



CITY OF DETROIT

FY 2016
**Consensus Revenue Estimating
Conference**

September 2015

City of Detroit Consensus Revenue Estimating Conference - Draft Report September 2015

The Directors of the City of Detroit Office of Budget, Office of the Auditor General and City Council Legislative Policy Division (formerly Fiscal Analysis) met in August/September 2015 to discuss the City's revenue collections for the current fiscal year and estimate collections for the next four fiscal years. These participants reviewed and recommended revenue estimates for the current Fiscal Year 2016 and projected revenues for FY 2017 through 2020.

Discussions began with a forecast of economic conditions that impact the City of Detroit revenues presented by Dr. Eric Scorsone, of Michigan State University. The following economic report was provided by Dr. Carol O'Cluireacain (May 17, 2015 Update), City of Detroit Deputy Mayor for Economic Policy, Planning and Strategy.

The Detroit Area Economy – May 17, 2015 update¹

Detroit is the central city of a larger regional economy, where goods, services and people cross jurisdictional boundaries daily. Most data are reported for the economic activity at this six-county metro level –Detroit-Warren-Livonia MSA.² For some purposes the MSA is further divided into two smaller divisions, one of which includes Detroit; this is Detroit-Livonia-Dearborn.

Detroit is tied more closely than many other American cities to the global economy. The region's concentration of transportation-related manufacturing places it among the nation's top metro areas for exports. Metro Detroit's ranking for 2012 in production for export (8th) exceeded its output rank (16th), reflecting specialization in highly-traded advanced industries.³ The high tech component of this manufacturing now constitutes 15 percent of the Detroit region's employment, making it 4th among metro areas, with implications for the science, technology, engineering and math (STEM) labor market.⁴

In the near term, export performance is hampered by the strong dollar and may be further affected by any downward revisions in projections of global economic growth.⁵ The metro region is already closely linked to the economies of Canada and Mexico through the 1994 NAFTA. Currently, the U.S. is involved in two sets of major trade negotiations where the automobile and related industries figure prominently.⁶ While these negotiations are controversial and lengthy, an agreement in either would have a significant impact on economic activity in the Detroit region. Some effects are likely to occur even in advance of an agreement, if entrepreneurs anticipate a successful conclusion.

¹ This discussion draws heavily on the most recent regional reports by Moody's Analytics [October 2014]; PNC Financial Services Group [1st Quarter 2015 *Detroit Market Outlook*]; Comerica [Dec. 17, 2014 Regional Economic Update] and insights from meetings with regional and industry economists around Detroit and at the Federal Reserve. Updated data from Comerica Regional Economic Update – Detroit MSA, February 20, 2015; PNC Financial Services Group – Detroit Market Outlook, 1st Quarter 2015; and Michigan Department of Technology, Management & Budget, "March Unemployment Rates Little Changed in Michigan's Regional Labor Markets," April 23, 2015.

² The six-county Detroit MSA covers Lapeer, Livingston, Macomb, Oakland, St. Clair, and Wayne. *The City of Detroit is entirely within Wayne County.*

³ For Detroit and Seattle this is transportation equipment; for San Jose it is computer and electronics. See *Export Nation 2013: Us Growth Post-Recession*, pp. 6-7. Brookings. Sept. 2013.

⁴ See *America's Advanced Industries: What they are, Where they are, and Why they matter*. Brookings. Feb. 2015.

⁵ <http://www.brookings.edu/research/reports2/2015/02/03-advanced-industries#/M10420>

⁵ In January 2015 the IMF lowered its projections of global growth in 2015 and 2016 slightly to 3.5% and 3.7% respectively. See <http://www.imf.org/external/pubs/ft/weo/2015/update/01/>

⁶ The proposed Transpacific Partnership encompassing NAFTA and nine Asia-Pacific countries (including Japan but not China) and the Transatlantic Trade and Investment Partnership with the 28 country European Union.

The region's economy is in recovery. The auto industry is running at close to capacity. Despite the auto industry's rebound, employment growth basically stalled during 2014 (0.2 percent annual growth). However, **forecasters see improvements in 2015: Comerica Bank forecasts growth of 1.5 percent;**⁷ **PNC Financial forecasts 1.3 percent for the year.**⁸ **Major forecasters see auto/light truck sales in 2015 at 17 million units.** As Comerica notes, "manufacturing remains a high productivity growth industry, so strong output gains may have smaller impact on job growth in some industries."

