REVENUE ESTIMATING CONFERENCE

FEBRUARY 2018

CITY OF DETROIT

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FEBRUARY 14, 2018

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City of Detroit

REVENUE ESTIMATING CONFERENCE

February 14, 2018

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 conference 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 February 2018 Revenue Estimating Conference results set the revenues anticipated in the City's FY 2019-2022 Four-Year Financial Plan. The voting principals for February 2018 are:

- John W. Hill, Chief Financial Officer, City of Detroit
- Eric Bussis, Chief Economist and Director, Office of Revenue and Tax Analysis, State of Michigan, Department of Treasury (on behalf of State Treasurer Nick A. Khouri)
- George Fulton, PhD, Director Emeritus, Research Seminar in Quantitative Economics (RSQE), Department of Economics, University of Michigan

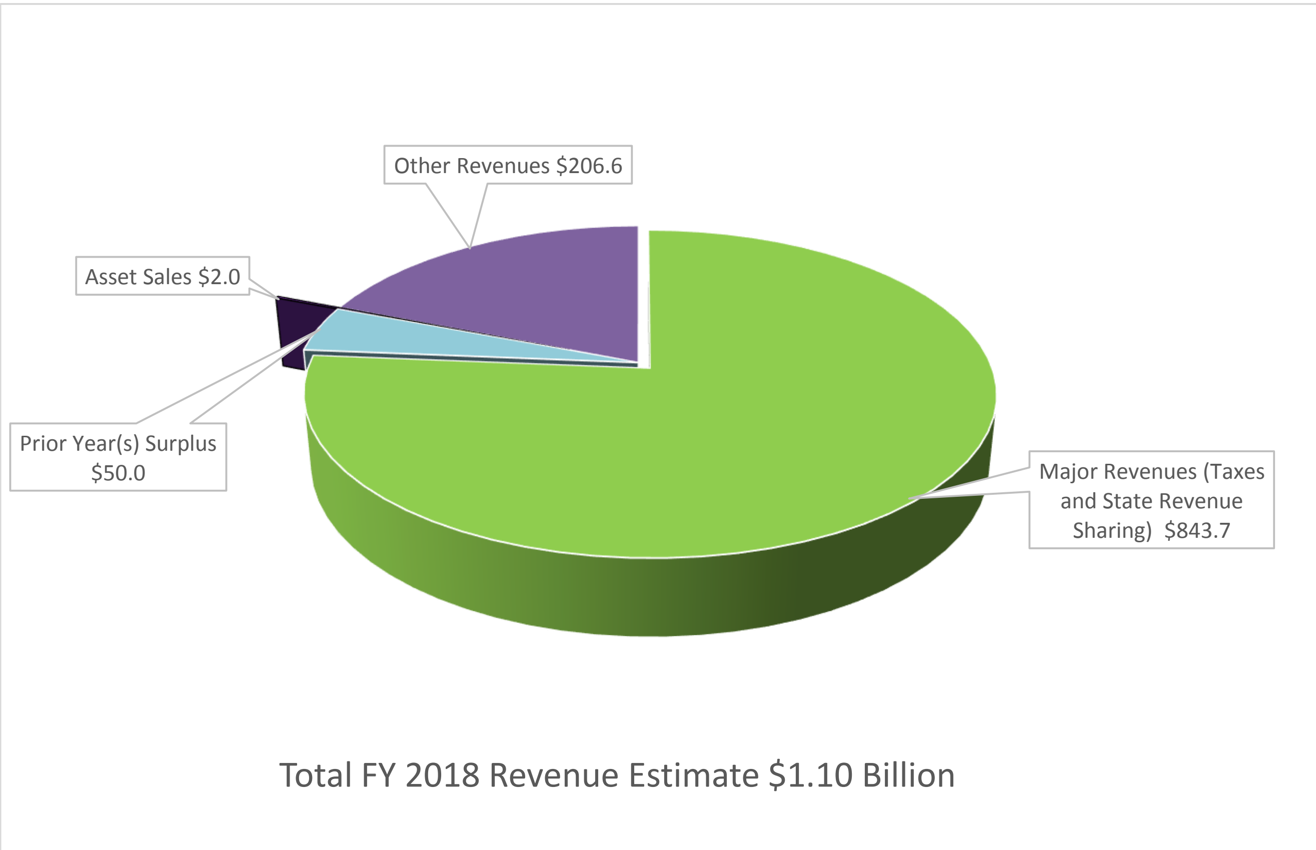
The Office of Budget within the Office of the Chief Financial Officer (OCFO), in coordination with the City Council's Legislative Policy Division and the Auditor's General Office, is responsible for preparing the City's revenue estimates for review and consideration by the Revenue Estimating Conference principals. These internal participants met during the month of January to discuss the City's prior year actual revenues (FY 2017), current year estimated revenue (FY 2018) and projected revenues for the next four fiscal years (FY 2019-2022). Representatives from other OCFO divisions also participated to discuss revenues in their respective areas, including the Offices of the Assessor, Departmental Financial Services, Development and Grants, and the Treasury. Mr. Robert Kleine (Interim Director of Michigan State University Extension Center for Local Government Finance and Policy) presented a forecast of economic conditions that may impact the City's revenues. Jed Howbert (Group Executive for Planning, Housing and Development, Mayor's Office) presented an update on the City's economic development projects.

