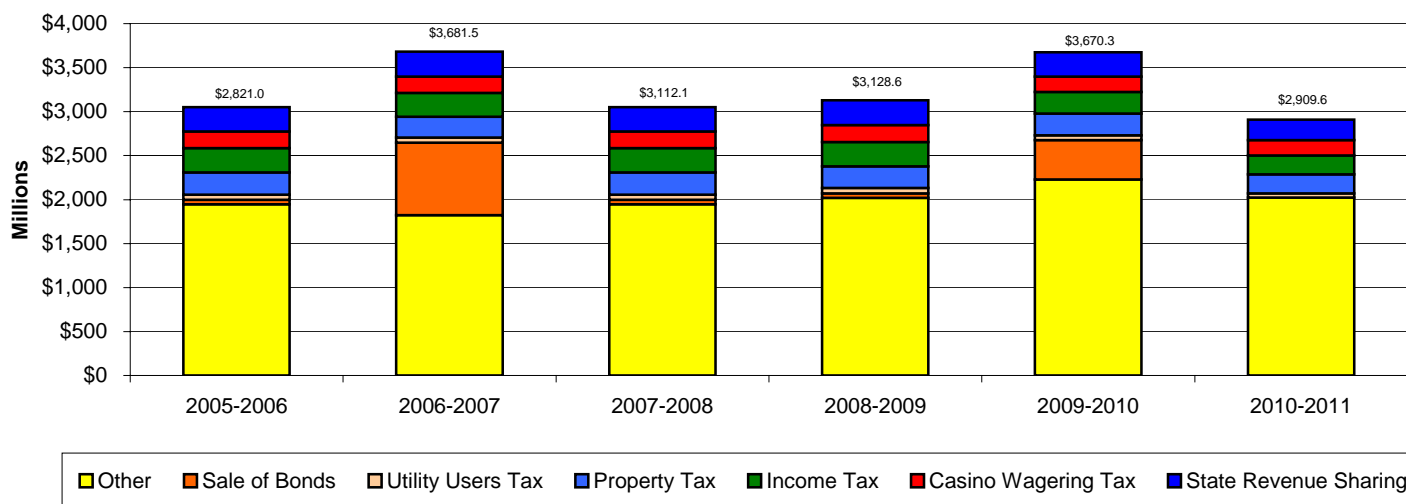


CITY OF DETROIT MAJOR REVENUES FOR FISCAL YEAR 2005-2006 THROUGH FISCAL YEAR 2010-2011

The following chart and schedule compares the total budgeted revenues and major revenue sources over five fiscal years from 2005-2006 through 2009-2010, and total revenues and major revenues sources in the Mayor's 2010-2011 Proposed Budget.



In Millions								
Fiscal Year	Property Tax	Income Tax	Utility Users Tax	State Revenue Sharing	Casino Wagering Tax	Sale of Bonds	Other	Total
2005-2006	249.6	275.1	49.7	285.1	153.0	50.4	1,758.0	2,821.0
2006-2007	237.3	271.4	56.0	284.2	185.0	825.0	1,822.6	3,681.5
2007-2008	245.0	277.6	60.0	276.0	193.2	50.3	2,010.0	3,112.1
2008-2009	245.4	275.0	60.0	281.1	194.8	53.2	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 (A)	214.5	215.0	50.0	234.8	173.4	0.0	2,021.9	2,909.6

(A) Mayor's 2010-2011 Proposed Budget

The sections that follow include an analysis of the reasonableness of the budgeted amounts of major revenues in the Mayor's 2010-2011 Proposed Budget and a comparison to major revenues in the fiscal year 2009-2010 budget including revenues for property tax, income tax, utility users tax, state revenue sharing, casino wagering tax, and other revenues.

STATE REVENUE SHARING

Conclusion

The amount included in the Mayor's 2010-2011 Proposed Budget for State Revenue Sharing is consistent with the amount in the Governor's 2010-2011 Executive Budget recommendations. However, it should be noted that the Governor's Executive Budget has yet to be enacted and is still subject to change. The actual State Revenue Sharing received by the City may be less than the budgeted amount, due to State legislative reductions in the statutory amount and actual sales tax revenue fluctuations.

It should also be noted that failure by the City to submit the Comprehensive Annual Financial Report to the State by the established timeline could cause the State to withhold the statutory part of State Revenue Sharing payments.

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 revenues contained in the Mayor's 2010-2011 Proposed Budget are \$41.9 million less than the amount budgeted for fiscal year 2009-2010. The State Revenue Sharing payments included in the Mayor's 2010-2011 Proposed Budget are compared to the 2009-2010 Budget in the following schedule:

	In Millions		
	Mayor's 2010-2011 Proposed Budget	2009-2010 Budget	Increase (Decrease)
State Revenue Sharing:			
State Sales Tax – Constitutional Portion	\$ 58.1	\$ 64.8	\$ (6.7)
State Sales Tax – Statutory Portion	176.7	212.1	(35.4)
Total State Revenue Sharing to City of Detroit	\$ 234.8	\$ 276.9	\$ (42.1)
Detroit Public Library	(1.4)	(1.6)	0.2
City's Net State Revenue Sharing (A)	\$ 233.4	\$ 275.3	\$ (41.9)

(A) The City's Net Revenue Sharing includes approximately \$49,209 to be paid to the Downtown Development Authority.

The following schedule compares the City's Net State Revenue Sharing, budget to actual, or estimated actual beginning with the 2005-2006 fiscal year:

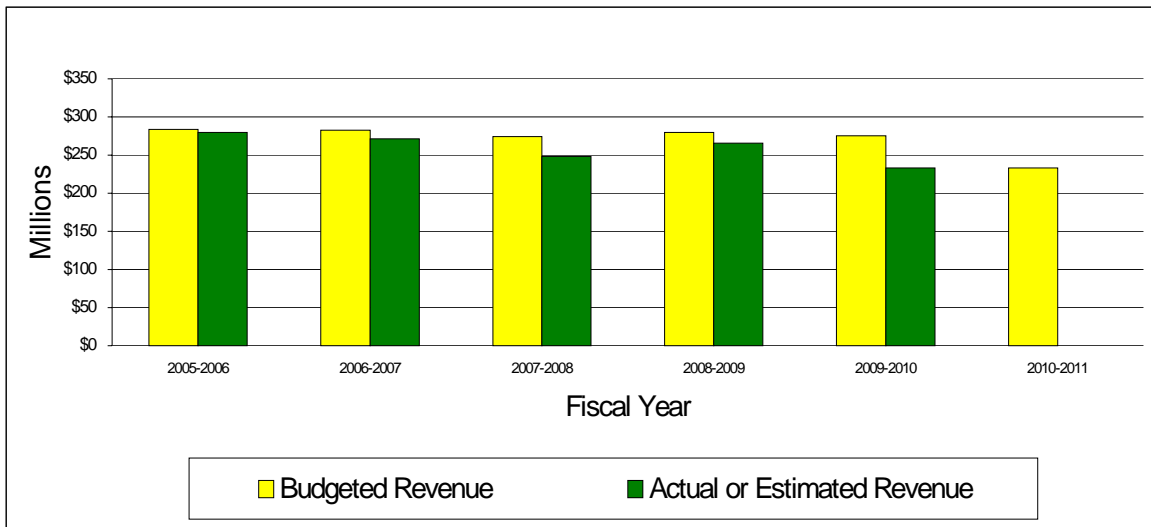
Dollars In Millions

Fiscal Year	Budgeted Revenue	Actual Revenue ¹	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year	
			Amount	Percentage	Amount	Percentage
2005-2006	\$ 283.5	\$ 279.5	\$ (4.0)	(1.4) %	\$ (3.4)	(1.2) %
2006-2007	282.6	271.1	(11.5)	(4.1)	(8.4)	(3.0)
2007-2008	274.4	248.2	(26.2)	(9.5)	(22.9)	(8.5)
2008-2009	279.5	265.8	(13.7)	(4.9)	17.6	7.1
2009-2010 (A)	275.3	233.3	(42.0)	(15.3)	(32.5)	(12.2)
2010-2011 (B)	233.4	N/A	N/A	N/A	N/A	N/A