The Southeast Michigan Purchasing Managers Index for May "continues to show evidence of strength in the Southeast Michigan economy "with the index showing a very strong three month moving average. Their employment index has jumped sharply with the three month average now standing at a significant high.

However, manufacturing jobs are lower paying than in the past, putting a bite on income growth. The labor market is expected to tighten with an increase in wages. Locally, the UAW's four-year contract expires in September 2015 and a major focus for them is the elimination of the crisis-agreed two-tier wage structure.

For the region, median household income has caught up to the national average; but, the pre-recession median was nearly 4 percent above the nation's, indicating that further gains are needed. **PNC Financial forecasts positive local income growth in 2015, though slower** as a result of the weaker labor market over the past year. "Slower inflation expectations this year will at least help to take the bite out of slower income growth." **Comerica forecasts 4.6 percent personal income growth in the MSA in 2015.**

PNC sees a **continued recovery for metro area housing, especially in the longer term.** Home prices in the region are about 15 percent below their pre-recession peaks, compared to 10 percent below nationally. Price growth is on par with the nation. Affordability and the efforts to combat blight in and around Detroit are cited as evidence of strength. Job creation in high-paying manufacturing and transportation is expected to keep housing demand healthy over the long run.

The rate of local inflation, as measured by the Detroit metro Consumer Price Index (CPI) has been declining for the past three years from 2 percent in 2012 to closer to 1 percent in 2014. The **University of Michigan's May 2015 RSQE forecast**, presented to the State on May 15, 2015, **forecasts Detroit inflation at -0.9 percent in 2015, rebounding in 2016 to 2.1 percent and remaining 2.1 percent in 2017.**⁹

Unemployment has been falling. The State of Michigan ended 2014 with an unemployment rate of 5.6 percent, down from a peak of 13.5 percent in 2009. The MSA (Detroit-Warren-Livonia) ended 2014 with an unemployment rate of 6.7 percent, down from a peak of 16.2 percent in 2009. The March 2015 unemployment rate was 6.0%. Detroit-Livonia-Dearborn ended 2014 with an unemployment rate of 7.4 percent, down from a peak of 18.2 percent in 2009. February 2015 unemployment rate was 7.3% and the preliminary number for March is 6.9%. The City of Detroit ended 2014 with an unemployment rate of 12.2 percent, down from a peak of 27.8 percent in 2009. February 2015 unemployment rate was 12.5%.

Though still incomplete, the five-year recovery has scored significant gains. Analysts believe improvement of government services post-bankruptcy is a key to improving the City's growth potential and attracting residents—which will be a longer term, strategic, effort.

⁷ Comerica Regional Economic Update, "Strong Auto Industry Bolsters Detroit," Feb. 20, 2015.

⁸ PNC Financial Services Group, "Detroit Market Outlook," 1st Quarter 2015.

⁹ George Fulton, et.al. *The U.S. and Michigan Outlook for 2015-2017*. Prepared for Presentation at the Consensus Revenue Estimating Conference, Lansing, Michigan. May 2015. http://www.msbo.org/sites/default/files/crecmay15_rsqueoutlook.pdf

June 2015 Unemployment Statistics

The State of Michigan Bureau of Labor Market Information and Strategic Initiatives reports June 2015 unemployment for the Detroit-Warren-Livonia MSA as 6.6 %. The Detroit-Livonia-Dearborn MSA for June 2015 was 7.7% and the City of Detroit June 2015 unemployment rate was 13.1%.

OVERVIEW OF CONFERENCE RESULTS

The September 2015 consensus estimate for General Fund revenues for FY 2016 is \$1,068.5 million, a \$34.4 million or 3.1% decrease from FY 2015 unaudited collections. This variance was primarily due to a decline in Other General Fund revenues.