This year, the City's internal participants began the process with an in-depth review of departmental revenues followed by a discussion of the City's major revenues and current economic climate. The task was to review General Fund major revenues and department revenues final year-end results for FY 2017, estimate current fiscal year-end activity for 2018, and project revenues for the forecast period FY 2019 through FY 2022. Using financial system reports, department sub-ledger reports, current operational analysis and local economic data, the participants individually determined their forecasts. Department- "Other revenues" of the General Fund were discussed in terms of on-going/recurring revenues, one-time activity/and initiatives. Revenues from all City funds were also considered as required by Public Act 182 of 2014.

OVERVIEW OF CONFERENCE RESULTS

Participants reviewed actual collections through December 2017 and year-end collections for FY 2017 as a basis to project revenues for the forecast period. Preliminary fiscal year-end 2018 results for General Fund revenues are $1.10 billion which consist of $1.05 billion from recurring revenues and $50 million from one time revenue sources. FY 2018 estimate includes $50 million from prior year(s) surpluses to fund capital projects, blight remediation and technology initiatives.

The vast majority of the General Fund revenues, 76%, are from the Major Revenues, which include Taxes and State Revenue Sharing.



The FY 2018 General Fund Adopted Budget is $1.07 billion. The September 2017 estimate of $1.08 billion has been adjusted by $27.8 million to reflect two accounting policy changes. Major Revenues have been adjusted by $9.1 million to net property taxes against certain distributions and Other Departmental revenue estimates have been adjusted by $18.7 million to account for Grand Bargain pension contributions. The primary difference between the February 2018 estimate of $1,102.3 million and the adjusted September 2017 estimate of $1,109.3 million is the $2.4 million increase in Major Revenues and the $9.6 million reduction in Other Departmental revenues.

FY2018 BUDGET
General Fund
(in millions)

	FY 2018 Baseline Budget	**One-time Investments**	**FY 2018 Total Adopted Budget**	**2017 September Estimate**	**2017 September Estimate (Adjusted)**	**2018 February Estimate**	**Variance (February 2018 to September 2017 Estimate)**	**Variance (February to Adopted Budget)**
Major Revenues (Taxes and State Revenue Sharing)	**$816.20**		**$816.20**	**$832.2**	**$841.3**	**$843.7**	**$2.4**	**$ 27.50**
Reinvestment Initiatives	13.2		13.2	7.9	7.9	7.9	0.0	(5.3)
Use of surplus funds		$50.0	50.0	50.0	50.0	50.0	0.0	0.0
Asset Sales (real and equipment)	5.1		5.1	1.8	1.8	2.0	0.2	(3.1)
Other Departmental revenues (less asset sales)	189.4		189.4	189.6	208.3	198.7	(9.6)	9.3
Total	**$1,023.9**	**$50.0**	**$1,073.9**	**$1,081.5**	**$1,109.3**	**$1,102.3**	**($7.0)**	**$28.4**

