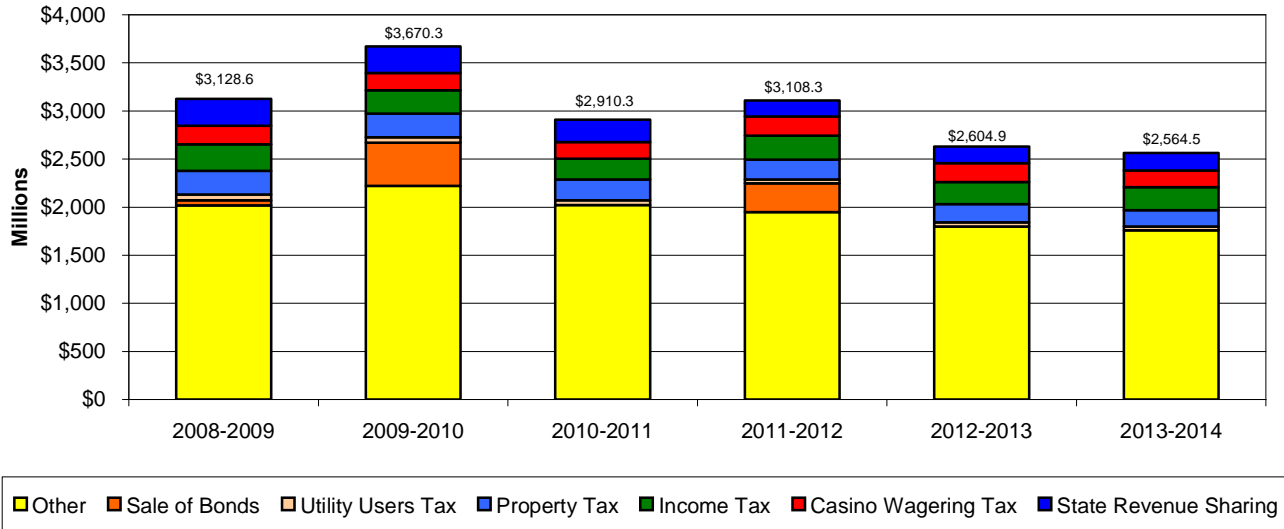


**CITY OF DETROIT  
MAJOR REVENUES  
FOR FISCAL YEAR 2008-2009 THROUGH FISCAL YEAR 2013-2014**

The following chart and schedule compares the total budgeted revenues and major revenue sources over five fiscal years from 2008-2009 through 2012-2013, and total revenues and major revenues sources in the Mayor’s 2013-2014 Proposed Budget.



In Millions								
Fiscal Year	Property Tax	Income Tax	Utility Users Tax	State Revenue Sharing	Casino Wagering Tax	Sale of Bonds	Other	Total
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	204.8	250.0	42.0	166.6	197.7	300.0	1,947.2	3,108.3
2012-2013	192.3	228.0	42.0	172.8	171.0	0.0	1,798.8	2,604.9
2013-2014 (A)	168.8	239.7	40.5	183.8	173.0	0.0	1,758.7	2,564.5

(A) Mayor’s 2013-2014 Proposed Budget

The sections that follow include an analysis of the reasonableness of the budgeted amounts of major revenues in the Mayor’s 2013-2014 Proposed Budget and a comparison to major revenues in the fiscal year 2012-2013 budget including revenues for property tax, income tax, utility users tax, state revenue sharing, casino wagering tax, and other revenues.

## PROPERTY TAX REVENUE

### Conclusion

Based on our analysis, the net property tax estimate of \$168.8 million and the general fund property tax estimate of \$114.9 million included in the Mayor's 2013-2014 Proposed Budget are slightly 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 2013-2014 Proposed Budget are compared to the fiscal year 2012-2013 Budget in the following tables:

	In Millions		
	Mayor's 2013-2014 Proposed Budget	2012-2013 Budget	Increase (Decrease)
General Fund Property Taxes	\$ 114.9	\$ 126.1	\$ (11.2)
Debt Service	57.9	66.2	(8.3)
General Fund Property Taxes and Debt Service	\$ 172.8	\$ 192.3	\$ (19.5)
Less: Uncollectible Accounts Reserve	(4.0)		(4.0)
Net Property Taxes	\$ 168.8	\$ 192.3	\$ (23.5)

The following table compares the Mayor's 2013-2014 Proposed Budget for tax valuations to the 2012-2013 Budget:

Taxable Valuations (Millions)	\$ 8,301.2	\$ 8,755.4	\$ (454.2)
-------------------------------	------------	------------	------------

The following table compares the Mayor's 2013-2014 Proposed Budget for tax rates to the 2012-2013 Budget:

Tax Rates (Per Thousand)			
General City	\$ 19.9520	\$ 19.9520	\$ 0.0000
Debt Service	8.9952	9.6136	(0.6184)
Total Tax Rate	\$ 28.9472	\$ 29.5656	\$ (0.6184)

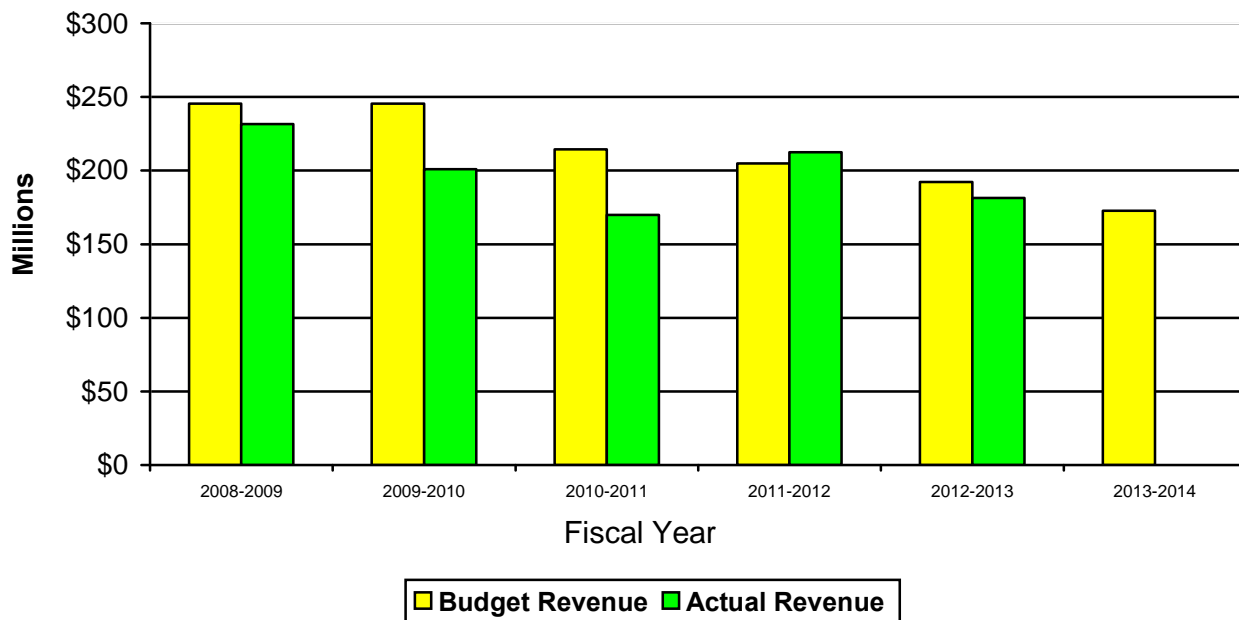
The following table shows budgeted and actual property tax revenue, including amounts for both the General and Debt Service Funds, for each fiscal year from 2008-2009 through 2011-2012. The table also includes budgeted property tax and the Office of the Auditor General's (OAG) estimate of actual property tax for fiscal year 2012-2013 and budgeted property tax revenue as shown in the Mayor's 2013-2014 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	
			2008-2009	\$ 245.4	\$ 231.5	\$ (13.9)	(5.7) %
2009-2010	245.4	200.9	(44.5)	(18.1)	(30.6)	(13.2)	
2010-2011	214.5	169.8	(44.7)	(20.8)	(31.1)	(15.5)	
2011-2012	204.8	212.4	7.6	3.7	42.6	25.1	
2012-2013 (A)	192.3	181.4	(10.9)	(5.7)	(31.0)	(14.6)	
2013-2014 (B)	168.8	N/A	N/A	N/A	N/A	N/A	