General Fund (in millions)	FY 2016 Baseline 2-Year EM Budget	One Time Activity	Reinvestment Initiatives	Total FY 2016 EM 2-Year Budget	2015 February Consensus Estimate	2015 May Consensus Estimate	2015 September Consensus Estimate
Major Revenues (Taxes and State Revenue Sharing)	\$ 751.5			\$ 751.5	\$ 774.7	\$ 774.7	\$ 788.5
Reinvestment Initiatives			40.7	40.7	40.7	40.7	26.3
Use of reserve funds		49.0		49.0	49.0	49.0	49.0
Asset Sales (real and equipment)	9.9			9.9	9.9	9.9	9.9
Other revenues (less asset sales and reserve)	220.4			220.4	209.4	200.4	194.8
Total	\$ 981.8	\$ 49.0	\$ 40.7	\$ 1,071.5	\$ 1,083.7	\$ 1,074.7	\$ 1,068.5

The EM FY 2016 Budget is \$1,071.5 million, a \$12.2 million or 1.1% decrease from the February 2015 revised consensus estimate. This decrease reflects a 3.1% increase in the major revenues over the February/May 2015 estimate and a 5% decrease in Other General Fund revenues from the February 2015 estimate. The September 2015 consensus estimate decreased by \$3 million from the FY 2016 EM Budget.

- The September 2015 consensus estimate for FY 2016 reflects anticipated increased collections in Property Taxes, Utility Users' Taxes, State Revenue Sharing and Wagering Taxes over 2015 fiscal year-end results. Income Taxes and Other General Fund revenues reflect a decline from FY 2015 year-end actual collections. The major revenues estimate for the September 2015 consensus increased \$37.0 million (4.9%) over the EM FY2016 Budget. Year-end results for revenues are subject to further adjustments until the city's audit is completed.
- Other General Fund revenues are generated from city departments and miscellaneous sources. The September consensus estimate for FY 2016 Other General Fund revenues were expected to decrease

by \$25.6 million or 11.6% over the EM FY 2016 Budget and decrease by \$5.6 million or 2.8% over the February consensus estimate.

REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT
SEPTEMBER 2015 CONSENSUS REVENUE ESTIMATING CONFERENCE

	FY 2015				FY 2016	FY 2016	FY 2017
	EM 2- Year Budget	Actuals- Unaudited	Variance	February 2015 Revised Consensus Estimate	EM 2- Year Budget	September 2015 Revised Consensus Estimate	September 2015 Revised Consensus Projection
<i>\$ in millions</i>							
Income Tax	\$ 264.8	\$ 266.4	\$ 1.6	\$ 254.0	\$ 268.4	\$ 264.0	\$ 266.6
Property Tax	102.6	113.5	10.9	114.3	100.8	117.0	117.0
Utility Users' Tax *	17.0	39.1	22.1	37.5	15.9	40.0	40.2
Wagering Tax	168.2	171.7	3.5	168.2	169.0	172.3	173.2
State Rev. Sharing *	195.3	194.8	(0.5)	195.3	197.4	195.2	197.1
Other Revenues *	609.0	317.4	(291.6)	622.0	320.0	280.0	235.0
Total General Fund	\$ 1,356.9	\$ 1,102.9	\$ (254.0)	\$ 1,391.3	\$ 1,071.5	\$ 1,068.5	\$ 1,029.1

	Income Tax	Property Tax	Utility Users	Wagering Tax	State Rev Sharing	Other Revenues	Total General Fund Revenues
Long Term Trend							
FY 2018	269.3	117.0	40.4	174.0	200.8	235.0	1,036.5
	1.0%	0.0%	0.5%	0.5%	1.9%	0.0%	0.7%
FY 2019	\$ 272.0	\$ 117.0	\$ 40.6	\$ 174.9	\$ 202.6	\$ 228.0	\$ 1,035.1
	1.0%	0.0%	0.5%	0.5%	0.9%	-3.0%	-0.1%
FY 2020	\$ 274.7	\$ 117.0	\$ 40.8	\$ 175.8	\$ 204.4	\$ 228.0	\$ 1,040.7
	1.0%	0.0%	0.5%	0.5%	0.9%	0.0%	0.5%

