

September 2023 Revenue Estimating Conference Report



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City of Detroit
September 2023 Revenue Estimating Conference Report

September 11, 2023

Overview of Revenue Estimating Conference:

State of Michigan Public Act 279 of 1909, Section 117.4t(1)(d), as amended by Public Act 182 of 2014, states the City of Detroit shall hold biannual revenue estimating conferences, which shall establish the official economic forecast and forecast of anticipated revenues of the City. The City holds its Revenue Estimating Conferences in September and February of each fiscal year. The voting principals are the City's Chief Financial Officer (CFO), the State Treasurer (or designee), and a person affiliated with another public entity, including a State institution of higher education, with experience in economic forecasting and revenue projection selected by the CFO and State Treasurer. The voting principals for the September 2023 Revenue Estimating Conference are:

- Jay B. Rising, Chief Financial Officer, City of Detroit
- Eric Bussis, Chief Economist and Director, Office of Revenue and Tax Analysis, Michigan Department of Treasury (on behalf of State Treasurer Rachael Eubanks)
- George Fulton, PhD, Director Emeritus, Research Seminar in Quantitative Economics (RSQE), Department of Economics, University of Michigan

The Office of Budget, within the Office of the Chief Financial Officer (OCFO), prepared revenue estimates for consideration by the conference principals. Following their review, the principals approved the revenue estimates without modification. In preparing the revenue estimates, the Office of Budget consulted with the OCFO's Offices of the Assessor, Departmental Financial Services, and the Treasury, as well as the City Council's Legislative Policy Division and the Office of the Auditor General. The Office of Budget thanks its colleagues for their continued support and assistance throughout the revenue estimation process.

The estimates that follow include the current fiscal year (FY 2024) and the four succeeding fiscal years (FY 2025 through FY 2028). While there is a greater focus on the General Fund, the estimates also cover the City's grant, enterprise, and special revenue funds. The forecast assumes that current law and administrative procedures will remain in effect for the forecast period.

Summary of Revenue Estimates:

The [Detroit Economic Outlook for 2022-2028](#), which was previously released in August, predicts the City's economy will continue to see steady growth, with increasing jobs and wages. The forecast is prepared by the City of Detroit University Economic Analysis Partnership, which is a collaboration of economic researchers from the City, Wayne State University, Michigan State University, and the Research Seminar in Quantitative Economics (RSQE) at the University of Michigan.

The City's revenue outlook continues to improve, thanks to the strength of our income tax and our continuing efforts driving economic opportunity and growth for Detroiters. The Revenue Conference has revised revenue estimates moderately upward for the current fiscal year based on stronger tax collections concluding the previous fiscal year, Detroit's continued economic growth and stability,

and revenue sharing increases provided in the State Budget enacted in July. Income taxes continue to lead revenue growth in future years, in line with the City's economic forecast.

These revenue estimates are based on the most recent economic projections and forecasting models. As with any economic and revenue forecast, there are potential risks to the estimates approved today, including unexpected changes in local employment and current income tax collections, as well as competing State budget pressures affecting forecasted revenue sharing. However, the City's efforts to continue attracting major employers and providing Detroiters with opportunities for good-paying jobs provide potential revenue upside to the forecast.

The Revenue Conference reported FY 2024 General Fund recurring revenues projected at \$1.284 billion for the current fiscal year ending June 30, 2024, up nearly \$31 million (2.5%) from the previous conference estimate in February 2023. The increase is driven by our growing income and property tax base and revenue sharing increases provided by the State of Michigan. The FY 2024 revenue estimates also include an additional \$25.8 million of non-recurring revenues, primarily from short-term investment earnings.

General Fund recurring revenues for FY 2025, which begins July 1, 2024, are now forecasted at \$1.315 billion, an increase of \$31 million (2.4%) over the revised FY 2024 estimates above. The projected increase is led by income taxes as the local economy continues to see steady growth in jobs and wages. The out-year forecasts for FY 2026 through FY 2028 show continued overall revenue growth of about 2% per year.

Note that all revenue estimates exclude the use of fund balance and inter-fund transfers, which may otherwise appear in the City budget.

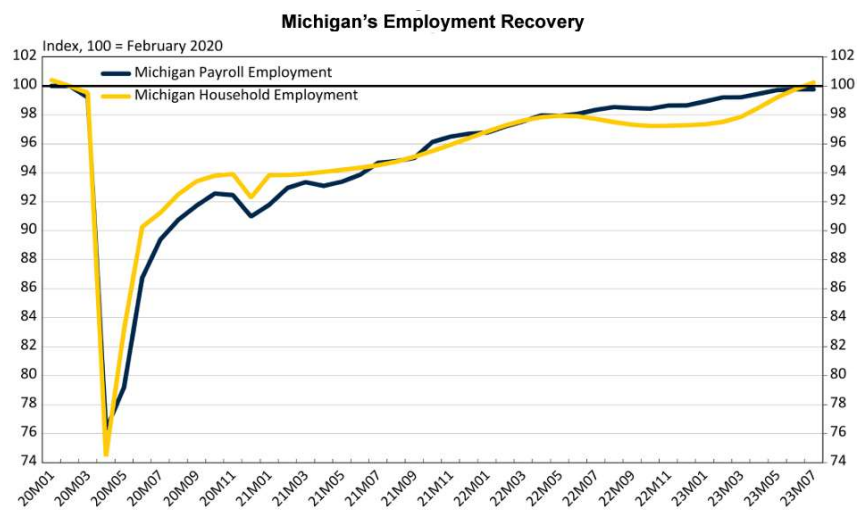
City of Detroit - General Fund Revenue Estimates - Summary

\$ in millions

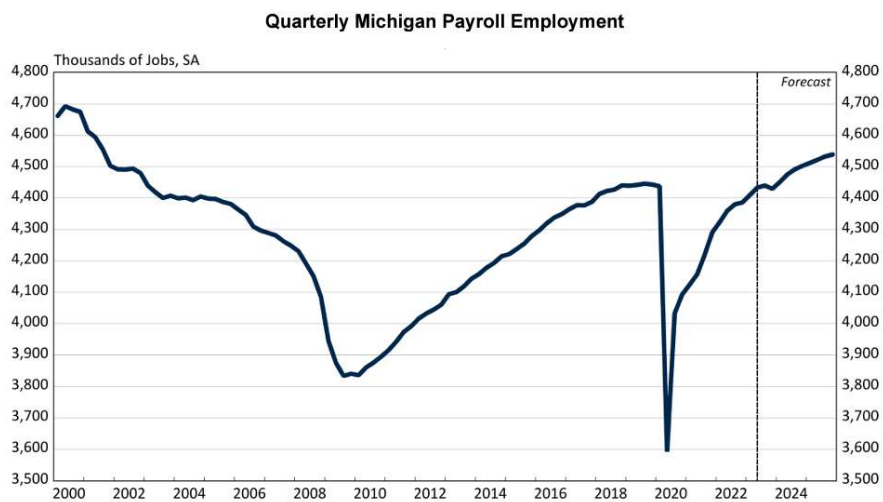
	FY2022	FY 2023		FY 2024-FY 2028 September 2023 Estimates				
	Audited Actual	Feb 2023 Estimate	Preliminary Actual	FY24 Estimate	FY25 Estimate	FY26 Estimate	FY27 Estimate	FY28 Estimate
Major Taxes								
Income Tax	\$ 402.2	\$ 374.6	\$ 404.5	\$ 414.7	\$ 429.7	\$ 444.3	\$ 458.0	\$ 472.0
Recurring Base	361.1	374.6	396.5	414.7	429.7	444.3	458.0	472.0
Non-recurring	41.1	-	8.0	-	-	-	-	-
State Revenue Sharing	\$ 219.6	\$ 225.7	\$ 225.8	\$ 235.3	\$ 236.7	\$ 241.2	\$ 245.9	\$ 250.6
Recurring Base	214.9	224.2	224.3	232.2	236.7	241.2	245.9	250.6
Non-recurring	4.7	1.5	1.5	3.1	-	-	-	-
Wagering Tax	\$ 277.6	\$ 253.5	\$ 255.7	\$ 248.3	\$ 250.7	\$ 257.4	\$ 259.7	\$ 262.3
Recurring Base	237.1	253.5	255.7	248.3	250.7	257.4	259.7	262.3
Non-recurring	40.5	-	-	-	-	-	-	-
Property Tax	\$ 128.8	\$ 135.8	\$ 138.2	\$ 145.1	\$ 150.6	\$ 154.5	\$ 158.7	\$ 162.4
Recurring Base	128.8	135.8	138.2	145.1	150.6	154.5	158.7	162.4
Non-recurring	-	-	-	-	-	-	-	-
Utility Users Tax	\$ 38.1	\$ 46.1	\$ 41.8	\$ 42.3	\$ 42.9	\$ 43.5	\$ 44.0	\$ 44.6
Recurring Base	38.5	45.7	41.4	42.3	42.9	43.5	44.0	44.6
Non-recurring	(0.4)	0.4	0.4	-	-	-	-	-
Subtotal, Major Taxes	<u>\$ 1,066.3</u>	<u>\$ 1,035.7</u>	<u>\$ 1,066.0</u>	<u>\$ 1,085.7</u>	<u>\$ 1,110.6</u>	<u>\$ 1,140.9</u>	<u>\$ 1,166.3</u>	<u>\$ 1,191.9</u>
Major Taxes, Recurring	980.4	1,033.8	1,056.1	1,082.6	1,110.6	1,140.9	1,166.3	1,191.9
Major Taxes, Non-Recurring	85.9	1.9	9.9	3.1	-	-	-	-
Other Revenues	\$ 167.7	\$ 192.8	\$ 235.3	\$ 224.4	\$ 223.0	\$ 210.3	\$ 211.5	\$ 214.6
Recurring	182.0	192.2	199.9	201.7	204.8	207.7	210.9	214.0
Non-recurring	(14.3)	0.6	35.4	22.7	18.2	2.6	0.6	0.6
Total, General Fund	<u>\$ 1,234.0</u>	<u>\$ 1,228.5</u>	<u>\$ 1,301.3</u>	<u>\$ 1,310.1</u>	<u>\$ 1,333.6</u>	<u>\$ 1,351.2</u>	<u>\$ 1,377.8</u>	<u>\$ 1,406.5</u>
General Fund, Recurring	1,162.4	1,226.0	1,256.0	1,284.3	1,315.4	1,348.6	1,377.2	1,405.9
General Fund, Non-Recurring	71.6	2.5	45.3	25.8	18.2	2.6	0.6	0.6