(A) The actual amount for fiscal year 2012-2013 is an OAG estimate.

(B) The budgeted amount is the only figure available for fiscal year 2013-2014. 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 2008-2009 through 2011-2012. The actual amount for fiscal year 2012-2013 is an estimate by the OAG. The chart also includes the proposed budget amount for fiscal year 2013-2014.



### **Estimated Net Property Tax for Fiscal Year 2012-2013**

The estimated net property tax for fiscal year 2012-2013 of \$192.3 million is slightly optimistic. Based on our analysis, the OAG estimates \$181.4 million which is \$10.9 million less in net property tax revenues for fiscal year 2012-2013.

### **Analysis of Net Property Taxes for Fiscal Year 2013-2014**

The Mayor's 2013-2014 Proposed Budget includes net property tax revenue of \$168.8 million, a decrease of \$23.5 million from the 2012-2013 budget of \$192.3 million. The decrease is largely due to \$146.2 million (1.7%) 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 decreased from 9.6136 in fiscal year 2012-2013 to 8.9952 in fiscal year 2013-2014.

In Detroit, taxable values declined by \$1.6 billion from 2008 to 2012 and collection rates declined from 92.64 percent in 2008 to 83.68 percent in 2012. Detroit's property tax base consists of residential, commercial, industrial, and personal property. Potentially, property tax revenues could be increased by a better collection system.

State law allows local governments to transfer real property taxes that were not paid by March 1<sup>st</sup> 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 2013-2014.

The Phase Out of Personal Property Tax Act will begin to phase out the personal property taxes on industrial and commercial equipment and furniture over the next 10 years beginning in 2013. The City of Detroit does not have a replacement tax in place to make up for the lost property tax revenue.

Based on our review of available data, the net property tax revenue of \$168.8 million included in the Mayor's 2013-2014 Proposed Budget is slightly optimistic.

### **Analysis of General Fund Property Tax for Fiscal Year 2013-2014**

The Mayor's 2013-2014 Proposed Budget includes General Fund property tax revenue of \$114.9 million, which is a reduction of \$11.2 million from the amended 2012-2013 budget of \$126.1 million. Estimated property tax revenue for the General Fund for the current fiscal year is \$130.0 million. Based on our analysis, the OAG agrees with the general fund consensus for fiscal year 2013-2014 in the amount of \$112.1 million. The

Mayor's 2013-2014 Proposed Budget for General Fund property tax is slightly optimistic.

**Analysis of Delinquent Property Taxes for Fiscal Year 2013-2014**

The Mayor's 2013-2014 Proposed Budget includes Delinquent Property tax revenue of \$6.4 million, which is an increase of \$0.9 million from fiscal year 2012-2013 budget of \$5.5 million. Based on our analysis of historical data, the OAG believes that the Mayor's 2013-2014 Proposed Budget for Delinquent Property tax revenue is reasonable.

## MUNICIPAL INCOME TAX REVENUE

### Conclusion

The projected revenue for Municipal Income Tax of \$239.7 million included in the Mayor's 2013-2014 Proposed Budget is reasonable. This number 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 as well as job growth that is beginning to occur, specifically in automotive companies which is predicted to improve corporate income tax revenue 2013-2014.

### Analysis of Municipal Income Tax Revenue

Municipal Income Tax revenue contained in the Mayor's 2013-2014 Proposed Budget is \$11.7 million more than the amount budgeted for fiscal year 2012-2013. The Municipal Income Tax revenue included in the Mayor's 2013-2014 Proposed Budget is compared to the 2012-2013 Budget in the following schedule:

	In Millions		
	Mayor's 2013-2014 Proposed Budget	2012-2013 Budget	Increase (Decrease)
Municipal Income Tax	\$ 239.7	\$ 228.0	\$ 11.7

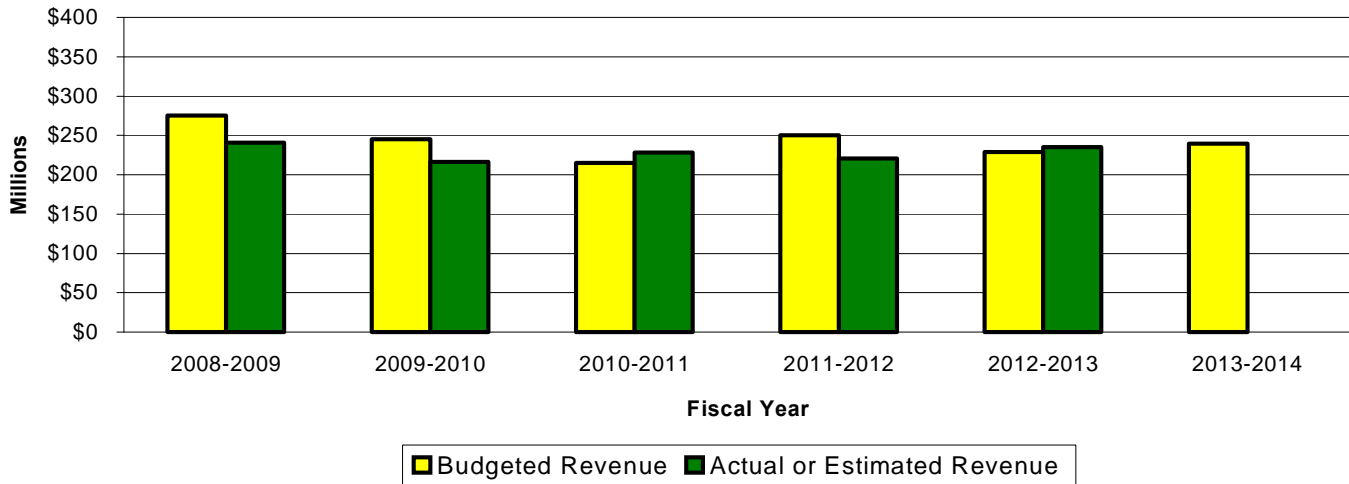
The following schedule shows budgeted and actual Municipal Income Tax revenue for each fiscal year from 2008-2009 to 2011-2012. The schedule also shows budgeted revenue and the Revenue Estimating Conference projected actual revenue for the fiscal year ending June 30, 2013, and Municipal Income Tax revenue for fiscal year 2013-2014 as shown in the Mayor's 2013-2014 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
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	250.0	233.0	(17.0)	(6.8)	(4.7)	(2.1)
2012-2013 (A)	228.0	235.0	7.0	3.1	2.0	0.1
2013-2014 (B)	239.7	N/A	N/A	N/A	N/A	N/A

(A) The amount shown in the schedule as actual revenue for fiscal year 2012-2013 is an estimate based on deliberations of the Revenue Estimating Conference.