- Utility Users Tax Budget is shown net of \$12.5 million due to Public Lighting Authority in EM Two Year Budget- FY 2015 and FY 2016. FY 2015 Actuals-unaudited are shown at gross amount.
- State Revenue Sharing FY 2015 Actuals-unaudited includes accruals for payments received after 6-30-2015. The FY 2016 and FY 2017 Consensus estimates were revised downward by the Revenue Conference Principals after receiving new information from state Treasury department.
- FY 2015 Actuals-unaudited for Other Revenues does not include the CAFR adjustment for Prior Year Surplus (\$151.3 million) or the following year-end adjustments: Federal Grant- Hardest Hit funds (\$43.3 million) was paid directly to the Detroit Land Bank and Fire Escrow (\$20.0 million) revenues for Blight remediation- will not post to the General Fund, but pass directly to the Detroit Land Bank; Public Lighting revenues (\$29 million) not expected to be received by the General Fund; and Parking Fines and Municipal Service Fees (\$23 million) not included in actuals totals to date.

REVENUES FOR CONSIDERATION

The City of Detroit has five major revenues that represent over 73% of General Fund revenues per the September 2015 consensus estimate: Income Tax, Property Tax, State Revenue Sharing, Wagering Tax (Casinos) and Utility Users' Tax revenues. The first step for city participants was to estimate major revenues for the current fiscal year 2016, and project revenues for fiscal year 2017 through 2020. Using financial system reports (DRMS), department sub-ledger reports, current operational analysis and local economic data, the participants individually determined their forecasts. All "other revenues" of the General Fund were discussed during the conference. Other General Fund revenues primarily consist of departmental revenues resulting from Sales and Charges for Services. Revenues from all city funds were also considered as required by state law.

Income Tax

As authorized under Public Act 284 of 1964, as amended by PA 56 of 2011 and again in 2012, the City of Detroit levies an Income Tax on income from all sources with minimum exemptions. Income Tax revenue includes withholding, annual and quarterly payments. More than 90% of income tax actual collections are derived from withholdings. The current tax rate is 2.4% for residents, 1.2% for non-residents and 2.0% for corporations.

In December 2012, State legislation established the Public Lighting Authority that provided funding of \$12.5 million in Utility Users' Taxes to the Authority; allocated income tax revenues for Police operations and fixed income tax rates at 2.4% (residents, 1/2 – non-residents) until the repayment of any debt issued by the Authority.

Beginning January 2016, the State of Michigan will start processing the city's income tax returns. Taxpayers will be able to e-file their returns. For this first year, the city will continue to process withholding activity, which will subsequently transfer to the State in the following year. Under this arrangement, the city is expected to pre-fund refunds in year 1.

- Income Tax FY 2015 actual collections grew at a rate of 4.7% over the February/May 2015 revised consensus estimate for FY 2015 of \$254.0 million. Preliminary fiscal year 2015 year-end results of \$266.4 million were \$12.4 million over the FY 2015 consensus estimate.
- The September 2015 revised consensus estimate does not include reinvestment initiatives to increase income tax collections as implementation is still in the early stages. Reinvestment initiatives include external collection efforts, increased staffing and internal process changes.
- The September 2015 revised consensus estimate incorporates 2.9% growth over the February/May 2015 estimate due to prior year actual collections, strength of withholding collections and a decline in refund activity.
- The September 2015 revised consensus estimate considered improved local economic conditions based upon blue chip economic forecasts as presented by Dr. Eric Scorsone, Faculty Member and

Workgroup Leader, Michigan State University Department of Agricultural, Food and Resource Economics and MSU Extension.

Current Property Taxes

Article IX of the State Constitution, Sections 3 and 6 (General Property Tax) authorize the levy of taxes on real and personal property not otherwise exempt. The City currently levies the maximum tax permitted by law.

- The June 30, 2015 actual collections currently indicates a slight decrease of .7% or \$800,000 over the February/May revised consensus estimate of \$114.3 million. Current fiscal year-end 2015 property tax revenues resulted in collections of \$113.5 million, \$10.9 million over budgeted amounts.
- The FY 2015 and FY 2016 budget assumed a 10% decline in collections that prior year's actual collections did not support. The February/May consensus estimate was increased to reflect actual collections activity. Original estimates were based on continued decline in property taxable values due to required city-wide reassessments and foreclosure activity. Current collection activity is higher than anticipated due to a smaller loss in taxable valuations and changes in internal city processes.
- FY 2016 revised consensus estimate of \$117.0 million reflects an upward revision of 2.4% over the February/May consensus estimate due to increased collection results from the previous two fiscal years. Improvement in the city's collection rate from 50% to over 70% is a factor in the increased collections. Projections remain flat for property tax revenues for FY 2016 through FY 2020.
- The City Assessor's outlook on the Ad Valorem valuations for fiscal years 2016 and 2017 indicate a continued decline in assessed values, but at a slower rate than previously estimated. This chronic state of decline in assessed values is expected to continue beyond 2016. However, the city is experiencing growth in property values in certain areas of the city that may eventually lead to increased taxable valuation for the city. The city-wide reassessment is expected to be completed in December 2017 impacting the FY 2018 Budget.