Economic Conditions

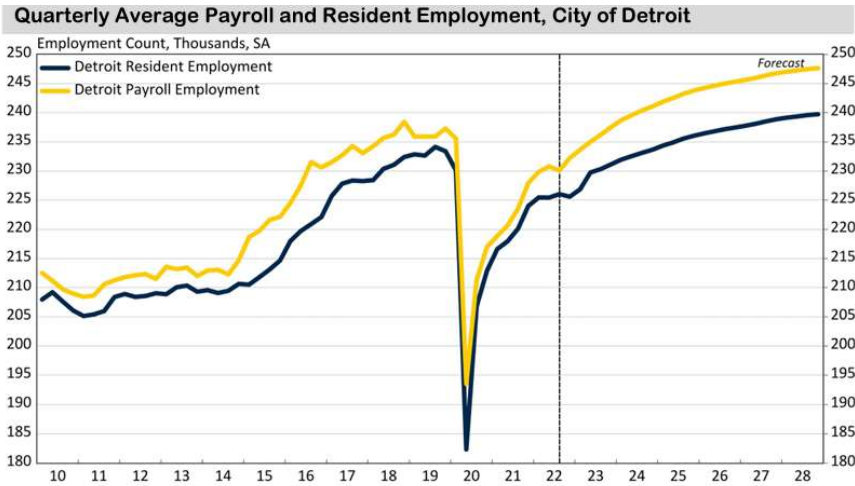
Michigan and Detroit employment are recovering quickly from the pandemic. At the state level, the number of employed residents has made a full recovery. Detroit resident employment is only 0.3% shy of a full recovery. Growth in blue-collar industries has led the way in employment progress at both the state and City levels. The latest [Economic Outlook for Detroit](#) from the University partnership adds that “although we anticipate that the national economy will flirt with recession later this year or early next year, we do not expect meaningful corrections in Michigan’s construction or automotive industries. A severe national recession or sharp downturns in those historically cyclical industries could lead to a downturn in Detroit’s labor market. Despite those risks, on balance we expect Detroit’s recovery to continue over the next several years.” Economic risks are discussed further in the next section of this report, but events like a work stoppage where employment suddenly stops in certain industries present a risk to the municipal income tax forecasted values.



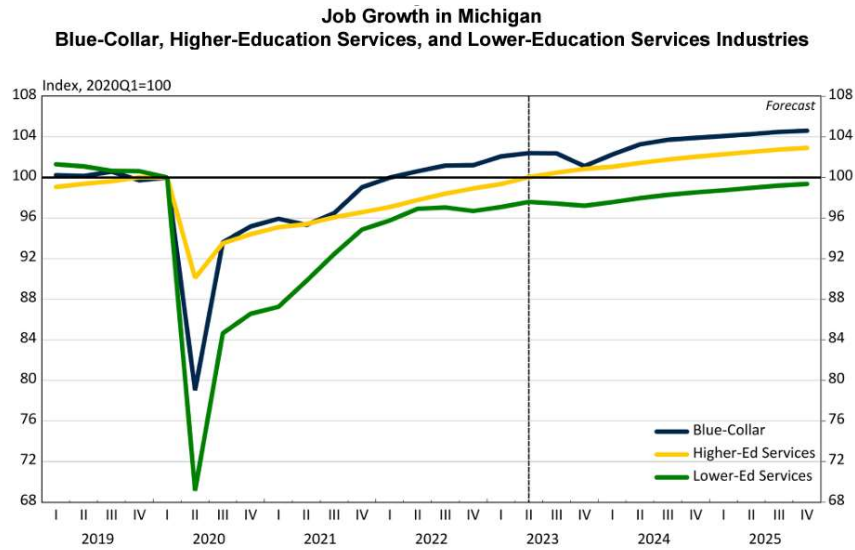
Source: University of Michigan, Research Seminar in Quantitative Economics, The Michigan Economic Outlook for 2023–2025



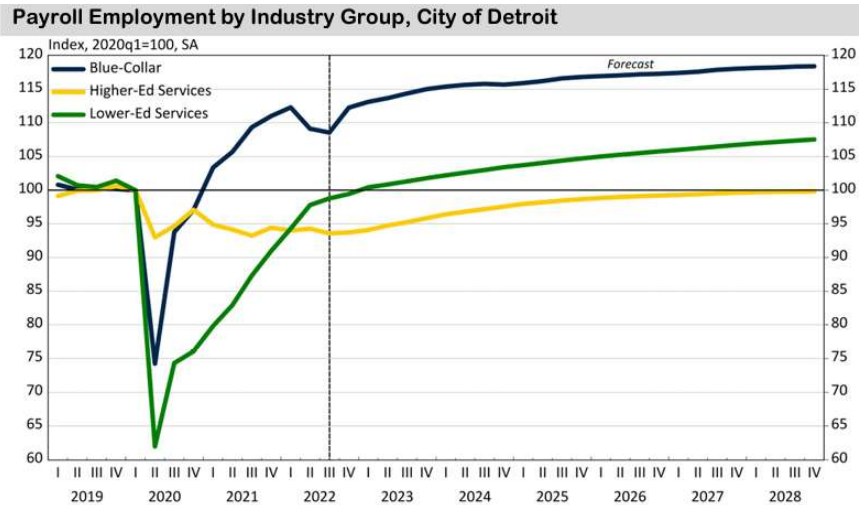
Source: University of Michigan, Research Seminar in Quantitative Economics, The Michigan Economic Outlook for 2023–2025



Source: University of Michigan, Research Seminar in Quantitative Economics, The Detroit Economic Outlook Update for 2022–2028