(B) The budgeted amount is the only figure available for fiscal year 2013-2014. The other amounts are designated N/A (Not Applicable) in the schedule.

The following chart further compares budgeted Municipal Income Tax revenue to actual revenue for fiscal years 2008-2009 through 2011-2012 and the budgeted Municipal Income Tax revenue to the Revenue Estimating Conference projected revenue for fiscal year 2012-2013, budgeted Municipal Income Tax revenue in the Mayor's 2013-2014 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 (7/1/1999-7/1/2008) 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 2013-2014. The new tax rate effective January 1, 2013 is 2.45% for residents and 1.225% 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 Income Division Management predicts that the corporate income tax revenue will increase in 2013-2014 due to a rebounding of the auto industry and profits of companies that are doing well like Quicken Loans.

### Estimated Municipal Income Tax Revenue for Fiscal Year 2012-2013

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 from fiscal years 2010-2011 forward

have begun to rebound from the lowest point of income tax collections in fiscal year 2009-2010.

For the first time the City of Detroit had a Revenue Estimating Conference to agree to estimated revenues for the current year and proposed revenue for the upcoming year ahead of the budget deliberation process. This group included representatives from the Budget Department, the City Council Fiscal Analyst, the Office of the Auditor General, other administration officials and consultants. The Revenue Estimating Conference agreed, in February of this year to Municipal Income Tax Revenue of \$235.0 million for the current year and projected revenue of \$239.7 million for the 2013-2014 year. These figures are included in the Mayor's Proposed 2013-2014 Budget. However, when analyzing collections through March 31, 2013 it appears as though Municipal Income Tax Revenue may be higher than previously estimated. Collections through March 31, 2013 show collections \$13.4 million higher than at the same point the previous year. The Municipal Income Division credits this to estimated corporate taxes collected from Quicken Loans. If this increase is maintained through the end of fiscal year 2012-2013, Municipal Income Tax Revenue could be as high as \$247.1 million.

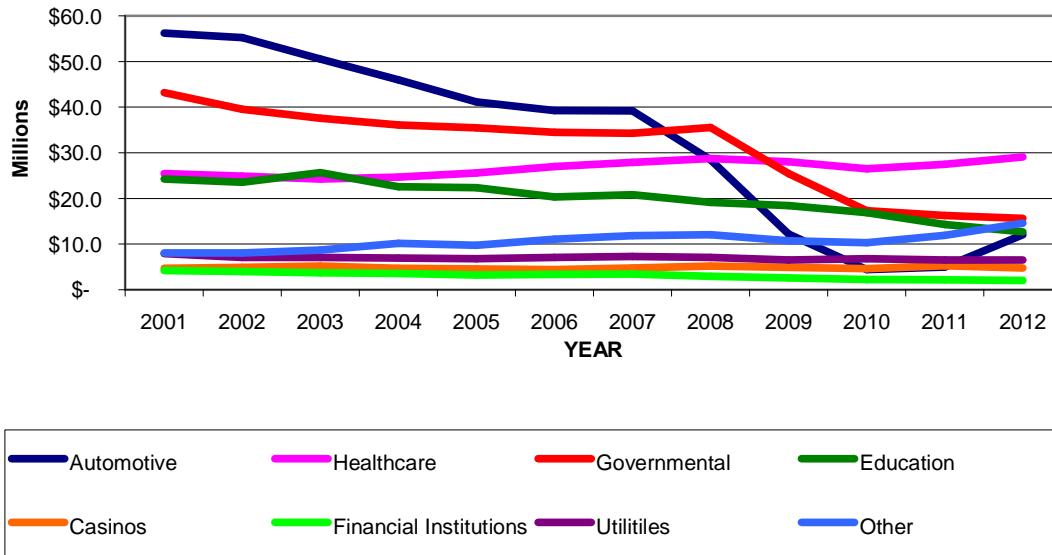
### **Other Factors Influencing Municipal Income Tax Revenue**

The national economy is expected to marginally improve in 2013 and 2014; 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 18.0% was 8.7% higher than the State's unemployment rate of 9.3% as of February 2013.

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 and a slight increase in collections through 2012.



**CITY WITHHOLDING TAX COLLECTIONS BY MAJOR BUSINESS TYPE**



As the above chart indicates the withholding tax collections from 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 2012, Michigan has lost 391,700 jobs. 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. The 2010 census indicates, 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.

## UTILITY USERS TAX REVENUE

### Conclusion

The Mayor's 2013-2014 Proposed Budget amount of \$40.5 million for Utility Users Tax is slightly optimistic.

### Analysis of Utility Users Tax Revenue

Utility Users Tax revenue included in the Mayor's 2013-2014 Proposed Budget is \$1.5 million less than the amount budgeted for fiscal year 2012-2013, and is compared to the fiscal year 2012-2013 Budget in the following schedule:

	In Millions		
	Mayor's 2013-2014 Proposed Budget	2012-2013 Budget	Increase (Decrease)
Utility Users Tax Revenue	\$ 40.5	\$ 42.0	\$ (1.5)

The following schedule shows budgeted and actual Utility Users Tax revenue for fiscal years 2008-2009 through 2011-2012. The schedule also shows budgeted revenue and estimated revenue for the fiscal year ending June 30, 2013, and budgeted Utility Users Tax revenue as shown in the Mayor's 2013-2014 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
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	42.0	39.8	(2.2)	(5.2)	(4.8)	(10.8)
2012-2013 (A)	42.0	40.5	(1.5)	(3.6)	0.7	1.8
2013-2014 (B)	40.5	N/A	N/A	N/A	N/A	N/A

(A) The amount shown in the schedule as actual revenue for fiscal year 2012-2013 is the Budget Department's estimate.