FEBRUARY 2018 REVENUE ESTIMATES RESULTS

The February 2018 conference includes estimates for FY 2018 and revenue projections for FY 2019 and 2020. The conference developed a trend line forecast of General Fund Revenues for FY 2021 and 2022.

General Fund *(in millions)*	**Income Tax**	**Property Tax**	**Utility Users Tax**	**Wagering Tax**	**State Revenue Sharing**	**Other Revenues**	**Total General Fund Revenues**
FY 2018							
Feb 2018 Estimate	$ 292.1	$ 133.1	$ 40.0	$ 179.0	$ 199.5	$ 208.6	$ 1,052.3
*Sept 2017 Estimate	292.1	133.1	38.9	179.0	198.2	218.0	**1,059.3
Variance Feb over Sept	0.0%	0.0%	2.8%	0.0%	0.7%	(4.3%)	(0.7%)
FY 2019							
Feb 2018 Projection	$ 299.4	$ 133.8	$ 40.0	$ 180.8	$ 200.7	$ 216.4	$ 1,071.1
*Sept 2017 Projection	299.4	133.1	39.1	180.8	199.2	219.2	1,070.8
Variance Feb over Sept	0.0%	0.5%	2.3%	0.0%	0.8%	(1.3%)	0.03%
FY 2020							
Feb 2018 Projection	$ 306.9	$ 135.8	$ 40.0	$ 182.6	$ 201.7	$ 218.1	$ 1,085.1
*Sept 2017 Projection	306.9	135.0	39.3	182.6	200.2	220.3	1,084.3
Variance Feb over Sept	0.0%	0.6%	1.8%	0.0%	0.7%	(1.0%)	0.07%
Long Term Trend							
FY 2021	$ 314.6	$ 137.8	$ 40.0	$ 184.4	$ 202.7	$ 220.5	$ 1,100.1
	2.5%	1.5%	0.0%	1.0%	0.5%	1.1%	1.4%
FY 2022	$ 322.5	$ 139.9	$ 40.0	$ 186.3	$ 203.7	$ 220.9	$ 1,113.3
	2.5%	1.5%	0.0%	1.0%	0.5%	0.2%	1.2%

* September 2017 Estimate revised to include TIFA $9.1M and $18.7M for Grand Bargain. ** (General Fund Total excludes budget surplus of $50.0 million)

MAJOR REVENUES DISCUSSION

The City of Detroit has five major revenues: Income Tax, Property Tax, Utility Users' Tax, Wagering Tax (Casinos) and State Revenue Sharing. These revenues represent 83% of the General Fund year-end FY 2017 results of $988 million (excluding one-time activity).

Varying methodologies were utilized by the internal participants, including analysis of historical collection patterns, trend line fitting, moving averages, major revenue category analysis, individual agency revenue account analyses, and the utilization of run rates. All participants considered and accounted for other known items that impact collections. Participants used a conservative approach in projecting future revenues; speculative revenues were not considered in the numbers, but outlined as potential upward adjustments to revenues discussed later in this report.

Income Tax revenue includes corporate, withholding and individual payments. More than 85% of income tax actual collections are derived from withholdings. The current Municipal Income tax rate is 2.4% for residents, 1.2% for non-residents and 2.0% for corporations, which are set by State law. Public Act 394 of 2012 designated income tax revenues of 0.2% of resident individual tax collections and 0.1% of non-resident individual tax collections for Police operations.

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.