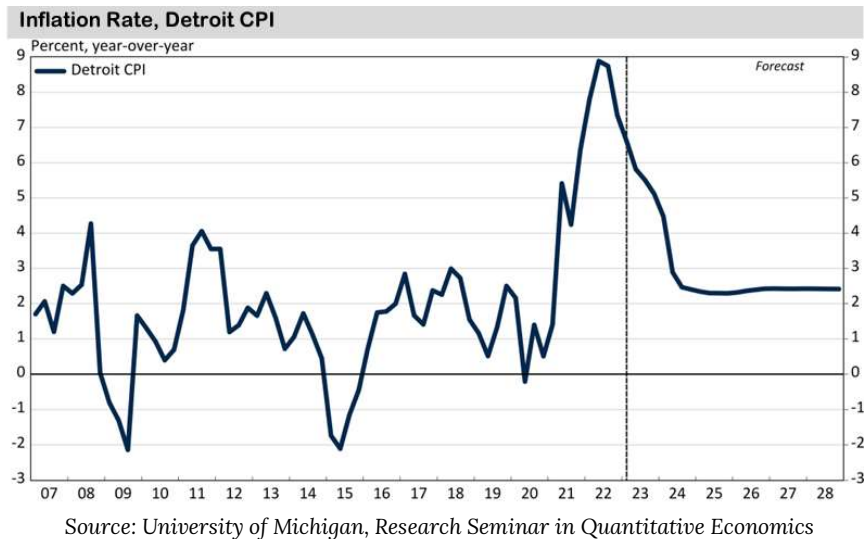


Source: University of Michigan, Research Seminar in Quantitative Economics, The Michigan Economic Outlook for 2023–2025



Source: University of Michigan, Research Seminar in Quantitative Economics, The Detroit Economic Outlook Update for 2022–2028

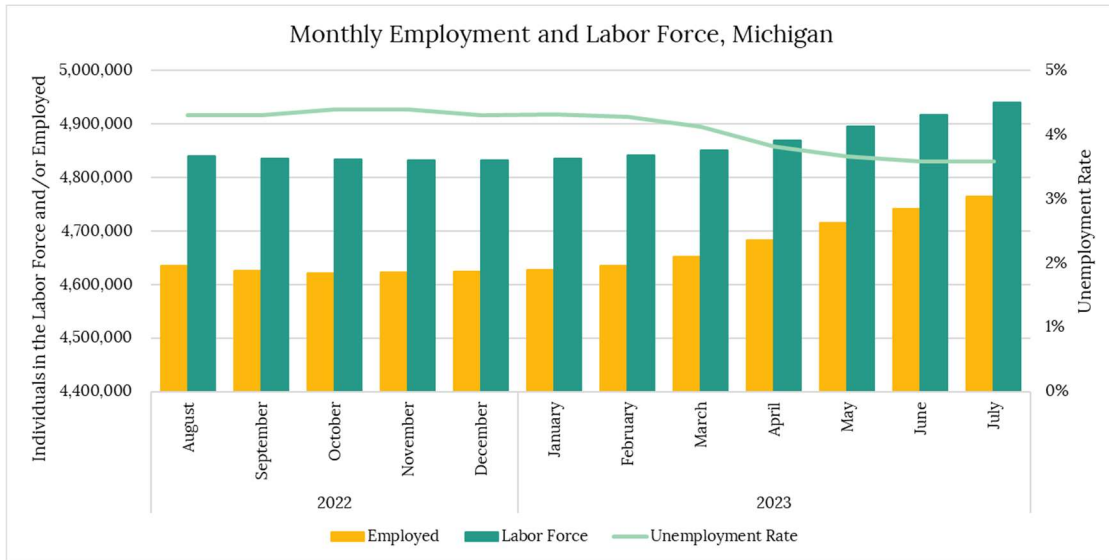
“[Even though] Detroit’s improving labor market over the past several years has translated into rising wages, ...stubbornly high inflation will eat away the lion’s share of Detroiters’ rising incomes.”¹ Detroit’s employment and wage growth directly affects the forecast for municipal income tax revenue. Higher nominal wages and higher employment individually increase revenue expectations, so the higher levels observed in each metric since the pandemic means that Detroit receives higher revenue. The Detroit CPI is forecasted to continue to slow into 2028 and has been falling since the spike in the second quarter of 2022. Optimistic expectations for local CPI is due to “behavior of residential housing rents, which constitute a large proportion of typical consumer expenditures.”¹



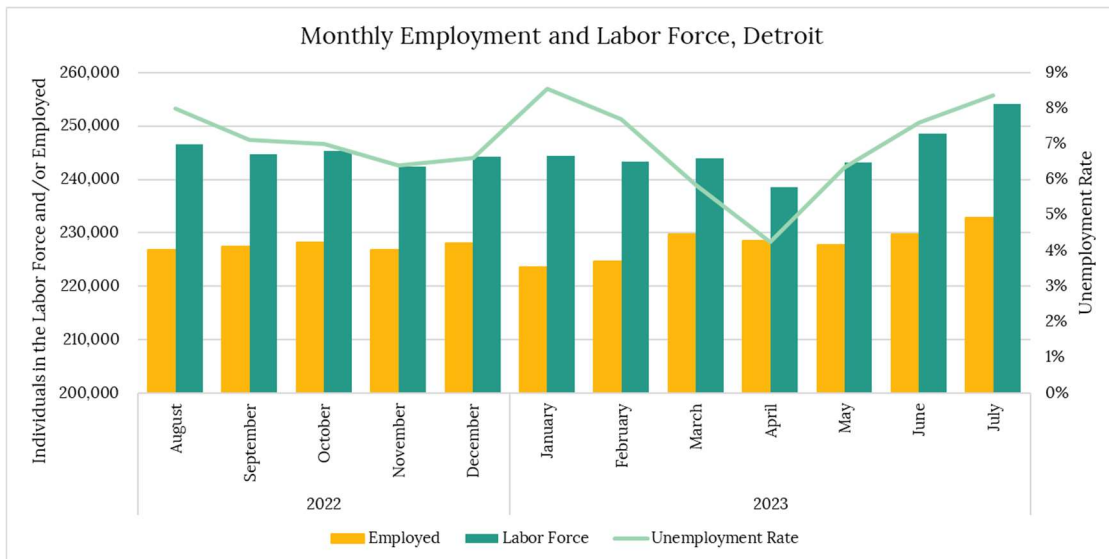
Labor market data has not reflected any recession-like conditions. National unemployment continues to stay near historic lows and employment levels continue to increase. Labor force participation

¹ City of Detroit Economic Outlook 2022–2028, Research Seminar in Quantitative Economics, University of Michigan

remains a challenge and labor demand has begun to slow with federal funds rate increases but overall labor conditions still appear strong².



Source: LAUS, Michigan Labor Market Information



Source: LAUS, Michigan Labor Market Information

² U.S. Bureau of Labor Statistics, Current Employment Statistics

Economic Risks

A risk to the City’s forecast is the negotiations between the United Auto Workers (UAW) and the “Detroit 3” automotive companies. The length and scope of a strike are two factors that have the largest potential impact on the City’s economy. Blue collar job growth in Detroit has been relatively strong since the pandemic, so any hit to manufacturing employment would mean those values come in lower than forecasted for 2023. This would also have negative implications for the income tax estimates below.

Another risk to the City’s revenue estimates is lower levels of in-person retail activity at the casinos. Retail gaming levels have not recovered to pre-pandemic levels, most likely due to the introduction of internet gaming and sports betting in January 2021. In calendar year (CY) 2021, the average retail gaming activity for the Detroit casinos was 13% lower than it was in CY 2019.³ The same average for CY 2022 was 1% lower than CY 2021. Retail sports betting levels have decreased since their start in January 2021 as well; CY 2022 average AGR (adjusted gross receipts) was 30% lower than CY 2021. However, this risk is at least partially mitigated by the new internet gaming revenue and its potential for further growth beyond substitution.