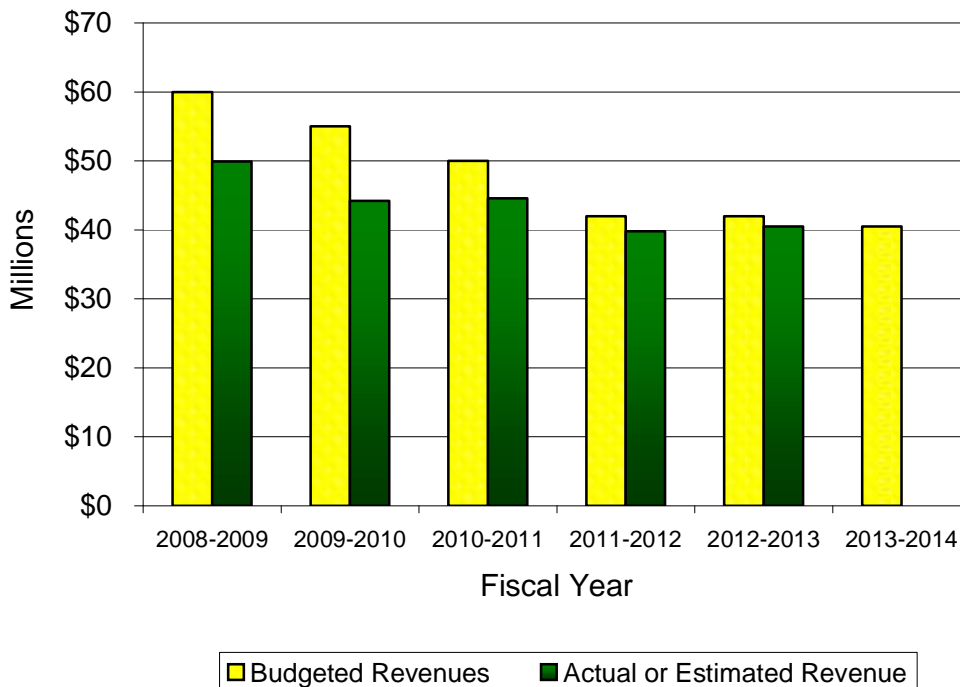
(B) The budgeted amount is the only figure available for fiscal year 2013-2014. The other amounts are designated N/A (Not Available) in the schedule.

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 amended by Public Act 393 of 2012, which requires a city that forms a lighting authority to pay \$12.5 million annually from utility users tax collections to the authority if it issues bonds pursuant to a contract with the city.

The Mayor's 2013-2014 proposed Budget of \$40.5 million for Utility Users Tax is slightly optimistic. Based on utility users tax collections from July 1, 2012 through March 31, 2013 and considering Detroit's unemployment rate has not changed substantially from January 2012 to January 2013 and is not expected to change significantly during fiscal year 2013-2014, the \$40.5 million is slightly optimistic. Although the revenue estimating conference agreed to the \$40.5 million on January 25, 2013, utility users tax collections have not been as expected. Using the average of percentage of collections from July 1 through March 31 for fiscal years 2009-2010, 2010-2011, and 2011-2012 and total collections for the years, and two sources of collections data (utility users tax collection reports and DRMS reports), the OAG estimates utility users tax collection will range from \$37.4 million to \$38.2 million.

Factors affecting utility users tax revenue are the ability to pay utility bills, employment levels, rates of consumption of utilities, levels of Detroit population, the weather, and changes in communication technology. The tax is not assessed on bills for cell phones and Internet services. The tax is imposed on bills for services related to land-line communications. The tax is also assessed on bills pertaining to service for electricity, steam, and gas.

The following chart compares budgeted Utility Users Tax revenue to actual revenue for fiscal years 2008-2009 through 2011-2012 and budgeted Utility Users Tax revenue to the actual revenue estimated by the Budget Department for fiscal year 2012-2013, and the proposed Utility Users Tax revenue budgeted for fiscal year 2013-2014:



## STATE REVENUE SHARING

### Conclusion

The \$183.8 million of State Revenue Sharing included in the Mayor's 2013-2014 Proposed Budget is \$11.0 million greater than the amount included in the fiscal year 2012-2013 budget. The Mayor's Proposed Budget includes a \$2.3 million increase in the constitutional portion of the State Revenue Sharing and an increase of \$8.7 million in the Economic Vitality Incentive Program (EVIP) portion.

### 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.

The schedule below compares the State Revenue Sharing payments included in the Mayor's 2013-2014 Proposed Budget to the 2012-2013 Budget:

	In Millions		
	Mayor's 2013-2014 Proposed Budget	2012-2013 Budget	Increase (Decrease)
State Revenue Sharing:			
State Sales Tax . Constitutional Portion	\$ 53.7	\$ 51.4	\$ 2.3
State Sales Tax . EVIP Portion	130.1	121.4	8.7
<b>Total State Revenue Sharing to City of Detroit (A)</b>	<b>\$ 183.8</b>	<b>\$ 172.8</b>	<b>\$ 11.0</b>

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

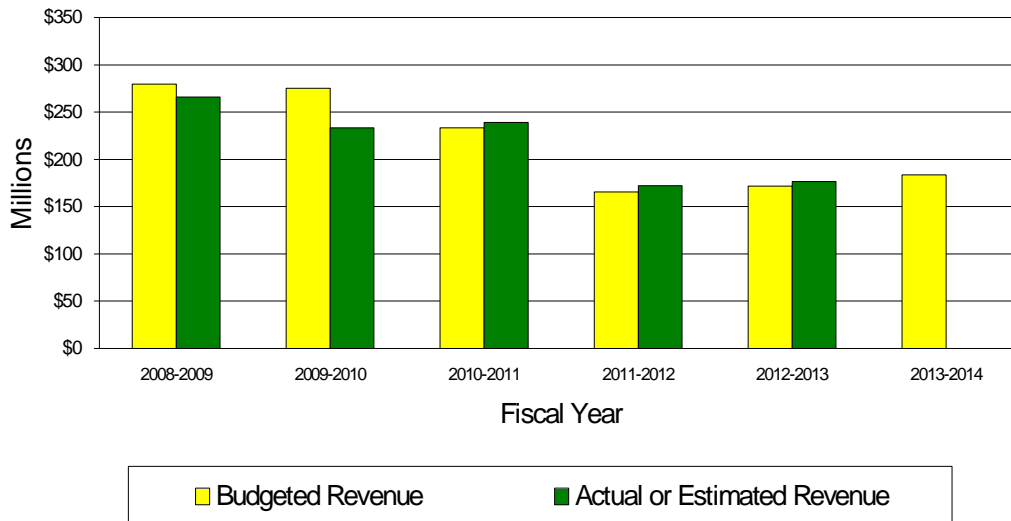
The following schedule compares the City's Net State Revenue Sharing, budget to actual and budget to actual estimate, beginning with fiscal year 2008-2009:

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	
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	165.6	171.2	5.6	3.4	(68.0)	(28.4)	
2012-2013 (A)	171.8	176.5	4.7	2.7	5.3	3.1	
2013-2014 (B)	183.8	N/A	N/A	N/A	N/A	N/A	

(A) The fiscal year 2012-2013 actual is an estimate by the revenue estimating conference.

(B) The budgeted amount is the only amount available for fiscal year 2013-2014. The other amounts are designated N/A (Not Applicable) in the schedule.

The following chart shows actual State Revenue Sharing for fiscal years 2008-2009 to 2011-2012, the estimated State Revenue Sharing for fiscal year 2012-2013, and the budgeted State Revenue Sharing in the Mayor’s 2013-2014 Proposed Budget.