(A) The fiscal year 2009-2010 actual is an estimate by the Budget Department.

(B) The budgeted amount is the only amount available for fiscal year 2010-2011. The other amounts are designated N/A (Not Applicable) in the schedule.

The following chart shows actual State Revenue Sharing for fiscal years 2005-2006 to 2008-2009, the estimated State Revenue Sharing for fiscal year 2009-2010, and the budgeted State Revenue Sharing in the Mayor's 2010-2011 Proposed Budget.



State of Michigan Legislation and Projection

The Governor's 2010-2011 Executive Budget recommends total State Revenue Sharing payments to Detroit in the amount of \$234.8 million, a \$42.1 million decrease from the \$276.9 million the City budgeted for fiscal year 2009-2010. The total payment of \$234.8 million for State Revenue Sharing includes a portion determined by the State Constitution (constitutional) and a portion determined by the Governor and the State legislature (statutory).

¹ Actual State Revenue Sharing received by the City is less than budgeted amounts due to State legislative reductions in the statutory amounts and actual sales tax revenue fluctuations.

The constitutional portion of State Revenue Sharing payments is based on the 2000 City of Detroit census figure adjusted for the deduction of 50 percent of the institutional population² as required in the State Revenue Sharing Act.

The State Revenue Sharing Act also provides that the treasurer of any city, village, township, or county that collects money for another governmental authority or agency that levies property taxes shall pay an eligible authority its share of State revenue. Therefore, the City is required to pay \$1.4 million to the Detroit Public Library and \$49,209 to the Downtown Development Authority (DDA) from the \$234.8 million in State Revenue Sharing for the 2010-2011 State fiscal year. These amounts are proportionate to the State Revenue Sharing payments to the City.

² The institutional population is the population residing in correctional institutions, detention homes, and training schools for juvenile delinquents; homes for the elderly (for example, nursing homes and convalescent homes); homes for dependent and neglected children; homes and schools for the mentally or physically handicapped; homes for unwed mothers; psychiatric, tuberculosis, and chronic disease hospitals; and residential treatment centers

MUNICIPAL INCOME TAX REVENUE

Conclusion

Based on Detroit's distressed economy, which is evidenced by the continued loss of jobs and the escalating rate of population loss, the continuing decline in Municipal Income Tax revenue, and the optimistic projection for the proposed Income Tax Initiative, we have concluded that the projected revenue from Municipal Income Tax revenue of \$215.0 million included in the Mayor's 2010-2011 Proposed Budget is overstated by approximately \$10.0 million.

Analysis of Municipal Income Tax Revenue

Total Municipal Income Tax revenue contained in the Mayor's 2010-2011 Proposed Budget is \$30.0 million less than the amount budgeted for fiscal year 2009-2010. The Municipal Income Tax revenue included in the Mayor's 2010-2011 Proposed Budget is compared to the 2009-2010 Budget in the following schedule:

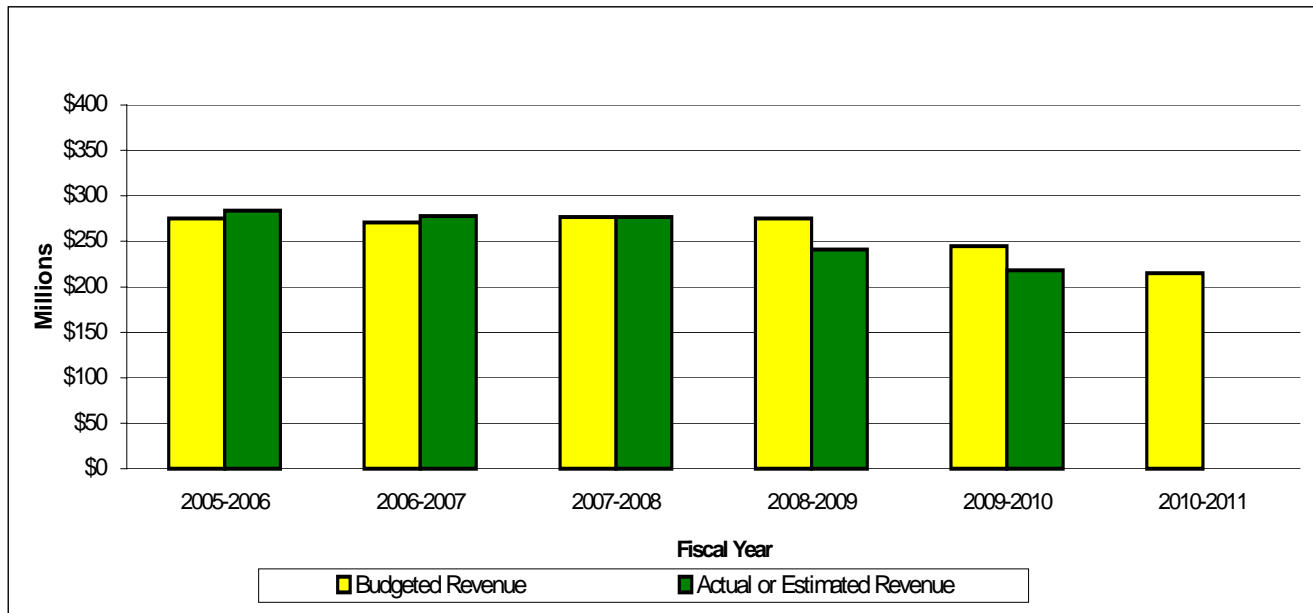
	In Millions		
	Mayor's 2010-2011 Proposed Budget	2009-2010 Budget	Increase (Decrease)
Municipal Income Tax	\$ 215.0	\$ 245.0	\$ (30.0)

The following schedule shows budgeted and actual Municipal Income Tax revenue for each fiscal year from 2005-2006 to 2008-2009. The schedule also shows budgeted revenue and estimated actual revenue for the fiscal year ending June 30, 2010, and budgeted Municipal Income Tax revenue for fiscal year 2010-2011 as shown in the Mayor's 2010-2011 Proposed Budget.