Summary of Economic Drivers:

<u>Major Revenue</u>	<u>Economic Input</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
Municipal Income Tax	Resident Employment Growth ¹	1.5%	2.0%	1.1%	1.0%	0.6%	0.6%
	Nonresident Employment Growth ¹	2.1%	2.3%	1.5%	1.0%	0.6%	0.6%
	Resident Wage Growth ²	5.3%	4.5%	3.2%	3.1%	3.0%	3.0%
	Nonresident Wage Growth ²	4.9%	3.5%	3.3%	3.3%	3.1%	3.3%
	Corporate Income Growth ⁴	50.8%	2.0%	2.0%	2.0%	2.0%	2.0%
	Partnership Income Growth	-2.6%	2.2%	2.0%	2.0%	2.0%	2.0%
Property Tax	U.S. Consumer Price Index for All Urban Consumers (U.S. CPI-U) ³	3.3%	5.0%	4.1%	2.7%	2.7%	2.7%
State Revenue Sharing	Sales Tax Forecast ⁴	3.2%	0.2%	1.8%	1.8%	1.8%	1.8%
	City/State Population Ratio ⁵	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%
Wagering Tax	Onsite Gaming Adjusted Gross Receipt (AGR) Growth Rate	-2.8%	1.0%	1.0%	1.0%	1.0%	1.0%
	Onsite Sports Betting AGR Growth Rate	-37.9%	1.0%	1.0%	1.0%	1.0%	1.0%
	Internet Gaming AGR Growth Rate	24.1%	1.0%	1.0%	1.0%	1.0%	1.0%
	Internet Sports Betting AGR Growth	36.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Utility Users	Net UUT Growth Rate	6.4%	1.0%	1.0%	1.0%	1.0%	1.0%

Sources:

- (1) U.S. Census Bureau and Local Area Unemployment Statistics
- (2) Quarterly Census of Employment and Wages
- (3) Actual CPI was 7.9%, but Taxable value growth cannot exceed 5% per Proposal A limits. FY 2023 uses the average annual US CPI-U for 2021 set by the State Tax Commission, FY 2024 uses the average annual US CPI-

³ Casino activity is reported on the Michigan Gaming Control Board website

U for 2022 as reported from the U.S. Bureau of Labor Statistics, FY 2025-2028 uses the 2023-2025 US CPI-U consensus forecast from the Survey of Professional Forecasters.

- (4) State of Michigan May 2023 Consensus Revenue Estimating Conference
- (5) U.S. Census Bureau, 2020 Decennial Census Redistricting Data

Current Year General Fund Revenue Estimates:

As shown in the summary table on page 2, the preliminary actual⁴ recurring General Fund revenue is \$1,256.0 million in FY 2023. The updated FY 2023 estimates have been increased by \$30 million since the February 2023 Revenue Estimating Conference, representing a 2% gain. The increase is primarily driven by stronger corporate income tax collections and income tax refund offset receipts than previously estimated. Utility users tax collections have not been as strong as predicted in February due to the decrease in utility (piped) gas which decreased by 20% over the year ended in July 2023 (1.429 to 1.137 dollars per therm).⁵ Gains from higher internet gaming revenues also added to the upward revision.

Compared to FY 2023 preliminary actuals, recurring FY 2024 revenues are expected to increase overall by \$28.3 million (2%). Income tax growth is the main driver behind this expected increase and accounts for \$18.2 million of the \$28.3 million. Revenue growth is spread between other major revenue streams: \$7.9 million in higher state revenue sharing expectations and \$6.9 million in higher property tax collections. Recurring Other Revenues for FY 2024 are forecasted to increase \$1.8 million over the FY 2023 preliminary actuals.

Non-recurring revenues of \$45.3 million were received in FY 2023 (preliminary actual). These revenues include \$20.7 million from one-time investment activity, \$7.8 million from one-time sale of City assets, and an \$8 million one-time corporate income tax payment.

⁴ Preliminary actual values mentioned in this report are subject to the annual year-end audit process and therefore subject to change.

⁵ This comes from the Bureau of Labor Statistics and represents values for the Detroit MSA which includes Detroit, Warren, and Dearborn: https://www.bls.gov/regions/midwest/news-release/averageenergyprices_detroit.htm

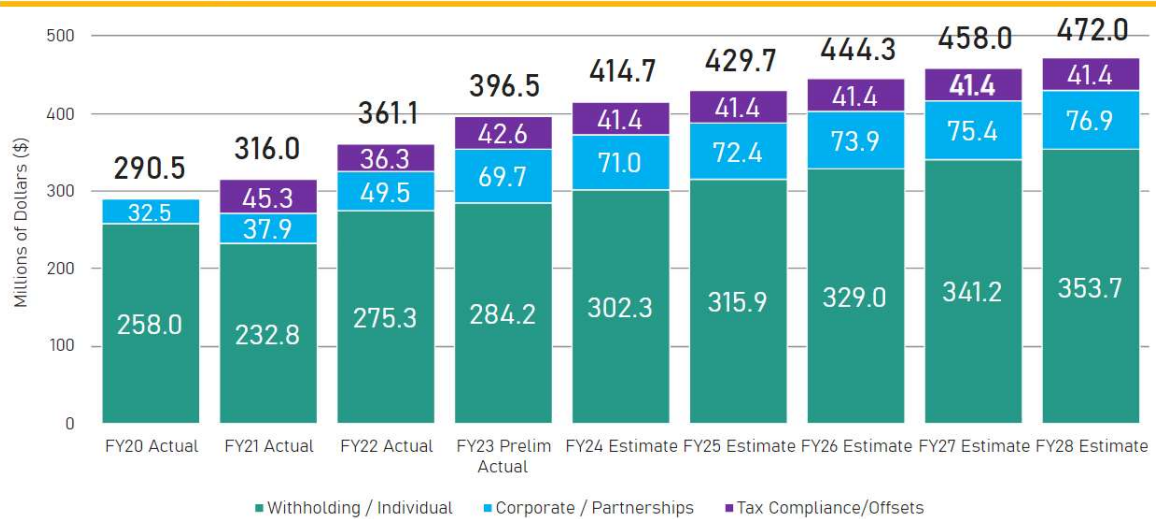
Summary of Major Taxes:

As shown in the summary table below, the actuals for the General Fund major revenues are \$1.066 billion in FY 2022, \$980.4 million of which was recurring revenue. The preliminary actuals for FY 2023 show an increase in recurring revenue spurred by growth in all recurring major revenue categories. Please see the sections below for additional details on the major revenues forecast:

City of Detroit - General Fund Major Revenue Estimates - Detail									
<i>\$ in millions</i>									
	FY 2022	FY 2023		FY 2024-FY 2028 September 2023 Estimates					
	Audited Actual	Feb 2023 Estimate	Preliminary Actual	FY24 Estimate	FY25 Estimate	FY26 Estimate	FY27 Estimate	FY28 Estimate	
Major Taxes									
Income Tax Recurring	\$ 402.2	\$ 374.6	\$ 404.5	\$ 414.7	\$ 429.7	\$ 444.3	\$ 458.0	\$ 472.0	
Withholding	309.1	320.7	325.3	345.2	360.8	375.8	389.6	404.0	
Individual Returns	28.7	30.0	24.7	26.1	27.3	28.4	29.5	30.5	
Corporate	40.3	42.9	60.8	62.0	63.2	64.5	65.8	67.1	
Partnership	9.2	6.7	8.9	9.0	9.2	9.4	9.6	9.8	
Tax Compliance/Offsets	36.3	34.4	42.6	41.4	41.4	41.4	41.4	41.4	
Total Refunds	(62.5)	(60.1)	(65.8)	(69.0)	(72.2)	(75.2)	(77.9)	(80.8)	
Regular Refund Estimate	(30.0)	(30.7)	(31.6)	(33.6)	(35.1)	(36.5)	(37.9)	(39.3)	
Nonresident Remote Work Estimate	(32.5)	(29.4)	(34.2)	(35.4)	(37.1)	(38.7)	(40.0)	(41.5)	
Non-Recurring	41.1	-	8.0	-	-	-	-	-	
State Revenue Sharing	\$ 219.6	\$ 225.7	\$ 225.8	\$ 235.3	\$ 236.7	\$ 241.2	\$ 245.9	\$ 250.6	
Statutory	147.2	154.5	154.5	162.3	165.5	168.8	172.2	175.6	
Constitutional	67.7	69.7	69.8	69.9	71.2	72.4	73.7	75.0	
Non-Recurring	4.7	1.5	1.5	3.1	-	-	-	-	
Wagering Tax	\$ 277.6	\$ 253.5	\$ 255.7	\$ 248.3	\$ 250.7	\$ 257.4	\$ 259.7	\$ 262.3	
Retail Gaming	141.9	136.3	140.8	139.0	140.4	141.8	143.2	144.6	
Internet Gaming	59.1	69.8	74.0	74.0	74.8	75.6	76.3	77.1	
Retail Sports Betting	1.0	1.0	0.6	0.6	0.6	0.7	0.7	0.7	
Internet Sports Betting	3.5	4.4	4.8	4.9	4.9	5.0	5.0	5.1	
Percentage Payment - Retail	19.3	22.8	23.7	18.9	19.0	23.2	23.3	23.5	
Percentage Payment - Internet	12.3	19.2	11.8	10.9	11.0	11.1	11.2	11.3	
Non-Recurring	40.5	-	-	-	-	-	-	-	
Property Tax	\$ 128.8	\$ 135.9	\$ 138.2	\$ 145.1	\$ 150.6	\$ 154.5	\$ 158.7	\$ 162.4	
Gross Current	109.7	117.9	118.9	125.8	130.1	133.7	137.4	140.9	
TIF Distributions	(15.1)	(18.0)	(18.2)	(18.9)	(19.7)	(20.2)	(20.7)	(21.3)	
Delinquent	30.4	31.9	33.3	33.2	35.0	35.7	36.5	37.2	
Special Acts	3.8	4.0	4.2	5.0	5.2	5.3	5.5	5.6	
Non-Recurring	-	-	-	-	-	-	-	-	
Net Utility Users Tax	\$ 38.1	\$ 46.1	\$ 41.8	\$ 42.3	\$ 42.9	\$ 43.5	\$ 44.0	\$ 44.6	
Utility Users Tax	51.0	58.2	53.9	54.8	55.4	56.0	56.5	57.1	
To Public Lighting Authority	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	
Non-Recurring	(0.4)	0.4	0.4	-	-	-	-	-	
Total, Major Taxes	\$ 1,066.3	\$ 1,035.8	\$ 1,066.0	\$ 1,085.7	\$ 1,110.6	\$ 1,140.9	\$ 1,166.3	\$ 1,191.9	
Major Taxes, Recurring	980.4	1,033.9	1,056.1	1,082.6	1,110.6	1,140.9	1,166.3	1,191.9	
Major Taxes, Non-Recurring	85.9	1.9	9.9	3.1	-	-	-	-	