In 2015, the City contracted with the State of Michigan to process its income tax on its behalf. In January 2016, the State began phasing that in, as follows:

	Calendar Year 2016	**Calendar Year 2017 and 2018**
Individual returns: resident and non-resident	MI Processing Start 1/1/2016; estimated 100,000 new returns filed, 304,000 returns in total. Total refunds processed $17.2 million	Refunds of approximately $28 million for FY 2017; in the range of $23 million for FY 2018
Corporate returns		MI Processing started 1/1/2017
Withholdings	725 new entities are now withholding: 80% voluntary registered, 20% city compliance efforts	MI Processing started 1/1/2017
Electronic Filing, Pay and Refunds	1/1/2016 began e-filing; 77% e-filed in 2016	MI Processing started 1/1/2017 for e-pay MI Processing started 1/1/2018 for e-refunds

Income Tax Collections Five Year History

(In millions)	FY 2013	FY 2014	FY 2015	FY 2016	**FY 2017**
Actuals (per CAFR)	$248.0	$253.8	$263.4	$263.2	**$284.5**
% change	2.3%	2.3%	3.8%	0.0%	**8.1%**

Municipal Income Tax collections for FY 2017 were $284.5 million up from FY 2016 collections of $263.2 million. Increased refund activity from the State tempered net collections in FY 2016. Municipal Income Taxes continue to trend upward for the forecast period driven by modest increases in salary and wages.

Income tax collections for FY 2018 continue an upward trend with growth estimated at 2.7%. Projections for FY 2019 through FY 2022 maintain a growth rate of 2.5%.

The September 2017 and February 2018 estimate includes enforcement activity to increase delinquent income tax collections: outside collection agency; city staff to perform field audits; and enhanced taxpayer outreach and communications.

The February 2018 conference considered improved local economic conditions based upon blue chip economic forecasts as presented by Mr. Robert Kleine, Michigan State University.

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.

Property Tax Collections Five Year History

(In millions)	FY 2013	FY 2014	FY 2015	FY 2016	**FY 2017**
Actuals (per CAFR)	$132.8	$129.4	$126.4	$147.4	**$129.5**
Add: CAFR Adjustments-TIFA					**8.2**
Total Gross Collections					**$137.7**
% change	**(10.1%)**	**(2.6%)**	**(2.3%)**	**16.6%**	**(6.6%)**

Property Tax Collections consist of assessments for the current tax year; delinquent real and personal property remittance from the Wayne County Delinquent Tax Revolving Fund; auction proceeds from the County; and Personal Property Tax reimbursements from the State.

Final FY 2017 year-end result for property tax collection was $129.5 million. Beginning with the FY 2017 financial audit, property tax collections are recorded in the CAFR at net of Tax Incremental Financing Authority (TIFA) payments of $8.2 million.

The FY 2018 Adopted Budget of $124 million assumed a smaller decline in collections than previous budgets due to higher than estimated taxable valuations. Previous estimates were based on continued declines in the City's property taxable values due to required citywide reassessments and foreclosure activity. Actual taxable value declines were lower than originally anticipated. Improvement in the City's collection rate from 50% to over 70% also factored into increased collections for FY 2017.

The City received $9.1 million from the State in personal property tax reimbursements, authorized under the Local Community Stabilization Authority (LCSA) Public Act 86 of 2014. The General Fund received approximately $4 million of this reimbursement in FY 2017. Lower reimbursement levels are expected for the forecast period.

The City of Detroit partnered with DTE and Wayne County in providing for payment of current and delinquent city of Detroit property taxes, DWSD bills, and DTE bills at DivDat Kiosks conveniently located throughout the city (located in participating Rite-Aid stores, DTE Payment Centers, supermarkets /other retail establishments and in various City of Detroit buildings). The city is also experiencing increased collections through mobile apps.

The City Assessor's outlook on the Ad Valorem valuations for FY 2019 anticipate future growth in all property classes. The completion of citywide reassessments of residential properties in 2016 along with improved property data availability highlighted increased assessed values across the city and across property classes. Residential property values have increased across the city for the first time in 17 years. Most noteworthy is the increase in market rate sales for the period. Industrial property reassessments were completed in January 2018. Industrial values rose more than 64% over the previous year; this increase was attributed to a significant amount of under-valued industrial land on the city's tax rolls. Commercial property reassessments are expected to be completed in FY 2019. For the 2018 tax year commercial property values also increased by $0.2 billion.