**State of Michigan Proposed Legislation and Projection**

The Governor’s 2013-2014 Executive Budget recommends total State Revenue Sharing payments of \$183.7 million to Detroit, a \$2.1 million increase from the \$181.6 million budgeted for fiscal year 2012-2013. The payment of \$183.7 million for State Revenue Sharing includes a portion determined by the State Constitution (constitutional) of \$53.7 million and a portion from the new Economic Vitality Incentive Program (EVIP) of \$130.0 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 2013-2014 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 population<sup>1</sup> as required in the State Revenue Sharing Act. This portion fluctuates with

<sup>1</sup> 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.

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 \$36,225 to the Downtown Development Authority (DDA) from the \$183.8 million in State Revenue Sharing for the 2013-2014 State fiscal year. This amount is proportionate to the State Revenue Sharing payments to the City.

### **Financial Stability Agreement (FSA)**

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.

### Revenue Consensus Report

FSA Section 3.1, in conjunction with Section 8-213 of the City Charter, requires that a revenue estimating conference take place as part of the budget process. The conference focused on developing a consensus of estimated General Fund revenues for fiscal year 2013-2014 with the conference members<sup>2</sup> using a conservative approach in developing the estimated revenue amounts. The revenue estimating conference did not develop consensus revenue amounts for the risk management fund and enterprise agencies that require a General Fund subsidy as is required by the FSA and the City Charter. The Revenue Estimating Consensus Conference consensus amount for fiscal year 2013-2014 was projected to be \$176.5 million. However, the amount was increased to \$183.8 million due to the State of Michigan's revenue consensus report.

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<sup>2</sup> The conference members consisted of individuals from the Office of the Auditor General, City Council's Fiscal Analysis Division, the Finance Department, and the Budget Department.

## CASINO-RELATED REVENUE

### Conclusion

Based on our analysis of Casino-Related Revenue included in the Mayor's 2013-2014 Proposed Budget, which consists of \$173.0 million in Total Wagering Tax (wagering tax plus percentage payments), and \$17.0 million in Municipal Service Fee is reasonable. Our estimate of Casino-Related Revenue for the current fiscal year 2012-2013 is \$2.2 million less than the amount budgeted for fiscal year 2012-2013.

### Analysis of Casino-Related Revenue

Total Wagering Tax included in the Mayor's 2013-2014 Proposed Budget is \$2.0 million more than the amount budgeted for fiscal year 2012-2013. The Municipal Service Fee was increased by \$0.2 million in the proposed budget. Total Casino-Related Revenue included in the Mayor's 2013-2014 Proposed Budget therefore is \$2.2 million more than the amount budgeted for the current fiscal year 2012-2013.

The following schedule compares Casino-Related Revenue (excluding the Municipal Service Fee) included in the Mayor's 2013-2014 Proposed Budget to the fiscal year 2012-2013 Budget:

	In Millions		
	Mayor's 2013-2014 Proposed Budget	2012-2013 Budget	Increase (Decrease)
Wagering Tax	\$ 151.0	\$ 149.0	\$ 2.0
Percentage Payments	22.0	22.0	0
<b>Total Wagering Tax</b>	<b>173.0</b>	<b>171.0</b>	<b>\$ 2.0</b>
 Municipal Service Fee (A)	 17.0	 16.8	 0.2
Total Casino Revenue	<b>\$ 190.0</b>	<b>\$ 187.8</b>	<b>\$ 2.2</b>

(A) The Municipal Service Fee is presented in the Mayor's 2013-2014 Proposed Budget and current fiscal year's 2012-2013 budget in the Other Revenue section. The OAG includes it here in its analysis of total wagering tax to capture all casino related revenue in one topic in this report.

### **Wagering Tax**

Based on our analysis of historical data and other current related economic factors, the Mayor's 2013-2014 Proposed Budget of \$151.0 million in the Wagering Taxes is reasonable. It represents an increase of \$2.0 million from the current fiscal year 2012-2013 budgeted amount of \$149.0 million.

The increase is based upon the revenue consensus conducted by the City of Detroit Finance Department, Budget Department, Office of the Auditor General and City

Council Fiscal Analysis Division in January 2013. The revenue estimate recognizes downward pressure on revenues resulting from the opening of four casinos in Ohio by the end of 2013. The full economic impact on the City's wagering tax as a result of the new competition is unknown at this time.

Although state economists have been predicting an increase in employment and in disposable income for the next two calendar years the slow economic turnaround could impact spending on entertainment.

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 Receipts<sup>1</sup>. 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 2013 . 2014 Proposed Budget of \$22.0 million for Percentage Payments is the same as the previous year's budget of \$22.0 million. The percentage payment estimate recognizes downward pressure on revenues resulting from the opening of four casinos in Ohio by the end of 2013. In our opinion, the Mayor's 2013 . 2014 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 casino's Adjusted Gross Receipts beginning January 1, 2006. In 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.

The following schedule reflects total Budgeted and Actual Casino Revenue (excluding the Municipal Service Fee) for each fiscal year from 2008-2009 through 2011-2012; the

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



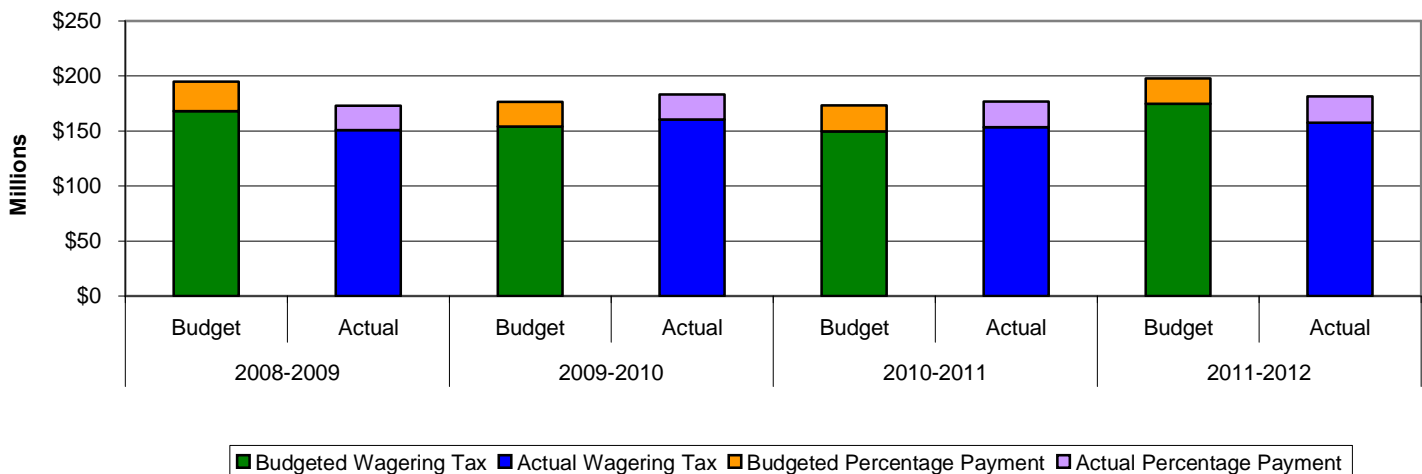
budgeted and estimated revenue for fiscal year 2012-2013, and the Mayor's proposed revenues for fiscal year 2013-2014.