Municipal Income Tax:

Recurring Income Tax



Note: Excludes estimated one-time activity totaling \$41.1 million in FY22 and \$8 million in FY23.



In accordance with the City Income Tax Act (Public Act 284 of 1964, as amended), the City levies a municipal income tax, with certain exemptions such as unemployment benefits. The current tax rates are 2.4% for residents, 1.2% for nonresidents, and 2.0% for corporations, which are the maximum allowed by State law. Nonresidents taxes only apply to work performed within the City’s boundaries. The primary drivers behind income tax revenue are resident employment levels, nonresident employment levels, and wages. The base year employment estimates are tied to observed local area employment data, and employment growth rates for each employment category are projected independently. Wage growth is projected using observed regional and local wage data and is assumed to be uniform for each employment category.

The FY 2023 preliminary actual represents a 4.6% increase compared to FY 2022 actuals. The FY 2024 forecast anticipates a \$35.4 million revenue loss from nonresidents working remotely, slightly above from the estimated \$34.2 million revenue loss in FY 2023. Such remote work is assumed to be nontaxable, and subject to either an adjustment in withholding or a future tax refund. Of course, not all nonresident employment can be conducted remotely (e.g., health care, manufacturing, construction, leisure and hospitality). The remote work estimates are projected to grow at the same rate as withholding – between 3% and 4% annually from FY 2025 – FY 2028.

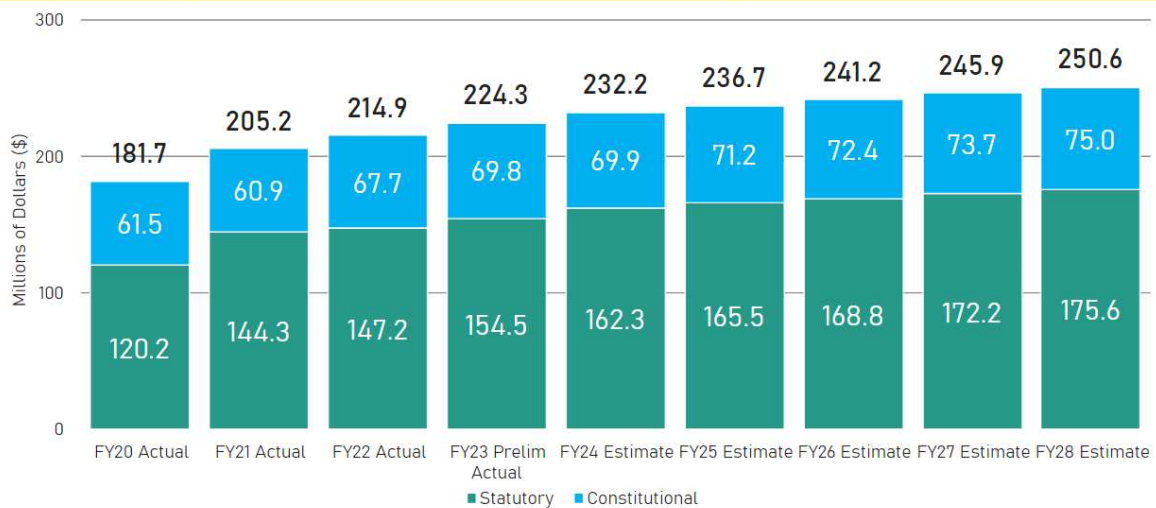
In FY 2021, City Treasury began a large-scale tax compliance program in partnership with the State of Michigan to collect income taxes owed to the City not otherwise collected from withholding or individual tax payments. In this program, a delinquent taxpayer is identified through a process where the primary address that the taxpayer used when filing State returns is matched with City tax filings to verify that all taxes due are paid. If there are outstanding taxes owed, collections efforts are initiated. The majority of collection on these prior year income taxes come from income tax refund

offsets, where a refund owed to a taxpayer from federal and/or state income taxes is used to pay off income taxes owed to the City. The tax compliance program collected \$45.3 million in FY 2021 and was treated as non-recurring revenue in the February 2022 forecast until more information was received. \$36.3 million was collected through the program in FY 2022 and through communications with the State, it was determined that collections were likely to continue at a similar magnitude. The preliminary actual value for FY 2023 is \$42.6 million. In the FY 2024 – FY 2028 forecast, it is estimated that the average of FY 2021 – FY 2023 collections are likely to continue (the estimate is held flat for FY 2024 – FY 2028 at \$41.4 million).

Corporate income tax revenue increased by 51% from FY 2022 to the FY 2023 preliminary actual total before settling into a projected long-term trend of 2% growth through FY 2028. Partnership income tax revenue decreased from FY 2022 to FY 2023 (preliminary actual). FY 2022 observed \$9.2 million in receipts and FY 2023 is projected to end at \$8.9 million. Partnership income tax estimates resume a long-term growth path of 2% in FY 2024 – FY 2028. The forecast does not include potential upside from new development projects or compliance efforts on current year taxes. Income tax activity that has been identified as non-recurring is not included in the forecasted base.

State Revenue Sharing:

Recurring State Revenue Sharing



Note: FY20 Actual includes one-time \$24M reduction in statutory revenue sharing that the State replaced with a one-time Coronavirus Relief Fund grant outside the General Fund. Excludes one-time hold harmless funds received for FY21 and FY22 to offset losses due to 2020 US Census. Excludes one-time 1% increase in statutory revenue sharing for FY23 and one-time 2% increase in FY24.

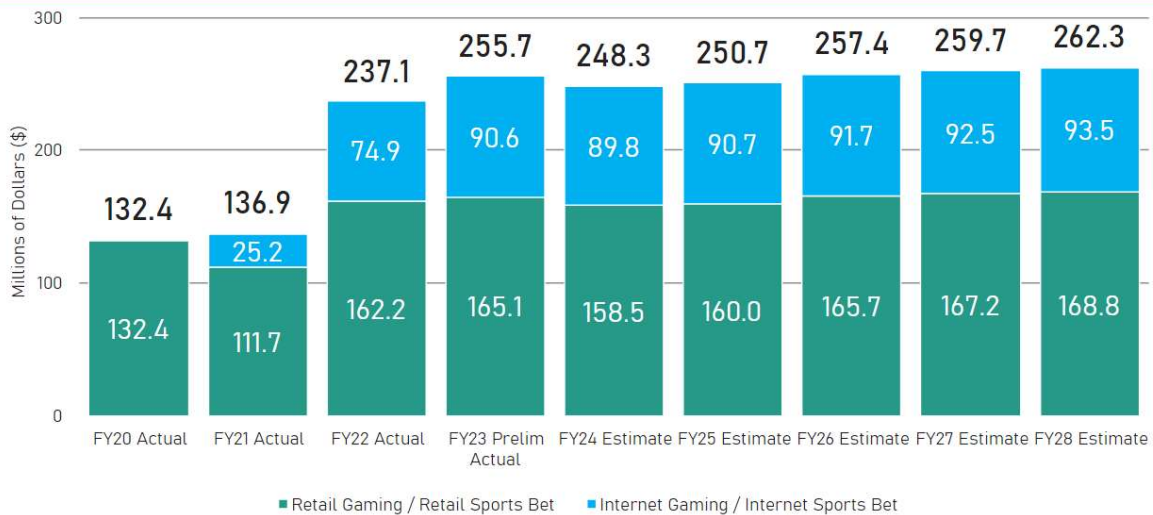
Revenue sharing payments from the State come from two components: constitutional and statutory. The State Constitution of 1963, Article IX, Section 10, as amended, requires constitutional revenue sharing payments to municipalities based on 15% of the 4% portion of Michigan’s sales tax collections. The State allocates amounts to municipalities based on population as of the last decennial Census. Statutory revenue sharing payments have an underlying formula distribution. For the past several

years statutory allocations have instead been determined annually in the State budget as a percentage change from the prior year allocation.