Fiscal Year	Dollars In Millions					
	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year	
			Amount	Percentage	Amount	Percentage
2005-2006	\$ 275.1	\$ 284.1	\$ 9.0	3.3%	\$ 1.6	0.6%
2006-2007	271.4	278.3	6.9	(2.5)	(5.8)	(2.0)
2007-2008	277.6	276.5	(1.1)	(0.4)	(1.8)	(0.7)
2008-2009	275.0	240.8	(34.2)	(12.4)	(35.7)	(12.9)
2009-2010 (A)	245.0	217.5	(27.5)	(11.2)	(23.3)	(9.7)
2010-2011 (B)	215.0	N/A	N/A	N/A	N/A	N/A

- (A) The amount shown in the schedule as actual revenue for fiscal year 2009-2010 is an estimate based on actual year-to-date Municipal Income Tax revenue as of March 30, 2010, 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 2010-2011. The other amounts are designated N/A (Not Applicable) in the schedule. The budget assumes a declining 10.0 percent reduction rate in actual collections.

The following chart compares budgeted Municipal Income Tax revenue to the actual revenue for fiscal years 2005-2006 through 2008-2009 and the budgeted Municipal Income Tax revenue to the estimated revenue for fiscal year 2009-2010, budgeted Municipal Income Tax revenue in the Mayor's 2010-2011 Proposed Budget.



Income Tax Rates for Fiscal Year 2010-2011

For the fiscal year 2010-2011, the income of residents and nonresidents will continue to be taxed at the rate of 2.5% and 1.25%, respectively, while the corporate tax rate will be 1.0%. Public Act 500 of 1998, which requires the City of Detroit to progressively reduce income tax rates for residents and non-residents, was changed in December 2007. The scheduled reduction of income tax rates by one-tenth of a percentage point for residents and one-twentieth of a percentage point for non-residents is suspended for calendar years 2009 and 2010.

Estimated Municipal Income Tax Revenue for Fiscal Year 2009-2010

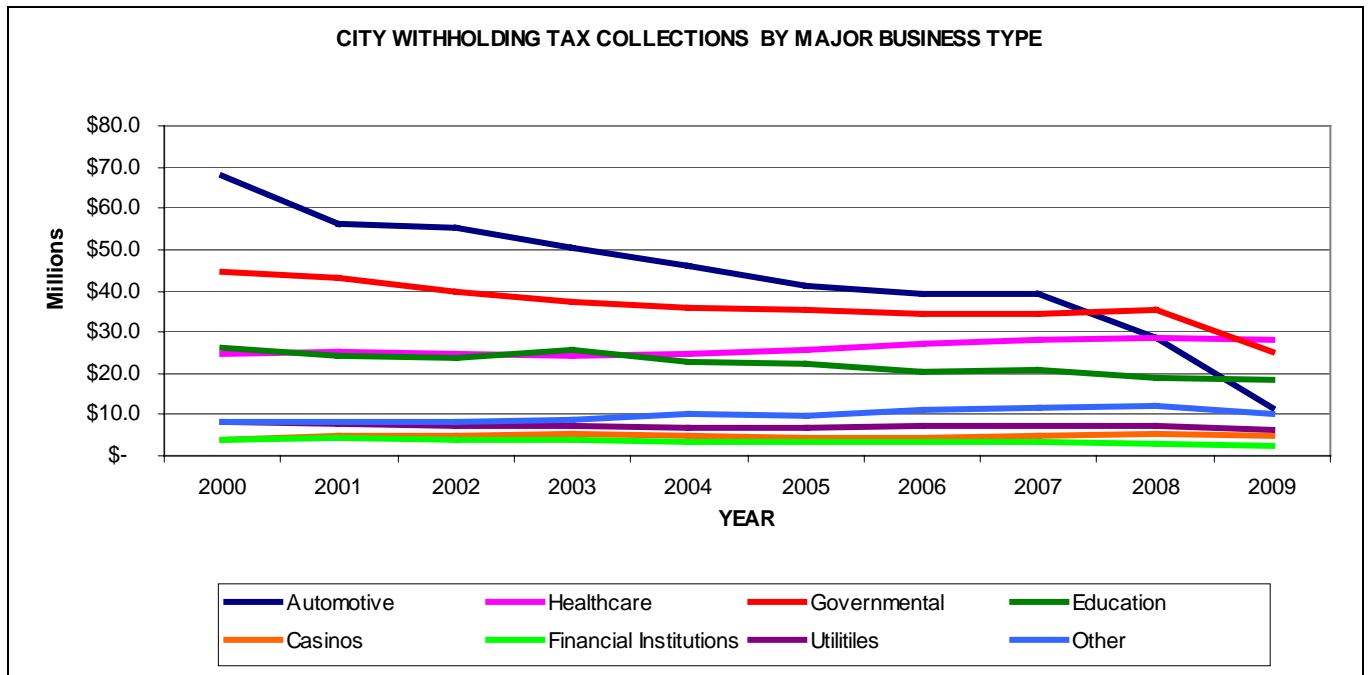
Income tax revenue can be difficult to predict due to various factors such as, population changes over time, employment levels, and changes in taxpayer incomes that directly affect the City's income tax revenue. Perhaps the most significant indicator of future municipal tax collections is the declining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

The Budget Department estimates actual Municipal Income Tax revenue of \$217.5 million for the fiscal year ending June 30, 2010, an amount that is \$27.5 million or 11.2% less than the budgeted amount. The estimate is based on tax collections from the current fiscal year. Based on our analysis, we believe this amount is overstated.

Other Factors Influencing Municipal Income Tax Revenue

The national economy is expected to marginally improve in 2010 and 2011; however, Michigan is expected to continue in recession during the same time period. Furthermore, declining auto sales coupled with declining market share for domestic auto companies and productivity improvements will continue to depress employment. This will cause Michigan's unemployment rate to remain well above the national average. The City's unemployment rate of 24.9% was 10.3% higher than the State's unemployment rate of 14.6% as of February 2010.

The following chart indicates, the decline in the collection of withholding taxes paid to the City of Detroit by major business sectors from 2000 through 2009.



As the above chart indicates the withholding tax collections from the automotive businesses and governmental entities have declined significantly since 2000. The decline experienced in fiscal year 2008-2009 was significantly higher than in the previous eight years.

Using the State of Michigan annual average of the number of employed from 2002 through 2009, Michigan has lost 601,600 jobs. With the continued restructuring of General Motors and Chrysler, additional job losses can be expected throughout 2010 and 2011 due to layoffs and plant closings. Unemployment levels in the City of Detroit have been consistently higher than the rest of the State.

Another factor affecting Municipal Income Tax revenue is the loss of residents. According to Southeast Michigan Council of Governments (SEMCOG) estimates, the City's population has decreased by approximately 163,670 residents since the 2000

census. Taxpayers that leave the City will reduce their City tax obligation by 50.0% at a minimum, or 100.0% if they are not employed in the City.

The Budget Department's projection for fiscal year 2010-2011 assumes a negative income tax growth rate of 10.0%. A local economist has recently projected that City income tax revenues will fall about 3.3% in fiscal year 2010-2011 to \$202.0 million after falling 13.4% to \$210.0 million in fiscal year 2009-2010.