Current Property Tax, continued:

One concern is the abnormally low residential property class share, account for only 37% of the city's total property classes.

A personal property taxable valuations appraisal was completed in 2016, and values increased by 6.3% for tax year 2018.

Property tax revenue estimate for FY 2018 is expected to remain flat with slight growth of one-half percent projected for the forecast period. This is a conservative forecast given the anticipated growth in the city's valuations in the near future. Assessed values are expected to increase by 6.1% for tax year 2018. However, this increase will not fully impact the city property tax collections, as taxable valuation growth will continue to be capped at a lower level per state law.

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%. Revenues are budgeted in the Police Department per the public act 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 (Public Act 394 of 2012) authorized the payment of income tax revenues for police officers (to hire/retain).

The September 2017 and the February FY 2018 estimate for Utility Users' Taxes differed by 2.8% for FY 2018. This increase was based on an overall 8.5% increase in collections over the previous fiscal year. Utility Users' Tax collections continue to move within a small range of $35 to $42 million, down significantly from historical highs of $60 million.

Utility Users' Tax Collections Five Year History

(In millions)	FY 2013	FY 2014	FY 2015	FY 2016	**FY 2017**
Actuals (per CAFR)	$35.3	$42.4	$37.9	$24.0	**$27.1**
Add: CAFR Adjustment- PLA				$12.5	**$12.5**
Goss Collections	$35.3	$42.4	$37.9	$36.5	**$39.6**
% change	(10.8%)	20.1%	(10.6%)	(3.7%)	**8.5%**

The FY 2019 through FY 2022 forecast continues a conservative approach in projecting this revenue source. Projections for the forecast period remain flat with no growth. Factors considered were anticipated rate cuts from DTE Energy; a gradual rise in utility consumption; and prior year's actual collections.

Estimates/projections were determined on a gross basis, inclusive of the $12.5 million Public Lighting Authority payment. Beginning with the June 30, 2016 Comprehensive Annual Financial Report (CAFR), Utility Users Tax revenues are presented net of the Public Lighting Authority (PLA) payment, as the PLA is considered a blended component unit of the city.

WAGERING TAXES

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 that increases the total percentage to 11.9%. The city is also permitted to assess a municipal service fee of 1.25% of adjusted gross receipts for public safety services provided to the casinos.

Wagering-Casino Tax Collections Five Year History

(In millions)	FY 2013	FY 2014	FY 2015	FY 2016	**FY 2017**
Actuals (per CAFR)	$174.6	$167.9	$172.5	$180.2	**$177.2**
% change	(3.7%)	(3.8%)	2.7%	4.5%	**(1.7%)**

The September 2017 and the February 2018 conference maintained Wagering Tax revenues at the same level. FY 2017 year-end results recorded a 1.7% decline in this revenue source over the previous fiscal year. This decline preceded two years of revenue growth as the city's revenues rebounded following declines due to the opening of casinos in Ohio.

The forecast for the four year period FY 2019 through FY 2022 include a growth factor of 1.0%.

Detroit casinos have rebounded from declining revenues which occurred with the opening of casinos in Ohio. At risk to this forecast is new casinos/gaming operations located within a 50 to 150 mile radius of the city that will exert negative pressure on Detroit casino revenues, as shown with the opening of the Ohio casinos. It is not known what the impact of major renovations to competing casino establishments will have on Detroit casino revenues.

STATE REVENUE SHARING

Revenue Sharing payments from the State are derived from two components: constitutional and statutory. 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 City, Village and Township Revenue Sharing (CVTRS) program.

For FY 2017 and FY 2018, the maximum amount available is 78.51044% of the FY 2010 total statutory payment (if a municipality complies with all requirements of the City, Village, and Township Revenue Sharing (CVTRS) program).