The forecast assumes growth in the constitutional share based on the State's May 2023 Consensus Revenue Estimating Conference. The forecast uses the reported 2020 Census results to estimate Detroit's share of constitutional revenue sharing. Under state law, the City was also subject to recoupment in FY 2022 for the difference in the reported 2020 Census versus the 2010 Census, going back to FY 2021. Instead of the recoupment to adjust the constitutional revenue sharing payment to reflect the new population ratio, Detroit was allowed to keep the revenue sharing payments it had received before the population ratio was set. These are represented as non-recurring "hold harmless" funds, where \$8.8 million was kept in FY 2021 and \$4.6 million was kept in FY 2022, totaling to \$13.4 million in non-recurring activity. The statutory revenue sharing estimate for FY 2024 includes a 5% increase over the projected recurring actual total for FY 2023 along with a \$3.1 million one-time increase that is not projected to continue. A 2% growth rate is forecasted for the statutory portion for fiscal years 2025 – 2028.

Wagering Tax:

Recurring Wagering Tax



Note: FY22 excludes \$40.5M one-time hold harmless payment from State based on FY21 revenue losses.

In accordance with the Michigan Gaming Control and Revenue Act (Initiated Law 1 of 1996, as amended) and associated development agreements, a tax on adjusted gross receipts (AGR) is applied to the three casinos operating in Detroit. The current City wagering tax rate is 11.9% (10.9% in State law, plus 1% pursuant to the casinos' development agreements with the City). The casinos also pay the City a supplemental 1% tax if their gross receipts exceed \$400 million in a calendar year. The City also assesses a municipal service fee from each casino of 1.25% of adjusted gross receipts or \$4 million, whichever is greater (included separately in the "Other Revenues" category).

In late 2019, the State enacted the Lawful Internet Gaming Act (Public Act 152 of 2019), the Lawful Internet Sports Betting Act (Public Act 149 of 2019), and amendments to the Michigan Gaming Control and Revenue Act. Only internet gaming and sports betting conducted within Michigan's borders is authorized. Only the current Detroit and tribal casinos are eligible licensees. On-site sports betting at casinos began in March 2020. The State launched internet gaming and sports betting in late January 2021.

Internet gaming conducted by the Detroit casinos is taxed at a graduated rate on their adjusted gross receipts received each calendar year as outlined below. The City receives 30% of this tax revenue.

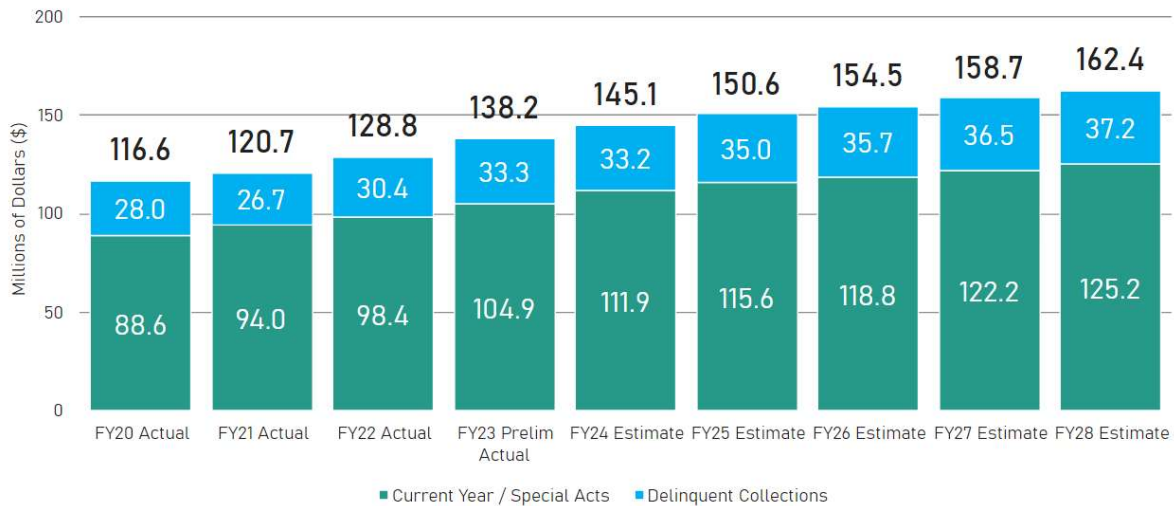
- a) For adjusted gross receipts less than \$4,000,000, a tax of 20%.
- b) For adjusted gross receipts of \$4,000,000 or more but less than \$8,000,000, a tax of 22%.
- c) For adjusted gross receipts of \$8,000,000 or more but less than \$10,000,000, a tax of 24%.
- d) For adjusted gross receipts of \$10,000,000 or more but less than \$12,000,000, a tax of 26%.
- e) For adjusted gross receipts of \$12,000,000 or more, 28%.

Internet sports betting conducted by the Detroit casinos is taxed at a rate of 8.4% on their adjusted gross sports betting receipts. The City receives 30% of this tax revenue. Retail sports betting conducted on-site at the Detroit casinos is taxed at a rate of 8.4% on their qualified adjusted gross receipts. The City receives 55% of this tax revenue. In addition to the new taxes outlined above, internet gaming and sports betting conducted by the Detroit casinos are also subject to the existing development agreement taxes (up to 2% of AGR) and municipal service fees (1.25% of AGR) that apply to on-site gaming.

Retail gaming activity was below expectations throughout FY 2023. Conversely, internet gaming and sports betting activity has exceeded expectations for each casino. Even though internet gaming has grown so quickly, the City receives a higher rate for any retail activity, so most of the wagering tax revenue comes from retail gaming activity. The most updated forecast shown above includes the updated totals for the fiscal year that just ended, FY 2023, which represents the most accurate picture of the gaming trends so far. Each form of gaming activity is expected to follow their specific, short term growth trend in FY 2024 and FY 2025. The forecast then assumes internet gaming and sports betting will stabilize to a long term 1% growth trend, similar to retail gaming.

Property Tax:

Recurring Property Tax



Note: Includes ad valorem taxes and special act taxes (e.g., Neighborhood Enterprise Zone, Industrial Facilities Exemption, and Obsolete Property Rehabilitation Act). Current Year taxes are net of tax increment financing (TIF) distributions.

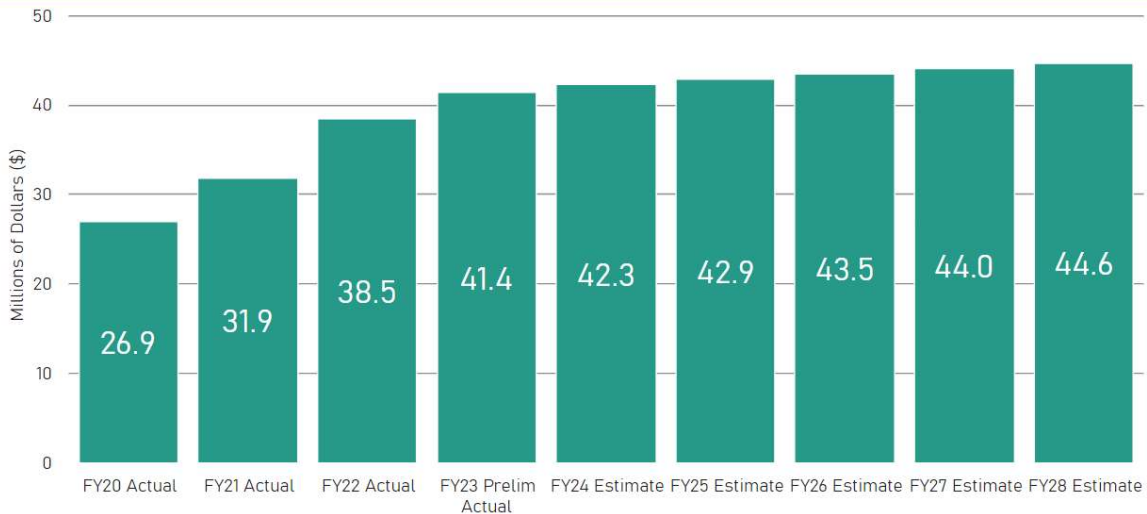


In accordance with the General Property Tax Act (Public Act 206 of 1893, as amended), the City levies taxes on real and personal property. Collections consist of current year taxes, delinquent taxes, and related auction proceeds. The City currently levies 19.952 mills for general operating purposes. However, the millage rate and taxable values are subject to various abatements and exemptions. The actual General Fund collections and revenue estimates are net of captured tax increment financing distributions. The amounts include ad valorem property tax revenue and Special Act property tax revenues from Neighborhood Enterprise Zones, Industrial Facilities Tax, and Obsolete Property Rehabilitation Act parcels.