Based on the declining income tax collections, the impending layoffs from General Motors, Chrysler, and the City of Detroit, the declining population of the City of Detroit, and the continued state of recession in Michigan, the Budget Department's estimate is optimistic.

The \$215.0 million in Municipal Income Tax Revenue included in the Mayor's 2010-2011 Proposed Budget includes \$13.0 million to be received from the Income Tax Initiative. The \$13.0 million represents collection of income taxes that should have been but were not paid in prior years. No documentation was available to support this projection.

PROPERTY TAX REVENUE

Conclusion

Based on our analysis, the current net property tax estimate of \$219.6 million for fiscal year 2010-2011, and the \$236.5 million estimate for fiscal year 2009-2010 included in the Mayor's 2010-2011 Proposed Budget are optimistic. The delinquent property tax estimate of \$10.3 million for fiscal year 2010-2011, and the \$11.9 million estimate for fiscal year 2009-2010 are overly 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).

Current net property taxes and delinquent property taxes included in the Mayor's 2010-2011 Proposed Budget are compared to the fiscal year 2009-2010 Budget in the following tables:

	In Millions		
	Mayor's 2010-2011 Proposed Budget	2009-2010 Budget	Increase (Decrease)
Current Net Property Taxes	\$ 219.6	\$ 236.5	\$ (16.9)
Delinquent Property Taxes (includes Interest and Penalty)	10.3	11.9	\$ (1.6)
Total Revenues From Property Taxes	\$ 229.9	\$ 248.4	\$ (18.5)

The following table compares the Mayor's 2010-2011 Proposed Budget for tax valuations to the 2009-2010 Budget:

Taxable Valuations (Millions)	\$ 9,111.9	\$ 9,725.9	\$ (614.0)
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The following table compares the Mayor's 2010-2011 Proposed Budget for tax rates to the 2009-2010 Budget:

Tax Rates (Per Thousand)	Mayor's 2010-2011 Proposed Budget	2009-2010 Budget	Increase (Decrease)
General City	\$ 19.9520	\$ 19.9520	\$ 0.0000
Debt Service	8.9157	7.4773	1.4384
Total Tax Rate	\$ 28.8677	\$ 27.4293	\$ 1.4384

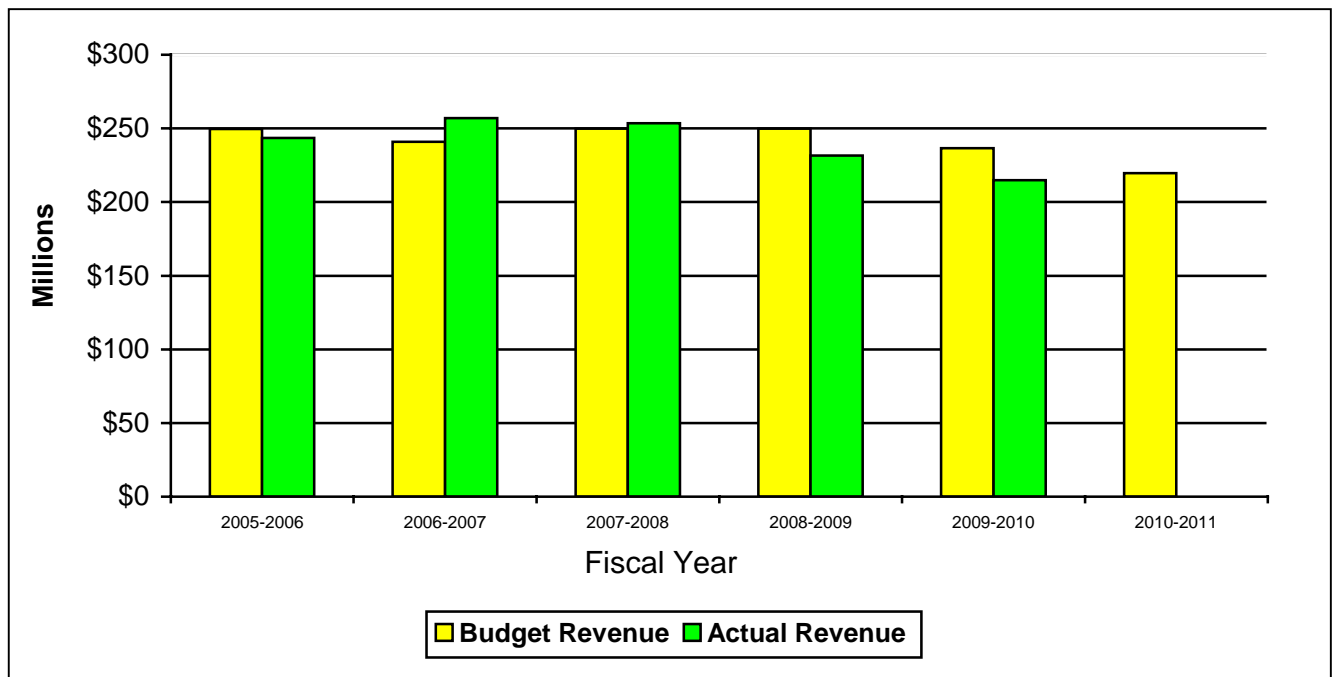
The following table shows budgeted and actual property tax revenue, including amounts for both the General and Debt Service Funds, for each fiscal year from 2005-2006 through 2008-2009. The table also includes budgeted property tax and the Office of the Auditor General's (OAG) estimate of actual property tax for fiscal year 2009-2010, and budgeted property tax revenue as shown in the Mayor's 2010-2011 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
2005-2006	\$ 249.6	\$ 243.6	\$ (6.0)	(2.4) %	\$ 4.8	2.0 %
2006-2007	240.9	257.0	16.1	6.7	13.4	5.5
2007-2008	249.8	253.6	3.8	1.5	(3.4)	(1.3)
2008-2009	249.9	231.5	(18.4)	(7.4)	(22.1)	(8.7)
2009-2010 (A)	236.5	214.8	(21.7)	(9.2)	(16.7)	(7.2)
2010-2011 (B)	219.6	N/A	N/A	N/A	N/A	N/A

(A) The actual amount for fiscal year 2009-2010 is an OAG estimate.

(B) The budgeted amount is the only figure available for fiscal year 2010-2011. 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 2005-2006 through 2009-2010. The actual amount for fiscal year 2009-2010 is an estimate by the OAG. The chart also includes the budget amount for fiscal year 2010-2011. The actual amount is not available for fiscal year 2010-2011.



Analysis of Net Current Property Taxes for Fiscal Year 2009-2010

The Mayor's 2010-2011 Proposed Budget includes current net property tax revenue of \$219.6 million, a decrease of \$16.9 million from the 2009-2010 budget of \$236.5 million. The decrease is largely due to \$305 million (3.0%) reduction in property tax valuations.

The reduction in real property valuations and tax revenue is a direct reflection of the severe downturn in the real estate market and the challenging economic conditions in the City. In a report published by the Citizens Research Council of Michigan (CRC) the gap between State Equalized Value and Taxable Value has now generally been eliminated and the declining property values are expected to be reflected in future property tax revenues. The Detroit News noted that the Metro Detroit area saw a 48% jump in foreclosures in the first quarter of 2010 as compared to the same period in 2009.