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
2008-2009	\$ 194.8	\$ 173.0	\$ (21.8)	(11.2)%	\$ (30.9)	(15.1) %
2009-2010	176.6	183.3	6.7	3.8	10.3	6.0
2010-2011	173.4	176.9	3.5	2.0	(6.4)	(3.5)
2011-2012	197.8	181.4	(16.4)	(8.3)	4.5	2.6
<b>2012-2013 (A)</b>	<b>171.0</b>	<b>168.8</b>	<b>(2.2)</b>	<b>(1.3)</b>	<b>(12.6)</b>	<b>(7.0)</b>
2013-2014 (B)	173.0	N/A				

(A) The amount shown in the schedule as actual revenue for fiscal year 2012-2013 is an estimate by the Office of the Auditor General.

(B) The proposed budget recommendation is the only amount available for fiscal year 2013-2014, the actual amount is designated N/A (not applicable) in the schedule.

The chart below compares the total Budgeted and Actual Casino-related Revenue (excluding the Municipal Service Fee) from fiscal year 2008-2009 through fiscal year 2011-2012.



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 2012-2013 is \$190.8 million. That is \$3.0 million more than the \$187.8 million in total casino revenue (including the Municipal Service Fee) budgeted for the current fiscal year 2012-2013.

### Municipal Service Fee

The Mayor's 2013-2014 Proposed Budget of \$17.0 million for Municipal Service Fee revenue is reasonable. The budget provides appropriations of \$7.1 million to fund 61 police officers, and \$4.4 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 the Police Gaming Unit from the prior year's budget.

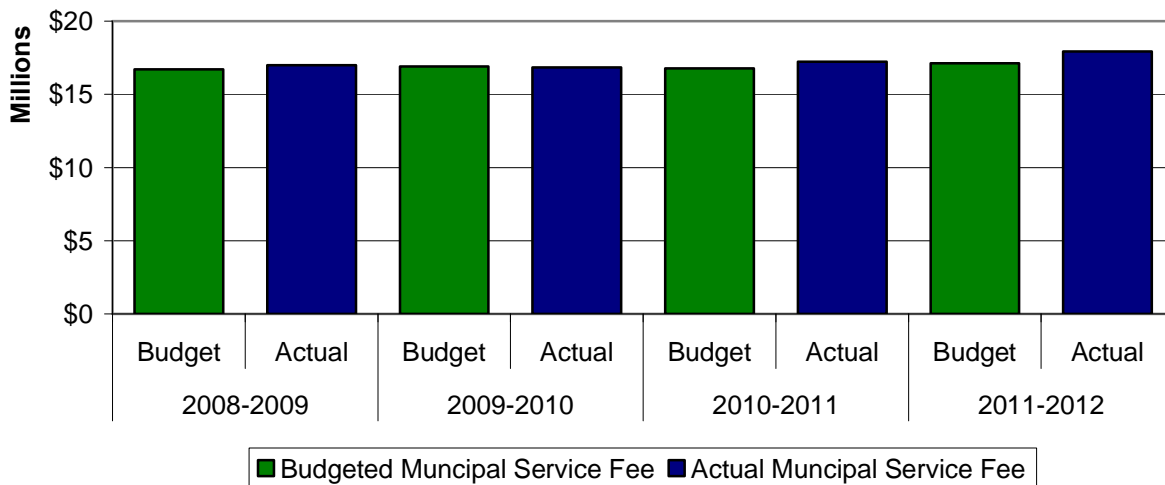
The fiscal year 2012-2013 Municipal Service Fee revenue is budgeted at \$16.8 million. As of March 31, 2013, the City has collected \$10.2 million in Municipal Service Fee revenue from all three Detroit Casinos combined. The Administration expects that year-end accruals will increase the current year's revenue to approximately \$16.8 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 2013-2014 Proposed Budget to the fiscal year 2012-2013 budgeted appropriations and services:

	In Millions		
	Mayor's 2013-2014 Proposed Budget	2012-2013 Budget	Increase (Decrease)
Municipal Service Fee	\$ 17.0	\$ 16.8	\$ 0.2
Public Safety Services Provided:			
Police	\$ 7.1	\$ 6.8	\$ 0.3
Fire (including EMS)	4.4	4.0	0.4
Total Appropriations	\$ 11.5	\$ 10.8	\$ 0.7
Municipal Service Fee Surplus	\$ 5.5	\$ 6.0	\$ (0.5)

The chart below compares the budgeted and actual Municipal Service Fee from fiscal year 2008-2009 through fiscal year 2011-2012.



### All Casino Related Revenue Table and Chart

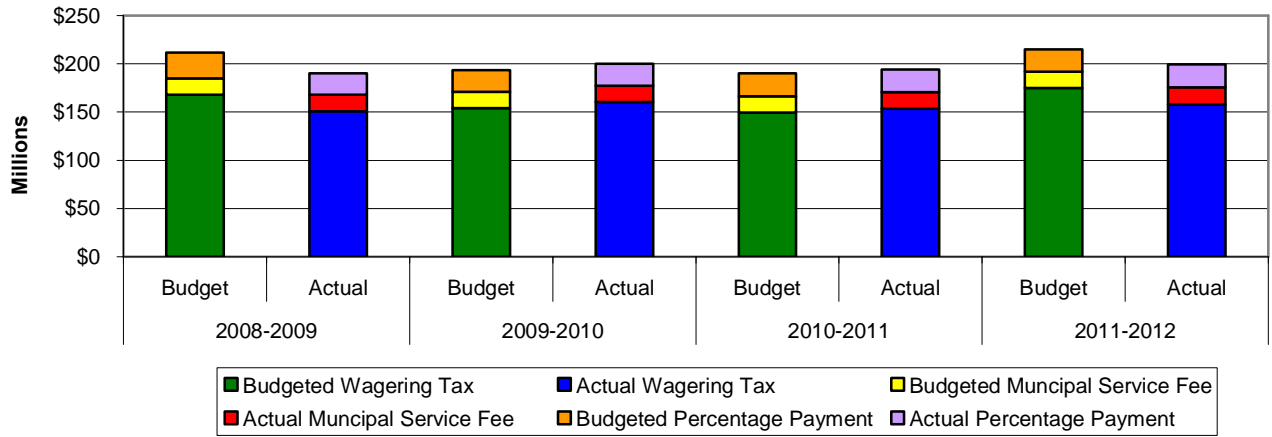
The following schedule reflects total Budgeted and Actual Casino Revenue (including the Municipal Service Fee) for each fiscal year from 2008-2009 through 2011-2012; the budgeted and estimated revenue for fiscal year 2012-2013, and the Mayor's proposed revenues for fiscal year 2013-2014.

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
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	214.9	199.4	(15.5)	(7.2)	5.1	2.6
<b>2012-2013 (A)</b>	<b>187.8</b>	<b>190.8</b>	<b>3.0</b>	<b>1.6</b>	<b>(8.6)</b>	<b>(4.3)</b>
2013-2014 (B)	190.0	N/A				

(A) The amount shown in the schedule as actual revenue for fiscal year 2012-2013 is an estimate by the Office of the Auditor General.