The primary driver for growth during the forecast period is a lagged inflation rate determined by the State Tax Commission (US Consumer Price Index for Urban Consumers lagged by one year) applied to the reported tax year 2023 base, which is defined as the cap for growth in taxable value under the State constitution (Proposal A). This growth is partly offset by the State-mandated phase-out of industrial personal property taxes through FY 2024. The FY 2022 collection rate of 85.1% is held constant throughout the forecast period. Other components, such as payments from Wayne County for delinquent real property tax collections and revenue capture by TIF authorities, are also factored into the forecast based on current and historical observations. Updated taxable values applicable to FY 2023 were higher than expected, leading to an upward revision of the forecast. The calculated inflation cap is expected to remain elevated in FY 2024 and FY 2025 and stabilize at 2.7% in FY 2026-2028 as inflationary pressures wane. The forecast does not include prospective gains from additions to the tax base or the “uncapping” of taxable value.

Utility Users Tax:

Recurring Utility Users Tax



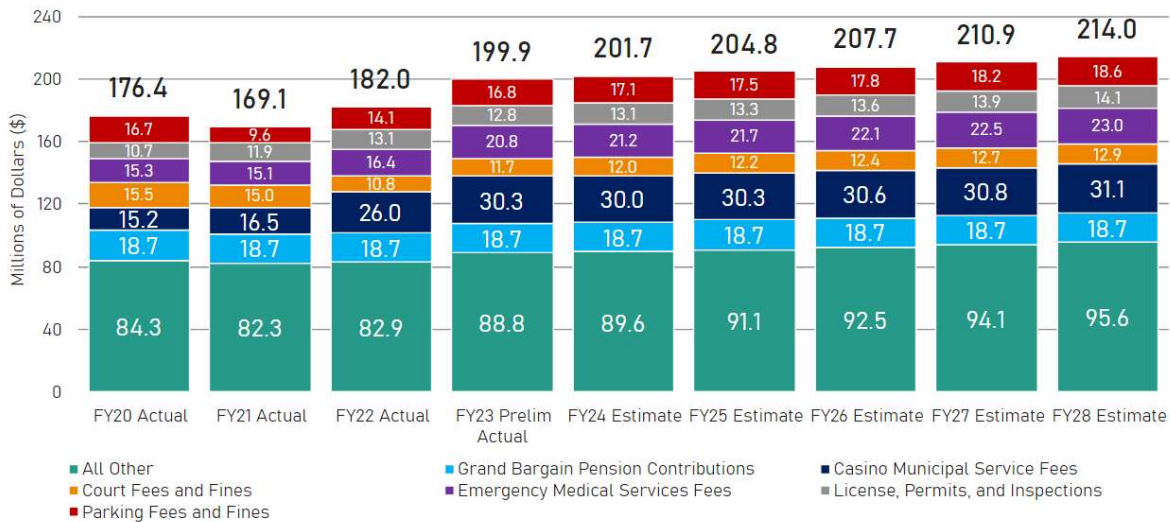
Note: Utility Users Tax for the General Fund is net of annual \$12.5M dedicated to Public Lighting Authority debt service.



In accordance with the City Utility Users Tax Act (Public Act 100 of 1990, as amended), the City levies a 5% tax on consumption of electricity, gas, steam, and telephone services. The estimated revenues shown in the graph are net of \$12.5 million disbursed annually to the Public Lighting Authority (PLA). Annual changes in the revenue forecast are consistent with prior-year trends. Preliminary actual collections for FY 2023 were lower than previously projected and contributed to a downward forecast revision. Back in February, average prices for utility (piped) gas in the Detroit MSA were expected to remain at about the same levels but have come down 15% since January 2023 and 20% over the year ended in July 2023 (1.429 to 1.137 dollars per therm) according to the Bureau of Labor Statistics. Weather conditions also have a large effect on how much revenue is received from this tax since it affects demand of utilities and the winter months of early 2023 were milder than expected.

Other Departmental General Fund Revenue:

Recurring Other Revenues (General Fund)



Note: Recurring revenues exclude one-time items like asset sales and bond proceeds.



The Other Revenue category includes various non-major revenues mostly administered by individual departments related to their operations and services. The graph above shows the largest categories of these revenues. The FY 2023 preliminary actual total grew by 9.8% over the FY 2022 actuals, driven by a \$4.3 million increase in casino municipal service fees, related to higher internet and sports betting activity than previously estimated, higher EMS fee activity year-to-date. The estimates also assume that revenue sources have stabilized since COVID-19 and continue an aggregate long term growth trend of 0.9% to 1.5% through FY 2028. The forecast excludes non-recurring items, such as asset sales. The full breakdown of other revenues in the General Fund is shown below.

City of Detroit - General Fund Other Revenue Estimates - Detail

\$ in millions

	FY 2022	FY 2023		FY 2024-FY 2028 September 2023 Estimates				
	Audited Actual	Feb 2023 Estimate	Preliminary Actual	FY24 Estimate	FY25 Estimate	FY26 Estimate	FY27 Estimate	FY28 Estimate
Other Revenue (Recurring)								
Casino Municipal Service Fees	\$ 26.0	\$ 28.1	\$ 30.3	\$ 30.0	\$ 30.3	\$ 30.6	\$ 30.8	\$ 31.1
Emergency Medical Services Fees	16.4	18.3	20.8	21.2	21.7	22.1	22.5	23.0
Central Staff Indirect Cost Recoveries	18.5	24.4	19.5	19.9	20.3	20.7	21.2	21.6
DIA/Foundation Grand Bargain Contributions	18.7	18.7	18.7	18.7	18.7	18.7	18.7	18.7
Parking Fees and Fines	14.1	14.6	16.8	17.1	17.5	17.8	18.2	18.6
Licenses, Permits, & Inspection Charges	13.1	13.0	12.8	13.1	13.3	13.6	13.9	14.1
Court Fees and Fines	10.8	15.7	11.7	12.0	12.2	12.4	12.7	12.9
Earnings on Investments	3.6	3.6	11.1	11.1	11.1	11.1	11.1	11.1
Inter-agency Billings	7.0	8.2	7.5	6.9	7.1	7.2	7.3	7.5
Other Fees	35.1	32.8	33.7	34.3	34.9	35.5	36.1	36.7
Other Taxes, Assessments, & Interest	6.3	6.2	6.0	6.1	6.2	6.4	6.5	6.6
Other Fines, Forfeits, & Penalties	3.3	3.1	3.8	3.9	4.0	4.0	4.1	4.2
Other Revenue	9.1	5.5	7.2	7.4	7.5	7.6	7.8	7.9
Subtotal, Other Revenue (Recurring)	\$ 182.0	\$ 192.2	\$ 199.9	\$ 201.7	\$ 204.8	\$ 207.7	\$ 210.9	\$ 214.0
Other Revenue (Non-Recurring)								
Sale of Assets	\$ 5.6	\$ 0.6	\$ 7.8	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6
Casino Municipal Service Fees	(4.0)	-	-	-	-	-	-	-
Presidential Primary Reimbursement	-	-	-	-	2.3	-	-	-
Earnings on Investments	-	-	13.8	13.0	8.0	2.0	-	-
Unrealized Gain/(Loss) on Investments	(18.9)	-	6.9	9.1	7.3	-	-	-
Other Revenue	3.0	-	6.9	-	-	-	-	-
Subtotal, Other Revenue (Non-Recurring)	\$ (14.3)	\$ 0.6	\$ 35.4	\$ 22.7	\$ 18.2	\$ 2.6	\$ 0.6	\$ 0.6
Total, Other Revenue	\$ 167.7	\$ 192.8	\$ 235.3	\$ 224.4	\$ 223.0	\$ 210.3	\$ 211.5	\$ 214.6