State law allows local governments to transfer real property taxes that were not paid by March 1st to the local county government for collection. Wayne County Treasurer's Office has a program where they obtain tax anticipation notes to get funding to make advance payments to local governments for the net amount of delinquent taxes. The net amount advanced to the local government is comprised of current delinquent taxes, reduced by the taxes that were not collected by the Treasurer from taxpayers for the previous year's unpaid taxes. An official of the Wayne County Treasurer's Office indicated that advances to the City would be less because of the decline in collections of delinquent property taxes. The official also indicated that Wayne County is uncertain regarding their ability to finance the advances to the cities in the future. If Wayne County was 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 2010-2011.

Based on our review of available data, the current net property tax revenue of \$219.6 million included in the Mayor's 2010-2011 Proposed Budget is optimistic.

Estimated Current Net Property Tax for Fiscal Year 2009-2010

The estimated current net property tax for fiscal year 2009-2010 of \$236.5 million included in the Mayor's 2010-2011 Proposed Budget is overly optimistic. Based on our analysis, the OAG estimates \$21.7 million less in current property tax revenues for fiscal year 2009-2010.

Analysis of Delinquent Property Taxes

The Mayor's 2010-2011 Proposed Budget of \$10.3 million for delinquent property taxes, and the estimated delinquent property tax revenues for fiscal year 2010-2011 of \$11.9 million are overly optimistic in comparison to recent historical collection data.

CASINO-RELATED REVENUE

Conclusion

The \$190.1 million in Casino-related Revenues included in the Mayor's 2010-2011 Proposed Budget is reasonable, based on our analysis of the estimated Wagering Tax, Percentage Payments, and Municipal Service Fees.

Analysis of Casino-Related Revenue

Total Casino-related Revenue contained in the Mayor's 2010-2011 Proposed Budget is \$3.4 million less than the amount budgeted for fiscal year 2009-2010. The following schedule compares total Casino-related Revenue included in the Mayor's 2010-2011 Proposed Budget to the fiscal year 2009-2010 Budget:

	In Millions		
	Mayor's 2010-2011 Proposed Budget	2009-2010 Budget	Increase (Decrease)
Wagering Tax	\$149.5	\$ 153.6	\$ (4.1)
Percentage Payments	23.8	23.0	0.8
Municipal Service Fee	16.8	16.9	(0.1)
Total Casino Revenue	\$190.1	\$193.5	\$ (3.4)

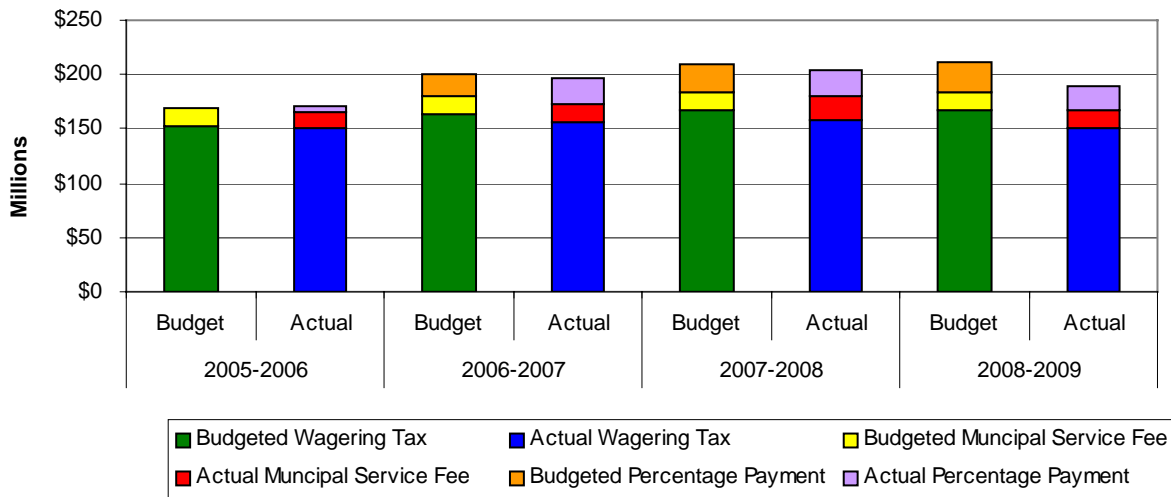
The following schedule shows budgeted and actual casino revenue, including the Municipal Service Fee, for each fiscal year from 2005-2006 through 2008-2009, the budgeted and estimated revenues for fiscal year 2009-2010, and the Mayor's proposed revenues for fiscal year 2010-2011.

Fiscal Year	Dollars In Millions					
	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year	
			Amount	Percentage	Amount	Percentage
2005-2006	\$168.3	\$171.6	\$3.3	2.0 %	\$18.8	12.3 %
2006-2007	200.2	195.8	(4.4)	(2.2)	24.2	14.1
2007-2008	209.8	203.9	(5.9)	(2.8)	8.1	4.1
2008-2009	211.5	190.0	(21.5)	(10.2)	(13.9)	(6.8)
2009-2010 (A)	193.5	191.2	(2.3)	(1.2)	1.2	0.6
2010-2011 (B)	190.1	N/A				

(A) The amount shown in the schedule as actual revenue for fiscal year 2009-2010 is an estimate by the Office of the Auditor General.

(B) The proposed budget recommendation is the only amount available for fiscal year 2010-2011; the other amounts are designated N/A (not applicable) in the schedule.

The chart below compares the budgeted and actual or estimated Casino-related Revenue from fiscal year 2005-2006 through fiscal year 2009-2010.



Wagering Tax

Pursuant to Act 69, P.A., 1997, the City receives Wagering Tax and Municipal Service Fee revenue from the MGM Grand Detroit (MGM), Motor City, and Greektown Casinos. Prior to September 1, 2004, the City's Wagering Tax revenue represented 9.9% of Adjusted Gross Receipts¹. On September 1, 2004, Act 306, P.A., 2004 went into effect, increasing the total Wagering Tax rate paid by the three Detroit casinos to the City an additional 2.0%.

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 and paid to the City from February 15, 2009 through February 15, 2010.

The Mayor's 2010-2011 Proposed Budget includes \$149.5 million in Casino Wagering Taxes, a decrease of \$4.1 million from the fiscal year 2009-2010 budget amount of \$153.6 million. Based on our analysis of casino revenue data, and the economic factors, the Mayor's 2010-2011 Proposed Budget for Casino Wagering Tax is reasonable.

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

Development Agreement Percentage Payments

In the Mayor's 2010-2011 Proposed Budget, a combined total of \$23.8 million is budgeted for Casino Development Agreement percentage payments, an increase of \$.8 million from fiscal year 2009-2010. The Casino Development Agreements include terms that require the assessment of an additional 1.0% on the casinos' Adjusted Gross Receipts beginning January 1, 2006. Another portion of the Casino Development Agreement percentage payments is based on a "trigger point" of \$400.0 million. When a casino's Adjusted Gross Receipts reach \$400.0 million in any calendar year, the City receives a payment of \$4.0 million and is entitled to an additional 1.0% of the Adjusted Gross Receipts above \$400.0 million.