State Revenue Sharing Collections Five Year History

(In millions)	FY 2013	FY 2014	FY 2015	FY 2016	**FY 2017**
Actuals (per CAFR)	$182.4	$189.8	$194.8	$194.7	**$197.8**
% change	5.9%	4.1%	2.6%	0%	**1.6%**

Estimates are based on the current State Revenue Sharing payments projected by the Michigan Department of Treasury and revised Sales Tax revenue projections. Treasury payments are based on the State of Michigan January 2018 Revenue Estimates and the FY 2019 Executive Budget.

The February 2018 estimate for the current fiscal year is $199.5; $3.4 million higher than the FY 2018 Adopted Budget of $196.1 million and 0.8% higher than FY 2017 actuals.
Total revenue sharing increases by 0.6% in FY 2019 and 0.5% for FY 2020 through FY 2022 Statutory share-CVTRS remains flat for the forecast period. The constitutional share based on sales tax revenues is projected to grow by 3.1% in FY 2019 and 1.7% in FY 2020 through FY 2022. The City received a one-time supplemental CVTRS payment of $578,606 in FY 2018. Each eligible city, village or township received a payment equal to their population multiplied by 0.81198.

Potential risks to this forecast include economic risks from changes in federal fiscal policies that negatively impacts state/local finances; lower sales tax revenues/lower auto sales; and challenges to the state budget due to crises in local finances.

OTHER GENERAL FUND DEPARTMENTAL REVENUES

Other Departmental Revenues collections for FY 2017 total $356.81 million, which included $238.9 million from on-going/recurring sources and $117.9 million from one-time sources. Revenues from one-time sources included $67.9 million of prior years' surplus used to fund capital projects and blight remediation. It also included $50 million in General Fund unassigned balances allocated to fund the Retiree Protection Fund.

Projections for recurring revenues grow by less than 1% for FY 2019 through FY 2021. Revenues projections for FY 2022 remain flat.

Noteworthy changes to Departmental Revenues:

1. Estimates for real property sales and sales of equipment were reduced based on prior years' actual collections and lower than expected revenues estimated for FY 2018. Reduced estimates for this activity were included in the forecast for FY 2019 through 2022.
2. Interagency billings for services to other Non-General Fund City departments were reduced as a result of lower volume of reimbursable activity.
3. Fire Department EMS and cost recovery revenues are expected to increase as result of on-going initiatives.
4. Revenues generated by the Civil Rights Inclusion and Opportunity Agency (formerly known as Human Rights), resulting from non-compliance fines, are recorded in a separate Special Revenue Fund as the use of these funds are restricted for workforce employment training activity.
5. State of Michigan reimbursement for the 2016 Presidential Primary Election was received in FY 2017 by the Elections Department. The September 2017 and the February 2018 estimate also included this revenue in FY 2021 for the next election cycle.

GENERAL FUND REVENUES BY MAJOR CATEGORIES

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

1. ***Other Taxes, Assessments, and Interest*** - Special assessments, Industrial Facilities Taxes, other miscellaneous property taxes and interest paid on delinquent property taxes.
2. ***Sales and Charges for Services*** – Inter-fund revenue generated from maintenance and construction, Casino Municipal Service fees, Cable Franchise fees, recreation fees, property tax administrative fees, inter-fund reimbursements including personal services reimbursements, , and other minor sales and service fees.
3. ***Licenses, Permits and Inspection Charges*** - Various permits and licenses, safety inspection charges, and business licenses charges.
4. ***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, and other miscellaneous revenues and receipts.
5. **Intergovernmental Revenues-** Reimburse-ments from other governmental entities (Federal, State, and County) for services provided by the city; includes revenues from Emergency Medical Services billings, 36 District Court reimbursements from the State, Health grants from the State.
6. ***Fines, Forfeits, and Penalties*** - Ordinance, court and parking fines, property tax penalties, and various fines, forfeits, and penalties.