(B) The proposed budget recommendation is the only amount available for fiscal year 2013-2014, 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 2008-2009 through fiscal year 2011-2012.



## OTHER REVENUES

### Conclusion

The Mayor's 2013-2014 Proposed Budget for Other Revenues of \$1,758.7 million is \$40.1 million less than the \$1,798.8 million amount budgeted for fiscal year 2012-2013. Based on our analysis the proposed budget for Other Revenues is reasonable.

### Overview of the Mayor's Proposed Budget

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

	Dollars in Millions		
	Mayor's 2013-2014 Proposed Budget	2012-2013 Budget	Increase (Decrease)
All Non-General Fund	\$ 1,386.4	\$ 1,383.5	\$ 2.9
General Fund	372.3	415.3	(43.0)
Total Other Revenues All Funds	\$ 1,758.7	\$ 1,798.8	\$ (40.1)

In February 2013, the Revenue 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 for Other Revenues in the General Fund. The following table details the \$6.4 million reduction in Other Revenues for the General Fund in the Mayor's Proposed Budget for fiscal year 2013-2014:

	Dollars in Millions		
	Mayor's 2013-2014 Proposed Budget General Fund	February 2013 Revenue Estimating Conference	Increase (Decrease)
Other Revenues	\$ 254.6	\$ 265.0	\$ (10.4)
Sale of Property	5.3	1.3	4.0
POC Adjustment	112.4	112.4	0.0
Total Other Revenues General Fund	\$ 372.3	\$ 378.7	\$ (6.4)

As presented in the Mayor's Proposed Budget, Other Revenues is divided into eight categories, and is compared by category to the fiscal year 2012-2013 budget in the following schedule:

	Dollars in Millions			
	Mayor's 2013-2014 Proposed Budget	2012-2013 Budget	Increase (Decrease)	Percentage Increase (Decrease)
Sales and Charges for Services	\$ 1,198.9	\$ 1,219.4	\$ (20.5)	(1.7) %
Other Taxes, Assessments, and Interest	103.9	96.5	7.4	7.1
Grants, Shared Taxes and Revenue	96.5	143.6	(47.1)	(48.8)
Federal and State Transportation Funds	48.4	41.5	6.9	14.3
Licenses, Permits and Inspection Charges	29.6	30.5	(0.9)	(3.0)
Fines, Forfeits, and Penalties	21.5	21.0	0.5	2.3
Revenue From Use of Assets	19.5	20.5	(1.0)	(5.1)
Contributions, Transfers, and Miscellaneous (CTM)	240.4	225.8	14.6	6.1
<b>Total Other Revenues</b>	<b>\$ 1,758.7</b>	<b>\$ 1,798.8</b>	<b>\$ (40.1)</b>	<b>(2.3) %</b>

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. This category also includes the casino's municipal services fees and other personal services revenues.
- *Other Taxes, Assessments, and Interest* - Special assessments, Gas and Weight revenues, Industrial Facilities Tax, and other miscellaneous taxes.
- *Grants, Shared Taxes and Revenue* - State Shared Taxes and Grants such as Community Development Block Grants; Health Grants; Transportation Grants; Employment and Training Grants; and Police Grants.
- *Federal and State Transportation Funds*
- *Licenses, Permits and Inspection Charges* - Various permits and licenses, safety inspection charges, and construction inspection charges.
- *Fines, Forfeits, and Penalties* - Ordinance, court and parking fines, property tax penalties, and various fines, forfeits, and penalties.
- *Revenue From Use of Assets* - Earnings on investments, various interest earnings, building rentals, parking facilities, marina rentals, concessions, and equipment rentals.
- *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 \$40.1 million projected decrease in budgeted Total Other Revenues is comprised of \$43.0 million decrease in the General Fund and \$2.9 million increase in all other funds.

	Dollars in Millions		
	General Fund	All Other Funds	Increase (Decrease)
Sales and Charges for Services	\$ (53.6)	\$ 33.1	\$ (20.5)
Revenue From Use of Assets	(1.3)	0.3	(1.0)
Grants, Shared Taxes and Revenue	0.0	(47.1)	(47.1)
Other Taxes, Assessments, and Interest	0.2	7.2	7.4
Federal and State Transportation Funds	0.0	6.9	6.9
Fines, Forfeits, and Penalties	0.2	0.3	0.5
Licenses, Permits and Inspection Charges	(0.8)	(0.1)	(0.9)
Contributions, Transfers, and Miscellaneous (CTM)	12.3	2.3	14.6
Total Other Revenues	<u>\$ (43.0)</u>	<u>\$ 2.9</u>	<u>\$ (40.1)</u>

**Major Decrease in Other Revenues for the General Fund**

*Sales and Charges for Services* . The Mayor's Proposed 2013-2014 budget for revenues resulting from sales and charges for services decreased by \$53.6 million largely due to receiving bond proceeds in the current fiscal year. As discussed later in this report, proceeds of \$138.6 million from the Risk Management Bond sales are recorded in the current year revenues. Of this amount, \$55.8 million was budgeted in fiscal year 2012-2013 and no proceeds were budgeted in fiscal year 2013-1014.

In addition, included in Sales and Charges for Services is \$3.6 million of additional revenues to the General Fund resulting from the anticipated sale of surplus City-owned assets.

The table below summarizes notable budget reductions in the General Fund's Sales and Charges for Services:

	Dollars in Millions Increase/(Decrease)
Other Reimbursements . Non Departmental	\$ (55.8)
Sales of Electricity & Steam	(5.2)
Other Sales & Fees	(4.5)
Personal Services	8.0
Sales of City Property	3.6
Other Reimbursements	1.3
All Other	(1.0)
Total Budget Reductions in Sales and Charges for Services	<u>\$ (53.6)</u>

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

- *Sales and Charges for Services* . The Mayor's Proposed 2013-2014 budget for revenues resulting from sales and charges for services for all other funds, excluding the General Fund increased by \$33.1 million. Proposed revenues increased for Water and Sewage sales by \$12.9 million, Other Reimbursements increased by \$10.4 million, and Medicare D reimbursements increased by \$8.0 million.
- *Grants, Shared Taxes and Revenue* . The Mayor's Proposed Budget 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) and Human Services (\$7.0 million), and reduction in other non-general fund (\$7.2 million). These reductions are offset by an increase in grant funding for the Health Department of \$11.6 million.

**Other Revenues - Actuals Trend Analysis Excluding CTMs (All Funds)**

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. As such, we considered CTMs in our analysis as a whole, but we eliminated the CTM category in the comparative schedules and charts that follow.