Based upon our analysis of casino revenue data, the Mayor's 2010 –2011 Proposed Budget percentage payments amount is reasonable.

Municipal Service Fee

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

The Mayor's 2010-2011 Proposed Budget includes \$16.8 million of Municipal Service Fee revenue. The budget provides appropriations of \$9.4 million to fund 78 police officers, and \$4.4 million to fund 36 Fire and Emergency Medical Service (EMS) employees for the three casinos. This represents a decrease of 2 positions for the Police Gaming Unit and no change for the Fire/EMS unit from the prior year's budget. The fiscal year 2010-2011 budgeted Municipal Service Fee revenue of \$16.8 million is expected to fully fund the expenditures for these services.

The fiscal year 2009-2010 Municipal Service Fee revenue is budgeted at \$16.9 million. As of March 31, 2010, the City has collected a total of \$16.8 million in Municipal Service Fee revenue from all three Detroit Casinos.

The following schedule compares total casino appropriations funded by the Municipal Service Fee and the Public Safety Services provided in the Mayor's 2010-2011 Proposed Budget to the fiscal year 2009-2010 budgeted appropriations and services:

	In Millions		
	Mayor's 2010-2011 Proposed Budget	2009-2010 Budget	Increase (Decrease)
Municipal Service Fee	\$ 16.8	\$ 16.9	\$ (0.1)
Public Safety Services Provided:			
Police	\$ 9.4	\$ 9.6	\$ (0.2)
Fire (including EMS)	4.4	4.6	(0.2)
Total Appropriations	\$ 13.8	\$ 14.2	\$ (0.4)
Municipal Service Fee Surplus	\$ 3.0	\$ 2.7	\$ 0.3

UTILITY USERS TAX REVENUE

Conclusion

The Mayor's 2010-2011 Proposed Budget amount of \$50.0 million of Utility Users Tax is optimistic, considering the downturn in Detroit's economy and the last two years of collections.

Analysis of Utility Users Tax Revenue

Total Utility Users Tax revenue contained in the Mayor's 2010-2011 Proposed Budget is \$5.0 million less than the amount budgeted in fiscal year 2009-2010. The Utility Users Tax revenue included in the Mayor's 2010-2011 Proposed Budget is compared to the fiscal year 2009-2010 Budget in the following schedule:

	In Millions		
	Mayor's 2010-2011 Proposed Budget	2009-2010 Budget	Increase (Decrease)
Utility Users Tax Revenue	\$ 50.0	\$ 55.0	\$ (5.0)

The following schedule shows budgeted and actual Utility Users Tax revenue for fiscal years 2005-2006 through 2008-2009. The schedule also shows budgeted revenue and estimated revenue for the fiscal year ending June 30, 2010, and budgeted Utility Users Tax revenue as shown in the Mayor's 2010-2011 Proposed Budget.

Fiscal Year	Dollars In Millions					
	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year	
			Amount	Percentage	Amount	Percentage
2005-2006	\$ 49.7	\$ 60.0	\$ 10.3	20.7 %	\$ 7.1	13.4 %
2006-2007	56.0	53.8	(2.2)	(3.9)	(6.2)	(10.3)
2007-2008	60.0	51.6	(8.4)	(14.0)	(2.2)	(4.1)
2008-2009	60.0	49.9	(10.1)	(16.8)	(1.7)	(3.3)
2009-2010 (A)	55.0	45.5	(9.5)	(17.3)	(4.4)	(8.8)
2010-2011 (B)	50.0	N/A	N/A	N/A	N/A	N/A

(A) The amount shown in the schedule as actual revenue for fiscal year 2009-2010 is the auditor's estimate based on actual year-to-date Utility Users Tax revenue through March 2010, and an estimate for the remainder of fiscal year 2009-2010.

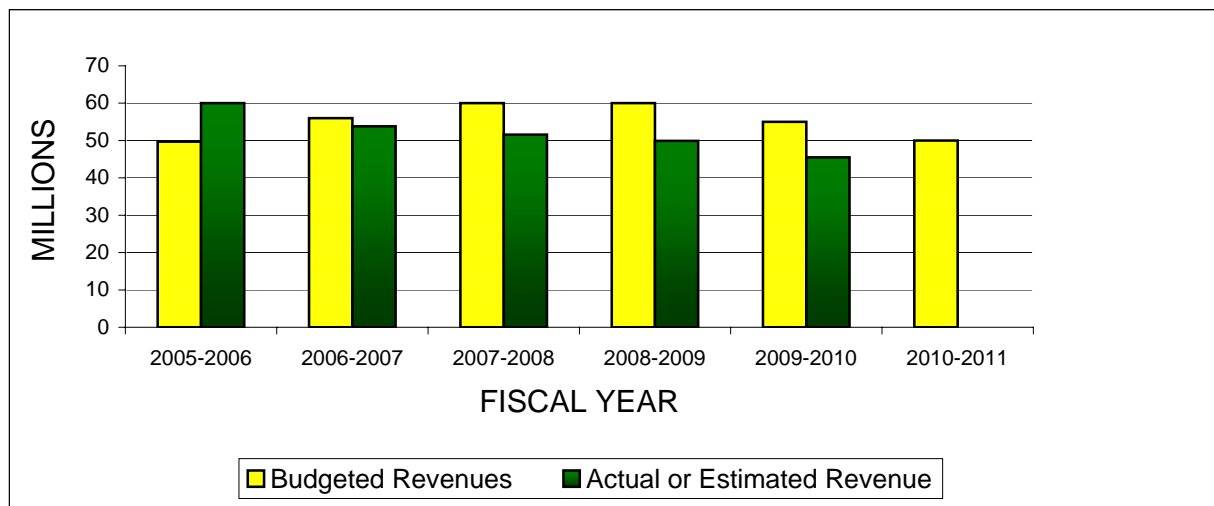
(B) The budgeted amount is the only figure available for fiscal year 2010-2011. The other amounts are designated N/A (Not Available) in the schedule.

The City Utility Users Tax Act, MCL 141.1151 et. seq., allows cities with a population greater than 750,000 to assess up to a 5.0% tax on users for intrastate telephone services (excluding cellular telephone services) and electric, steam, and gas utilities. The current rate charged for Utility Users Tax in the City of Detroit is 5.0%, billed by the public utilities, with 1.0% of the actual amount collected retained by the public utility.

The revenue generated from this tax shall be placed directly into the Police Department's budget and is to be used exclusively to retain or hire police officers.

Estimated revenue for Utility Users Tax for fiscal year 2010-2011 is \$50.0 million. The projected \$50.0 million includes the assumption that the audit being performed by Tax Management Associates, under a contract with the City, will result in increased collections of utility users tax. However, Detroit's economic outlook indicates high unemployment, increased foreclosures, and less consumption of utilities. Therefore, the estimate is optimistic.