State Revenue Sharing

Revenue Sharing payments from the State are based upon two elements. Constitutional payments are guaranteed under the State Constitution and are calculated as 15% of 4% of the State Sales Tax gross collections. Statutory payments are based upon municipalities meeting the requirements of the Economic Vitality Incentive Program. For FY 2016, the maximum amount available is 78.51044% of the FY 2010 total statutory payment (if a municipality complies with all requirements).

- The FY 2015 payment of \$194.8 million was \$.5 million less than the February revised consensus estimate of \$195.3 million.
- The September 2015 consensus estimate for FY 2016 is based on current State Revenue Sharing payments projected by the Michigan Department of Treasury in May 2015 and revised Sales Tax

revenues projections from the state Treasury Department. Treasury payments are based on the State of Michigan May 2015 Consensus Revenue Estimates and FY 2016 appropriation.

- September 2015 consensus estimates for FY 2016 (\$195.2 million) reflects a decrease of 1.1% over the EM FY 2016 Budget and the February/May consensus estimate (\$197.4 million). FY 2018 Consensus estimate includes a 1.9% growth factor. Long term projections for FY 2019 through FY 2020 include a .9% growth rate.

Wagering Taxes (Casino Revenues)

The City is authorized to levy a tax on the adjusted gross receipts of a gaming licensee under Initiated Law 1 of 1996, as Amended by Public Act 306 of 2004. The current tax rate in effect is 10.9% for the three casinos operating in Detroit. The City receives additional revenues from the casinos as specified in the casinos' operating agreements.

- Original Wagering Tax estimates recognized downward pressure on revenues resulting from the opening of casinos in Ohio. Although Detroit's casino revenues did not decline to levels previously speculated by some, the city's budget anticipated continued downward pressure on revenues for fiscal year 2015.
- The June 30, 2015 actual collections increased \$3.5 million or 2% over the fiscal year 2015 Budget and the February/May revised consensus estimate of \$168.2 million.
- September 2015 consensus estimate revises the previous consensus estimate upward due to increased actual collections. The FY 2016 consensus estimate is \$172.3 million reflecting an increase of \$3.3 million or 2.0% over the February/May estimate. The consensus estimate trend line for fiscal years 2017 through 2020 remains flat with a projected increase of .5%.

Utility Users' Tax

The City of Detroit levies a Utility Users' Tax as permitted under Public Act 100 of 1990 and as amended in 2012. The tax is based on consumption of electricity, gas, steam and telephone (land lines) in the City of Detroit. The City currently levies the maximum tax rate of 5%. These revenues are budgeted in the Police Department and have a restricted purpose to retain or hire police officers. In 2012, the law was amended to provide \$12.5 million annually for the Public Lighting Authority for the repayment of debt proceeds used for street lighting infrastructure improvements in the City. To offset the loss of Utility Users' tax revenue to the Police Department, state law authorized the payment of income tax revenues for police operations.

- FY 2015 actual collections resulted in a \$1.6 million increase or 4.1% over the February/May revised consensus estimate.

- The September 2015 revised consensus estimate for FY 2016 Utility User's taxes reflects an increase of \$2.5 million or 6.7% from the previous consensus estimate based on current run rates and previous year-end results.
- We estimate similar collections for FY 2016 through FY 2020 with a .5% growth factor for this period.
- Estimates/projections were determined on a gross basis.