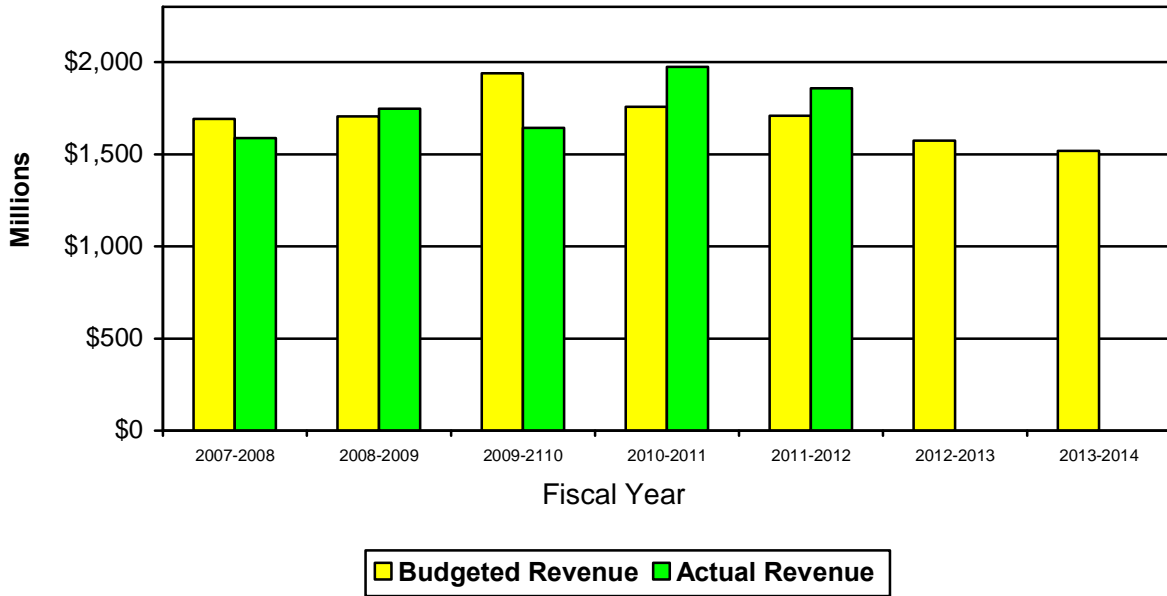
The following table shows budgeted and actual Other Revenues for each fiscal year from 2007-2008 through 2011-2012. The table also includes budgeted Other Revenues for fiscal year 2012-2013, and Other Revenues as shown in the Mayor's 2013-2014 Proposed Budget.

Fiscal Year	Dollars In Millions					
	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) In Actual Revenue From Prior Year	
			Amount	%	Amount	%
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	1,709.8	1,858.8	149.0	8.7	(116.9)	(5.9)
2012-2013 <sup>(A)</sup>	1,573.1	N/A	N/A	N/A	N/A	N/A
2013-2014 <sup>(A)</sup>	1,518.3	N/A	N/A	N/A	N/A	N/A

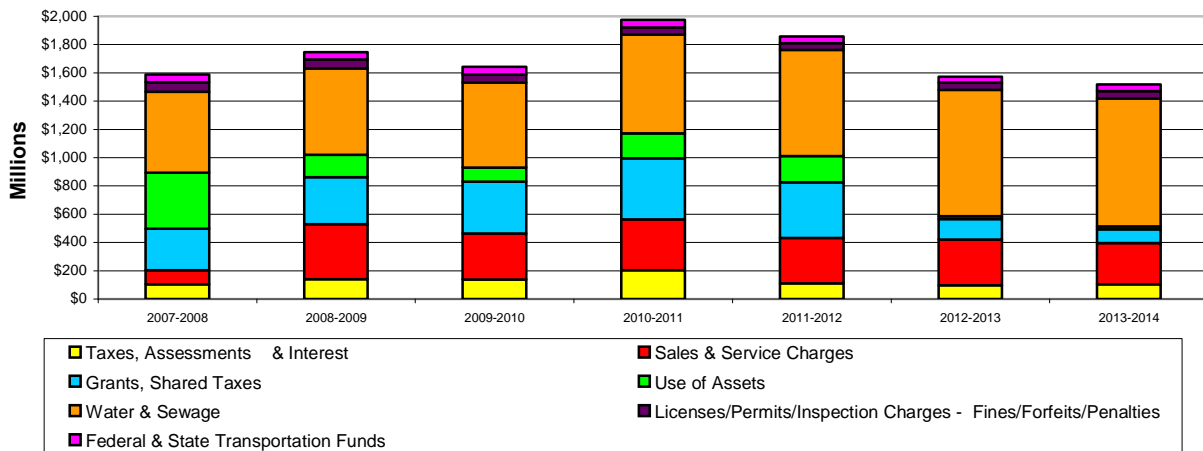
<sup>(A)</sup> Budgeted amounts are the only figures available for fiscal years 2012-2013 and 2013-2014. The other amounts are designated N/A (Not Available) in the schedule.



The following chart compares budgeted Other Revenues to actual Other Revenues for fiscal years 2007-2008 through 2011-2012. The chart also includes budgeted amounts for fiscal years 2012-2013 and 2013-2014. 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 2007-2008 through 2013-2014 and from Revenue From Use of Assets in fiscal year 2007-2008. The chart compares Other Revenues by source over five fiscal years . actuals from 2007-2008 through 2011-2012, and budgeted amounts for fiscal years 2012-2013 through 2013-2014.



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
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	98.2	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	752.4	322.6	394.1	109.8	184.2	47.2	47.7	1,858.0
<b>2012-2013 (A)</b>	<b>894.8</b>	<b>324.6</b>	<b>143.6</b>	<b>96.5</b>	<b>20.5</b>	<b>51.5</b>	<b>41.6</b>	<b>1,573.1</b>
<b>2013-2014 (B)</b>	<b>906.1</b>	<b>292.8</b>	<b>96.5</b>	<b>103.9</b>	<b>19.5</b>	<b>51.1</b>	<b>48.4</b>	<b>1,518.3</b>

- (A) 2012-2013 Adopted Budget  
(B) Mayor's 2013-2014 Proposed Budget

Revenue generated by Water and Sewage fees over a five-year period beginning in fiscal year 2007-2008 through fiscal year 2011-2012 averaged \$647.9 million. Water and Sewage fees of \$752.4 million were collected during fiscal year 2011-2012, which is an increase of \$104.5 million from the average. Estimates for fiscal years 2012-2013 and 2013-2014 have increased by \$246.9 million and \$258.2 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.

### Estimate of Other Revenues (General Fund Only) for Fiscal Year 2012-2013

The 2012-2013 Adopted Budget for the General Fund has \$415.3 million of Other Revenues. Based on our review of available data, and trend analysis of actual revenues, we estimate a surplus of \$53.4 million in the General Fund Other Revenues:

	Dollars in Millions
Sales of Bonds <sup>(A)</sup>	\$ 82.8
Licenses, Permits and Inspection Charges and Grants, Shared Taxes and Revenue	4.1
Sales and Charges for Services	(25.3)
Other Taxes, Assessments, and Interest	(4.9)
All Other	(3.3)
<b>Total Other Revenues Estimated 2012-2013 Surplus</b>	<b>\$ 53.4</b>

- (A) Proceeds from the Sale of Risk Management bonds totaling \$138.6 million was received in fiscal year 2012-2013, however only \$55.8 million was included in the current year budget. The difference affects the Surplus/Deficit in the current fiscal year.