The following chart compares budgeted Utility Users Tax revenue to actual revenue for fiscal years 2005-2006 through 2008-2009, budgeted Utility Users Tax revenue to the actual revenue estimated by our office for fiscal year 2009-2010, and the proposed Utility Users Tax revenue budgeted for fiscal year 2010-2011:



OTHER REVENUE

Conclusion

Our analysis indicates the Mayor's 2010-2011 Proposed Budget for Other Revenue of \$2,022.0 appears reasonable.

To assist in our analysis, we requested information concerning certain changes in Other Revenue for fiscal year 2010-2011 from the Budget Department, but the information was not provided.

Analysis of Other Revenue

The Mayor's 2010-2011 Proposed Budget for Other Revenue is \$199.4 million or 9.0% less than the amount budgeted for fiscal year 2009-2010. Other Revenue according to the Mayor's 2010-2011 Proposed Budget has been divided into eight categories, and is compared by category to the fiscal year 2009-2010 Budget in the following schedule:

	Dollars in Millions			
	Mayor's 2010-2011 Proposed Budget	2009-2010 Budget	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Sales and Charges for Services	\$ 1,088.6	\$ 1,073.0	\$ 15.6	1.5 %
Revenue From Use of Assets	125.7	335.3	(209.6)	(62.5)
Grants, Shared Taxes and Revenue	280.5	261.1	19.4	7.4
Other Taxes, Assessments, and Interest	120.8	115.5	5.3	4.6
Federal and State Transportation Funds	72.0	63.9	8.1	12.7
Fines, Forfeits, and Penalties	36.0	38.6	(2.6)	(6.7)
Licenses, Permits and Inspection Charges	34.2	38.5	(4.3)	(11.2)
Contributions, Transfers, and Miscellaneous (CTM)	264.2	295.5	(31.3)	(10.6)
Total Other Revenue	<u>\$ 2,022.0</u>	<u>\$ 2,221.4</u>	<u>\$ (199.4)</u>	(9.0) %

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

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

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

The \$199.4 million projected decrease in Total Other Revenue is primarily due to the \$209.6 million or 62.5% projected decrease in the *Revenue From Use of Assets* category.

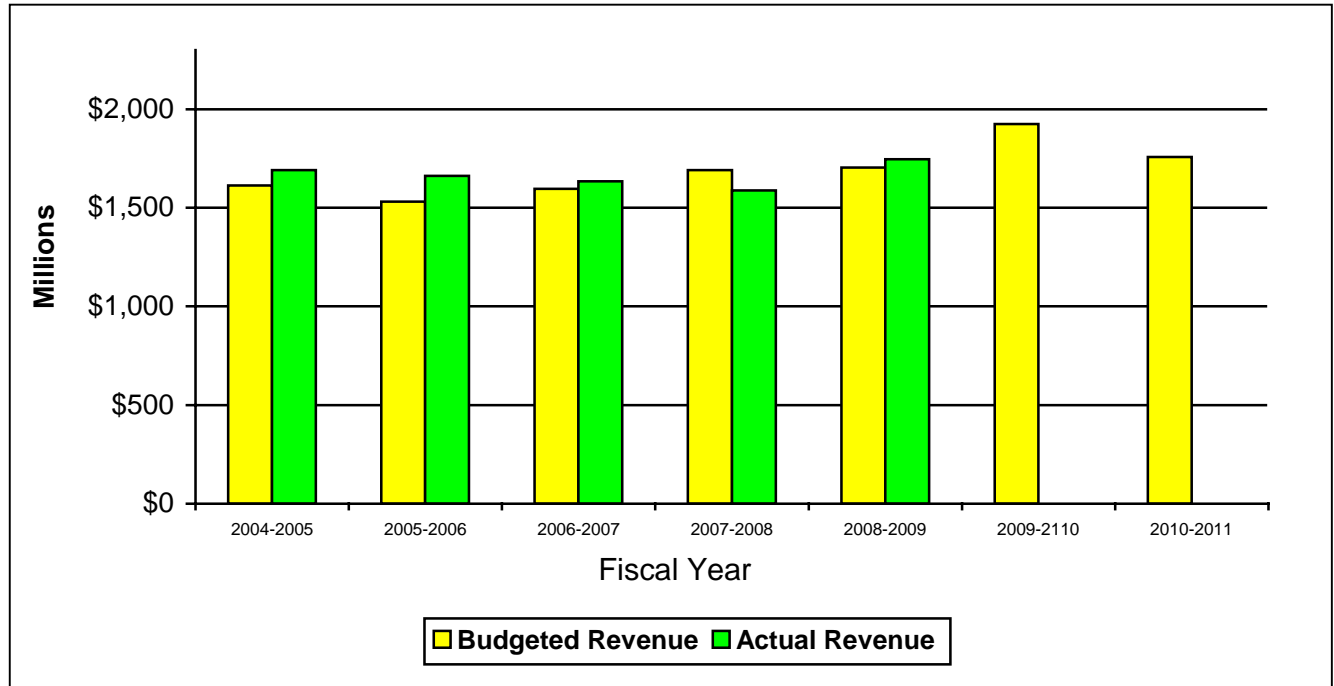
Based on a trend analysis of CTMs, we found that the total amount and frequency of CTMs varied significantly to the extent that our year-to-year comparison of Other Revenue was highly skewed. Since the majority of CTMs represented revenue for one fund, and an expenditure for another fund, and had no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

The following table shows budgeted and actual Other Revenue for each fiscal year from 2004-2005 through 2008-2009. The table also includes budgeted Other Revenue for fiscal year 2009-2010, and budgeted Other Revenue as shown in the Mayor's 2010-2011 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	
2004-2005	\$ 1,613.7	\$ 1,691.5	\$ 77.8	4.8 %	\$ 7.6	0.5 %	
2005-2006	1,531.2	1,662.4	131.2	8.6	(29.1)	(1.7)	
2006-2007	1,595.5	1,634.7	39.2	2.5	(27.7)	(1.7)	
2007-2008	1,691.4	1,588.4	(103.0)	(6.1)	(46.3)	(2.8)	
2008-2009	1,705.0	1,746.5	41.5	2.4	158.1	10.0	
2009-2010 (A)	1,925.9	N/A	N/A	N/A	N/A	N/A	
2010-2011 (A)	1,757.8	N/A	N/A	N/A	N/A	N/A	

(A) The budgeted amount is the only figure available for fiscal years 2009-2010 and 2010-2011. The other amounts are designated N/A (Not Available) in the schedule.