Non-General Fund Revenues:

City of Detroit - Non-General Fund Revenue Estimates									
<i>\$ in millions</i>									
	FY 2022	FY 2023		FY 2024-FY 2028 September 2023 Estimates					
	Audited Actual	Feb 2023 Estimate	Preliminary Actual	FY24 Estimate	FY25 Estimate	FY26 Estimate	FY27 Estimate	FY28 Estimate	
Special Revenue and other Restricted Funds									
Community Development Block Grant	\$ 53.3	\$ 33.8	\$ 31.0	\$ 33.7	\$ 34.3	\$ 35.0	\$ 35.7	\$ 36.4	
Other Grant Funds	66.4	53.2	83.2	53.2	54.3	55.4	56.5	57.7	
BSEED Construction Code Fund	26.7	28.1	26.2	28.1	28.6	29.2	29.8	31.4	
Other Special Revenue Funds	9.2	9.6	15.8	10.4	10.8	11.0	11.3	11.5	
DPD Drug Law Enforcement and Forfeiture Funds	1.4	1.2	0.9	1.2	1.2	1.3	1.3	1.3	
CRIO Workforce Development Fund	3.4	3.1	2.9	3.0	3.1	3.1	3.2	3.2	
Detroit Public Library	34.1	29.4	26.5	32.0	33.2	34.1	34.9	35.6	
DPW Street Funds	104.0	105.2	106.2	112.4	106.6	108.7	110.9	113.0	
DPW METRO Fund	3.1	3.1	3.3	3.3	3.3	3.3	3.3	3.3	
PLD Decommissioning Reserve Fund	1.3	1.1	2.5	2.5	2.5	2.5	2.5	2.5	
UTGO Debt Service Fund	73.0	59.7	77.6	71.6	66.0	54.1	47.7	47.6	
DPW Solid Waste Management Fund	52.4	49.1	51.6	52.1	52.6	53.2	53.7	54.2	
All Other Funds	2.9	-	4.7	0.3	0.3	0.3	0.3	0.3	
Enterprise Funds (Operating and Grants)									
Coleman A. Young International Airport	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	
Detroit Department of Transportation	109.2	65.2	82.2	61.5	62.1	62.7	63.3	63.6	
Detroit Water and Sewerage Department	538.3	629.1	545.4	632.7	645.3	658.2	671.4	684.8	
Total, Non-General Fund Revenue	\$ 1,079.2	\$ 1,071.4	\$ 1,060.4	\$ 1,098.4	\$ 1,104.6	\$ 1,112.5	\$ 1,126.2	\$ 1,146.8	

Notes:

- * Amounts exclude inter-fund transfers. Actuals include various grant reimbursements and other one-time items not included in forecasts.
- * DWSD estimates include use of bonds and other fund balances not reported in revenue actuals.

Non-General Fund revenues include enterprise, grant and special revenue funds. Major examples include water and sewer bills, bus fares, solid waste fees, intergovernmental aid for roads and transit, and other restricted revenues. Note that amounts above exclude General Fund contributions, interfund transfers, and the use of fund balance. The Major Street Fund receives most of its revenue from gas and weigh tax distributions from the State. The forecast has been adjusted based on the reported 2020 Census results, which impact the distribution formula. The Sinking Interest & Redemption Fund represents the City's debt millage, which raises property tax revenue sufficient to pay debt service on voter-approved bonds. The Solid Waste Management Fund includes the annual \$240 solid waste fee seen on the summer property tax bill, which supports residential curbside garbage collection. The Transportation enterprise fund is for the Detroit Department of Transportation (DDOT). It includes bus fares, State formula aid for bus operations, and transit capital grants.

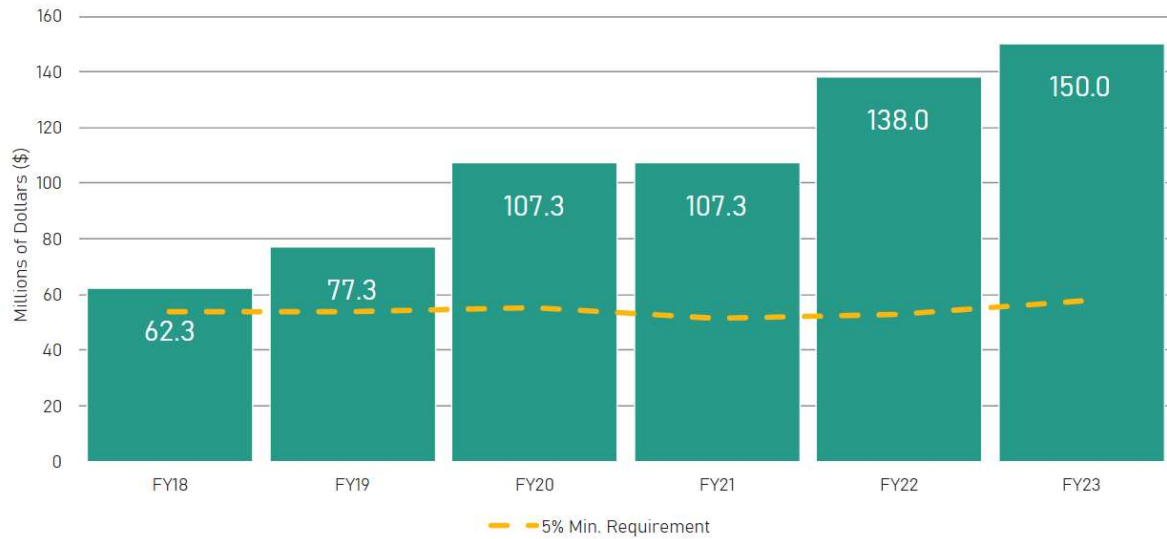
Budget Reserve:

State of Michigan Public Act 279 of 1909, Sections 117.4t(1)(b)(vi) and 117.4t(1)(c)(vi), as amended by Public Act 182 of 2014, states the City's annual four-year financial plan shall include and comply with the following requirements:

- Measures to assure adequate reserves for mandated and other essential programs and activities in the event of an overestimation of revenue, an underestimation of expenditures, or both.

- Include a general reserve fund for each fiscal year to cover potential reductions in projected revenues or increases in projected expenditures equal to no less than 5% of the projected expenditures for the fiscal year.

Budget Reserve (“Rainy Day Fund”)



As of June 30, 2022, the City’s Budget Reserve (or “Rainy Day fund”) totaled \$138.0 million, which exceeded the minimum requirement of 5% of the projected expenditures. An additional \$12 million was authorized during the FY 2024 budget process bringing the total budget reserve to \$150 million, approximately 11% of expenditures.

Revenue Forecast Risk:

Downside Risks:

- Trend changes in income tax revenue from corporate and compliance/refund offset sources
- Trend changes in overall gaming activity and retail vs. internet substitution effects on wagering taxes
- State Budget outcomes for revenue sharing different from forecast expectation
- Larger contractions in economic growth from monetary policy tightening
- Employment effects from potential work stoppage in the automotive sector
- Slower casino growth than expected

Upside Risks:

- Above trend residential, commercial, and industrial development
- Above trend workforce development and labor force participation gains
- Higher taxable property values than forecasted (uncapping and additions to the base)
- Gains from income tax audit and enforcement
- State-shared excise tax from adult-use marijuana

Appendix, Exhibit 1 – FY 2023 Non-Recurring Detail

FY 2023 Non-Recurring Detail

\$ in millions

Major Revenues

Income Tax - Corporate	8.0
Utility Users Tax - Adjustment	0.4
State Revenue Sharing - One Time Receipt	<u>1.5</u>
Major Revenues Subtotal	\$ 9.9

Other Revenue

Sale of Assets	7.8
Earnings on Investments	13.8
Unrealized Gain/(Loss) on Investments	6.9
Other Revenue	<u>6.9</u>
Other Revenues Subtotal	\$ 35.4

Total Non-Recurring Activity **\$ 45.3**