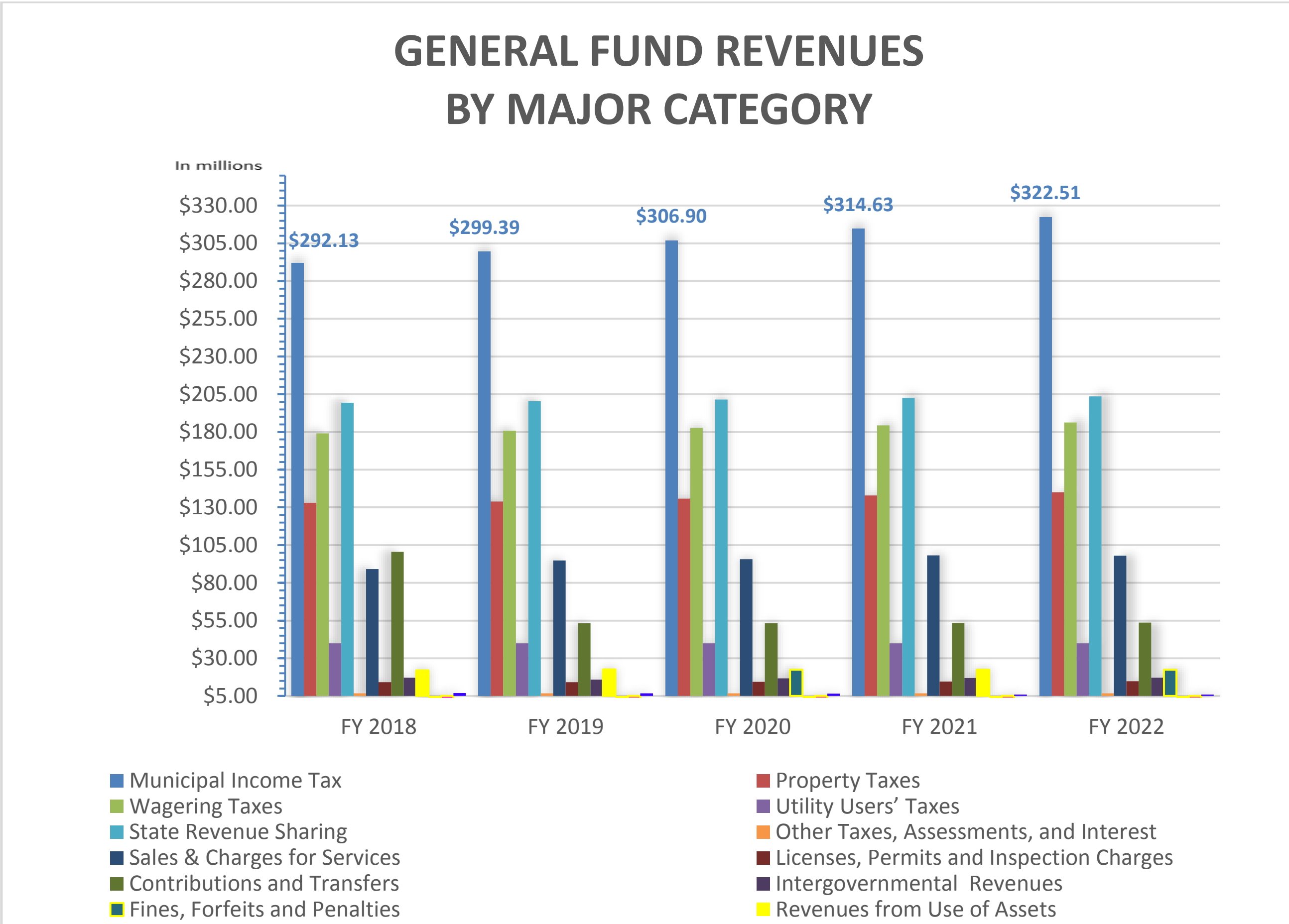
7. ***Revenue from Use of Assets*** - Earnings on investments, various interest earnings, building rentals, marina rentals, concessions, equipment rentals and sales of real property.