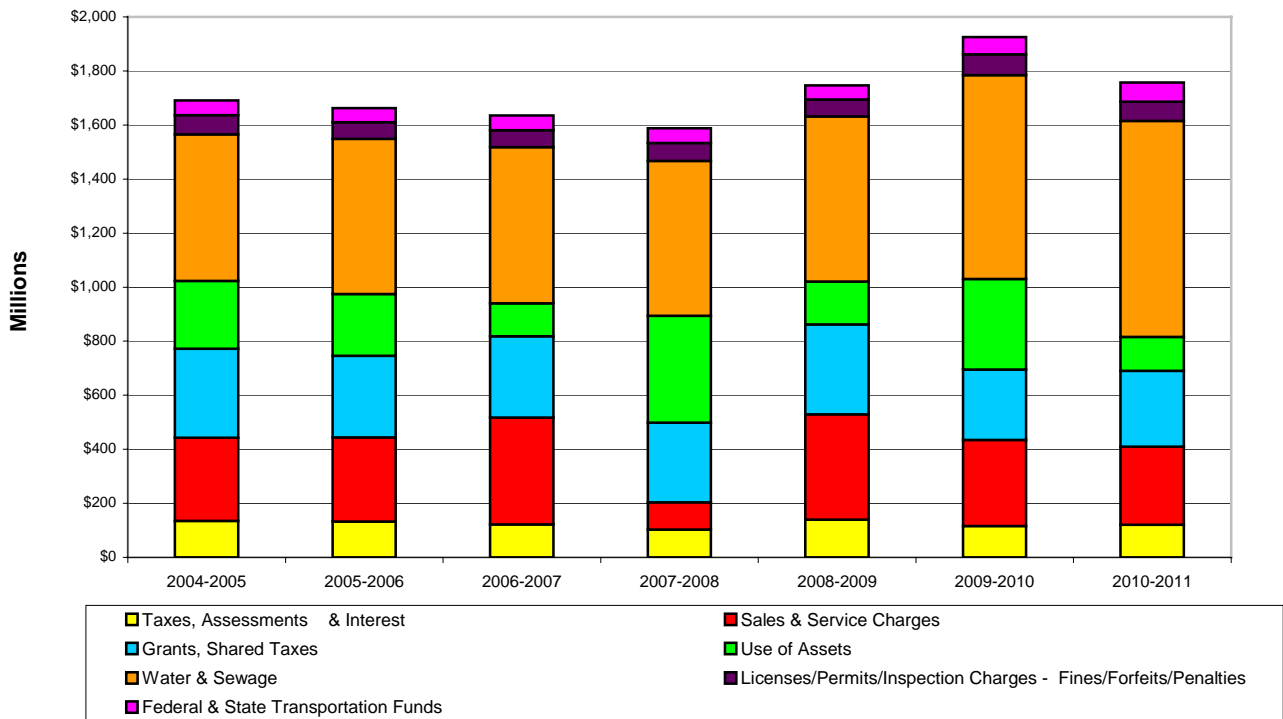
The following chart compares budgeted Other Revenue to actual Other Revenue for fiscal years 2004-2005 through 2008-2009. The chart also includes budgeted amounts for fiscal years 2009-2010 and 2010-2011. Actual amounts are not available for these years.



During fiscal years 2004-2005 through 2006-2007, actual Other Revenue were significantly greater than budgeted revenue. However, during fiscal year 2007-2008 budgeted revenue exceeded actual Other Revenue by \$103.0 million primarily driven by a net deficit of \$139.3 million in *Revenue From Use of Assets*, a net deficit of \$33.1 million in the *Other Taxes, Assessments, and Interest*, and a net deficit of \$4.7 million in the *Licenses, Permits and Inspection Charges*. A portion of the deficit was offset by net overages in *Grants, Shared Taxes and Revenue, and Sales and Charges for Service/Sale of Assets* by \$60.9 million and \$22.4 million respectively.

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

The following chart and schedule separates Water and Sewage fees from *Sales and Charges for Service in fiscal years 2004-2005 through 2010-2011(excluding fiscal year 2007-2008)* and from *Revenue From Use of Assets in fiscal year 2007-2008*, comparing the total actual revenues of Other Revenue sources over five fiscal years, from 2004-2005 through 2008-2009, to budgeted total revenues of Other Revenue sources for fiscal years 2009-2010 through 2010-2011.



In Millions								
Fiscal Year	Water & Sewage	Sales & Service Chrgs	Grants, Shared Taxes	Taxes, Assmnts & Intrst	Rev From Use of Assets	Licen/Prmt /Inspt Fns/Forfts/ Pnlty	State and Federal Transporta tion	Total Net of CMT
2004-2005	\$ 542.2	\$ 308.3	\$ 328.5	\$ 134.9	\$ 252.0	\$ 70.4	\$ 55.2	\$ 1,691.5
2005-2006	573.4	311.3	301.5	132.8	229.3	61.8	52.1	1,662.4
2006-2007	577.7	395.0	300.5	122.2	123.0	62.3	54.1	1,634.8
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 (A)	754.5	318.5	261.1	115.6	335.3	77.0	63.9	1,925.9
2010-2011 (B)	799.5	289.1	280.5	120.8	125.7	70.3	72.0	1,757.8

- (A) 2009-2010 Adopted Budget
- (B) Mayor's 2010-2011 Proposed Budget

It should be noted that the Mayor's 2010-2011 Proposed Budget for total Other Revenue excluding *CTM* is expected to be \$168.1 million less than the 2009-2010 Adopted Budget. This is primarily due to a \$209.6 million projected decrease in revenue from *Revenue From Use of Assets*, offset by *Grants, Shared Taxes and Revenue* and *Sales and Service Charges*, which are anticipated to generate \$19.3 million and \$15.6 million respectively more than budgeted in the current fiscal year.

Revenue generated by Water and Sewage fees over a five-year period beginning in fiscal year 2004-2005 through fiscal year 2008-2009 averaged \$575.7 million. Estimates for fiscal years 2009-2010 and 2010-2011 have increased by \$178.8 million and \$223.8 million respectively. Although, Water and Sewage fees of \$611.4 million were collected during fiscal year 2008-2009, which is an increase of \$35.7 million from the average, it appears that the estimate of \$799.5 million in the Mayor's 2010-2011 Proposed Budget is very optimistic. It should be noted that Water and Sewage fees during the trend period made up approximately one third of the Other Revenue budget, excluding *CTM*.

Revenue From Use of Assets is projected at \$125.7 million in the Mayor's 2010-2011 Proposed Budget, which is a decrease of \$209.6 million from fiscal year 2009-2010. A significant variation is in Other Miscellaneous which is mainly due to the unrealized securitization of the Detroit-Windsor Tunnel, Public Lighting Department and Municipal Parking Department revenues of \$275 million. However, there is anticipated revenue of \$86.4 million due to a restructuring and consolidation plan. The Mayor's 2010-2011 Proposed Budget also assumes \$25.1 million of revenue generated from Earnings on Investments, which is a \$6.4 million decrease from the \$31.5 million budgeted in fiscal year 2009-2010. It is unclear why this estimate is so conservative considering the \$111.5 million of revenue from Earnings on Investments in fiscal year 2008-2009. There is also a \$4.5 million reduction in Parking Facilities Revenue due to the transfer of Cobo to the Regional Authority, and the loss of \$4.4 million due to the termination of the City's agreement with Olympia Entertainment for Joe Louis Arena. No additional information has been provided to permit a determination whether the expected revenue is feasible.

The Mayor's 2010-2011 Proposed Budget anticipates an increase of \$15.6 million in *Sales and Services Charges*, which is mainly attributed to an increase of \$45.0 million in revenue of Water and Sewerage fees. This is offset by a reduction of \$8.7 million for Solid Waste Fees, \$7.5 million in Sales of City Real Property, \$3.9 million for Civic Center Electrical, \$3.3 million in Other Reimbursements – Federal, and \$1.6 million from Sanitation Inspection Fees.