All Other General Fund Revenues

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

1. *Sales and Charges for Services* - Revenue generated from maintenance and construction, solid waste, recreation, utilities, reimbursements, Emergency Medical Services billings, and other minor sales and service fees.
2. *Revenue From Use of Assets* - Earnings on investments, various interest earnings, building rentals, marina rentals, concessions, equipment rentals and sales of real property.
3. *Other Taxes, Assessments, and Interest* - Special assessments, Industrial Facilities Taxes, other miscellaneous property taxes and interest paid on delinquent property taxes.
4. *Fines, Forfeits, and Penalties* - Ordinance, court and parking fines, property tax penalties, and various fines, forfeits, and penalties.
5. *Licenses, Permits and Inspection Charges* - Various permits and licenses, safety inspection charges, and business licenses charges.
6. *Contributions, Transfers, and Miscellaneous* – Various revenues and contributions due to/or due from one fund resulting in revenues to one fund and an expenditure for another; other miscellaneous revenues and receipts, and sales of equipment.

Departmental Revenue Analysis

The consensus for Other General Fund department revenues was developed with a discussion of the individual department revenues including departments with General Fund operations or departments receiving General Fund assistance. Our departmental analysis began with discussions on baseline assumptions for each department as presented in the Four Year Financial Plan and any adjustments to the baseline. Revenue initiatives are included in the consensus numbers presented in this conference if deemed achievable within the period under review.

- Public Lighting revenues were reduced in the February/May 2015 consensus estimate for fiscal years 2015 through 2017 due to the city's decision to exit the power distribution business beginning March 2014 and the subsequent transfer of the customer base to DTE Energy. The September 2015 consensus estimates further eliminated all but the \$12.5 million pass through revenues to the Public Lighting Authority as it was subsequently determined that no funds would flow through the city's General Fund.

Due to the inclusion of revenue initiatives in the Other General Fund Revenue estimates, lengthy discussions occurred regarding the determination of baseline revenues and reinvestment initiatives. Participants convened and discussed alternative calculations by staff of the City Council, Auditor General and Office of Budget. Upon review, the total revenue estimate differed among the three estimators due to a difference in assumptions of reinvestment initiatives and non-recurring budget items.

The varying methodologies were utilized by the participants, which included analysis of historical collection patterns, trend line fitting, moving averages, major revenue category analysis, and individual agency revenue account analyses, and the utilization of run rates. All participants considered and accounted for other known items that impact collections. The most challenging aspect to the current set of projections for Other General Fund Revenues relates to the untimely posting of entries to the financial reporting system. Participants added this issue to the risk assumptions and took a more conservative approach in projecting future revenues.

- The May 2015 consensus estimate for **FY 2015** ranged between \$537.7 million and \$568.0 million with agreement on \$554.5 million. This total includes exit financing and other one-time budget items of \$303.8 million. This amount (\$554.5 million) reflects a decline of \$67.5 million from the February 2015 conference total (\$622 million) primarily due to the elimination of the Hardest Hit federal grant- pass through funding to the Land Bank Authority. Current collections, still pending adjustments and audit, total \$317.4 million.
- The May 2015 consensus estimate for **FY 2016** was \$300.00 million. The September 2015 conference revised the previous projection down to \$280 million. This reduction was due to elimination of Public Lighting Department revenues; and the elimination of reinvestment initiatives in various departments.
- The May 2015 consensus estimate for **FY 2017** was \$275.6 million. The September 2015 conference revised the previous projection down to \$235.0 million. This reduction was also due to the elimination of Public Lighting Dept. revenues; and the elimination of reinvestment initiatives in various departments.
- The May 2015 consensus estimate for **FY 2018** was \$269.5 million. The September 2015 conference revised the previous projection down to \$235.0 million. This reduction was again due to the elimination of Public Lighting Dept. revenues; and the elimination of reinvestment initiatives in various departments.
- Long term trend rates for Other General Fund Revenues are projected at a -3.0% decrease for FY 2019 and 0% growth for FY 2020. Again, the recommendation presented is based on a more conservative view.

Other City Funds (Non-General Fund)

Public Act 279 of 1909 (The Home Rule City Act) requires the city to forecast anticipated revenues of the city for the current fiscal year and the succeeding two fiscal years. The chart shown below lists all of the city's Special Revenue Funds and Enterprise Funds; funds not shown are the Trustee and Fiduciary Funds.

The revenue projections presented for these funds were based on historical data, trend lines and/or current department estimates. Budget figures presented for the Detroit Water & Sewerage Department is the original EM FY 2016 Budget. The department is currently under reorganization into two separate entities: the regional Great Lakes Water Authority and the Detroit Department of Water and Sewage Disposal. The revised consensus numbers presented for FY 2016 are the DWSD amended FY 2016 budget approved by Financial Review Commission in July 2015.

SEPTEMBER 2015 CONSENSUS REVENUE ESTIMATING CONFERENCE						
OTHER CITY FUNDS (Excludes General Fund)						
(in millions)	FY 2015 Actuals Unaudited	FY 2015 EM 2-Year Budget	FY 2016 EM 2-Year Budget	FY 2016 Revised Consensus Estimate	FY 2017 Revised Consensus Projection	FY 2018 Revised Consensus Projection
Community Development Block Grant Fund	\$ 36.9	\$ 35.9	\$ 33.6	\$ 33.6	\$ 33.6	\$ 33.6
Construction Code Fund (Building & Safety)	20.7	19.1	19.5	20.0	20.7	21.0
Drug Law Enforcement Fund	3.4	1.0	1.1	1.1	1.1	1.1
Library Fund	26.9	30.1	30.5	30.5	30.5	32.1
Quality of Life (loan funds)	—	200.0	—	—	—	—
Major and Local Streets Fund	84.7	65.1	59.1	59.1	59.1	60.1
Solid Waste Management Fund	39.8	40.9	40.6	40.0	40.0	40.0
General Grants Fund	31.1	32.3	31.2	31.2	31.4	31.4
Sinking & Interest (Debt Service) Fund	67.1	66.7	61.8	61.8	68.0	66.7
Urban Renewal Fund	11.5	6.6	6.1	6.1	6.6	6.6
Airport Fund *	2.5	1.6	1.5	1.5	1.5	1.5
Municipal Parking Fund	16.8	17.4	17.5	14.7	14.2	14.3
Transportation Fund **	155.1	138.2	141.8	141.8	139.4	136.5
Sewage Fund	515.4	649.8	718.4	535.4	535.4	535.4
Water Fund	352.4	399.6	570.6	607.4	607.4	607.4

* Totals include subsidies from the General Fund: Airport FY 2015- \$665,064; FY 2016-\$666,053 and FY 2017 and FY 2018 - \$675,433.

** Totals include subsidies from the General Fund: Transportation (DDOT): FY 2015- \$63.3 million; FY 2016-\$61.5 million and FY 2017- \$61.8 million and FY 2018- \$59.9 million.

FUNDS WITH GENERAL FUND IMPACT

Airport

The Coleman A. Young International Airport is an Enterprise Agency of the City of Detroit. Revenues from landing fees, rentals, fuel concessions and Federal/State grants maintain the operations of the Airport. In addition, the Airport FY 2016 Budget includes a General Fund subsidy of \$666,053 which is expected to be paid. Consensus projections for FY 2017 and FY 2018 increases the subsidy to \$675,433, recognizing the most likely level of support from the General Fund based on historical trends.

Building & Safety

The Building & Safety Engineering & Environmental Department (BSEED) is an Enterprise Agency of the City of Detroit as mandated by state law. BSEED's mission is to safeguard public health, safety and welfare by enforcing construction, property maintenance, environmental compliance and zoning codes. Revenues from the Construction Code Fund include civil infraction fines, safety inspection charges, construction inspections and other licenses, permits and inspection charges. Revenues generated in support of the General Fund operations are from the business licensing activity. General Fund revenues are expected to remain at their current levels (\$2.2 to \$2.3 million) for FY 2016 through FY 2018.

Transportation

The Detroit Department of Transportation (DDOT) is an Enterprise Agency that provides transit services to the City of Detroit. Revenues are generated from fare box, State operating assistance, State and Federal grants, subsidy from the General Fund and other miscellaneous revenues. The General Fund subsidy for DDOT for FY 2015 was \$58.3 million. The consensus for FY 2016 through FY 2018 estimates the General Fund subsidy to remain in the range of \$59.9 million to \$61.8 million. Without additional restructuring efforts, this level of General Fund support will continue for the foreseeable future. Revenue from State operating assistance declined in FY 2014 due to a shift in the distribution formula. This shift resulted in a \$7 million decline in grant revenues in FY 2014, and may continue into the future. Increased Transportation funding is included in the proposed road funding bills currently under discussion in the state legislature. If this legislation passes, this could provide additional funding for DDOT.

Municipal Parking

The Municipal Parking Department is divided into two operations- the Parking Violation Bureau and the Automobile Parking and Area System. The Parking Violations Bureau is a General Fund operation responsible for enforcing on-street and off-street ordinances in the City of Detroit and the processing and collection of parking violation notices. The Auto Parking and Area System revenues are currently assigned to pay debt service for post-bankruptcy loans. The future of the revenue stream for this division is uncertain as additional bankruptcy settlement items may further dilute revenues. In addition certain parking structures have been transferred or optioned for future purchase under terms of the bankruptcy settlement.

Solid Waste Fund

The Solid Waste Management Fund is a Special Revenue Fund. The City of Detroit uses the Solid Waste Management Fund to account for local revenue collected for curbside rubbish pick-up and discard. The majority of Solid Waste Management Fund revenues comes from a residential Solid Waste Fee that is assessed to every home whether or not currently occupied. The solid waste service fee replaced the 3-mill tax for solid waste collection that was eliminated in 2006. The solid waste fee is assessed annually at \$240 for single family homes, and an additional \$100 for multi-family dwellings. Commercial fees are \$1,000.

- First-half collections compared to recent history indicate no growth in collections over the revised consensus estimates. Projections assume continued collection rates for FY 2016 through FY 2020.
- The City privatized the Solid Waste activity in FY 2014. Contracts were awarded to two companies to service the East and West side of the City on February 21, 2014. The outsourcing of this activity is expected to be revenue/cost neutral. However, service is anticipated to greatly improve under this arrangement.

SET ASIDES

The FY 2015 Budget included a reserve of \$111.3 million, which satisfied the State's budget reserve requirement of 5% of expenditures. In FY 2016, \$49 million of the Budget Reserve is designated for use in General Fund operations leaving a remaining balance of \$62.3 million in reserves for FY 2016. This represents 5.8% of estimated General Fund appropriations for FY 2016.

RISKS TO FORECAST

These estimates take into account the expected real revenue to the City subject to certain inherent risks outlined below:

- Lower inflation rate 0% or negative inflation rate reduces growth in property taxable valuations. State law limits growth to the lower of 5% or the rate of inflation.
- Trigger of a Headlee roll-back in property tax millage assessed due to possible loss in the personal property tax base, in combination with near zero/negative inflation factor.
- Lower consumer confidence depresses spending and reduces sales tax revenues.
- Rising interest rates resulting in lower consumer spending.
- Further declines in Michigan Sales Tax revenues negatively impacts local government share.
- Risks to estimated Property Tax collections due to the impact of Wayne County chargebacks netted against the delinquent accounts revolving fund payment.
- Continued property valuation declines; increased foreclosure activity in the near future.

- Possible negative impact in reductions to Personal Property Tax collections due to state legislation.
- Decline in property tax collections due to cleansing of the tax rolls.
- Declines in Sales and Charges for Services due to economic factors.
- Implementation risks due to deferred/delayed results from restructuring efforts.
- Reinvestment initiatives resulting in less than expected revenue growth.
- Labor market disruptions due to contract negotiations with major Detroit employers (auto industry/casinos).
- Internal problems with timely posting of revenues to the financial system.
- Proposed casino developments in Lansing and Romulus could dampen Detroit casino's long-term revenue projections.

POTENTIAL UPWARD ADJUSTMENTS TO FORECAST

- Ongoing improvements to collection efforts in FY 2016 may result in additional tax revenues not currently reflected in the consensus estimates.
- State of Michigan processing of the city's income tax, and subsequent withholding collections should result in increased compliance and generate additional revenues for the city.
- Passage of state legislation requiring non-Detroit businesses to withhold income taxes of employees residing in Detroit should result in increased income tax collections.
- Revenue initiatives in the Four Year Financial Plan, but not included in the consensus estimates/projections may result in additional revenues if timely and successfully implemented.
- Sales tax on internet purchases may increase local share distributions to city/villages/townships.

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