8. ***Sale of Assets and Compensation for Losses –*** *Sale of real property, equipment, tools, and other city assets. Compensation for losses include reimbursement for damages or loss.*

FEBRUARY 2018 ESTIMATES & PROJECTIONS
GENERAL FUND REVENUES BY CATEGORY

	FY 2018 Adopted Budget	FY 2018	FY 2019	% change	FY 2020	% change	FY 2021	% change	FY 2022	% change
Municipal Income Tax	283.25	292.13	299.39	2.5%	306.90	2.5%	314.63	2.5%	322.51	2.5%
Property Taxes	124.00	133.10	133.81	0.5%	135.81	1.5%	137.85	1.5%	139.92	1.5%
Wagering Taxes	177.78	178.99	180.78	1.0%	182.59	1.0%	184.41	1.0%	186.26	1.0%
Utility Users' Taxes	35.00	40.00	40.00	0.0%	40.00	0.0%	40.00	0.0%	40.00	0.0%
State Revenue Sharing	196.14	199.45	200.66	0.6%	201.67	0.5%	202.68	0.5%	203.70	0.5%
TOTAL MAJOR REVENUES	816.17	843.67	854.64	1.3%	866.97	1.4%	879.57	1.5%	892.39	1.5%
Other Taxes, Assessments, and Interest	7.27	6.85	6.85	0.0%	6.85	0.0%	6.85	0.0%	6.85	0.0%
Sales & Charges for Services	106.07	85.78	91.33	6.5%	92.36	1.1%	94.72	2.6%	94.52	-0.2%
Licenses, Permits and Inspection Charges	10.14	14.10	14.23	1.0%	14.44	1.5%	14.63	1.3%	14.77	1.0%
Contributions and Transfers	72.05	100.43	53.21	-47.0%	53.33	0.2%	53.46	0.2%	53.58	0.2%
Intergovernmental Revenues	14.97	17.14	15.82	-7.7%	16.78	6.1%	17.00	1.3%	17.22	1.3%
Fines, Forfeits and Penalties	24.81	21.90	22.63	3.3%	22.38	-1.1%	22.38	0.0%	22.38	0.0%
Revenues from Use of Assets	3.30	2.26	2.15	-4.9%	2.16	0.5%	2.17	0.5%	2.17	0.0%
Sales of Assets and Compensation for Losses	5.90	3.19	3.31	3.8%	3.34	0.9%	3.38	1.0%	3.45	2.2%
Miscellaneous	13.24	6.99	6.87	-1.8%	6.48	-5.6%	5.90	-8.9%	5.92	0.0%
TOTAL OTHER REVENUES	257.75	258.65	216.41	-16.3%	218.13	0.8%	220.48	1.1%	220.88	0.2%
TOTAL GENERAL FUND REVENUES	$ 1,073.92	$ 1,102.32	$ 1,071.04	-2.8%	$ 1,085.10	1.3%	$ 1,100.06	1.4%	$ 1,113.27	1.2%

NOTE: Numbers may not add due to rounding.



OTHER GENERAL FUND ACTIVITY

Risk Management Fund

The City is exposed to various types of risk of loss including torts; theft of, damage to, or destruction of assets; loss due to errors or omissions; job-related illnesses or injuries to employees; natural disasters; and environmental occurrences. The City is self-insured against certain third-party claims.

The City currently reports the risk management activities (excluding health and dental) of non-Enterprise Funds and the Transportation Fund (an Enterprise Fund) in its General Fund. The General Fund and DDOT pay insurance premiums into the Risk Management Fund based on past claim activities. Because the Transportation Fund is included in the General Fund's risk management activities, it does not record a liability in its financial statements. Risk management activities for the other Enterprise Funds are recorded and reported separately in those funds. Contributions to the Risk Management Fund in the form of insurance payments total $24.1 to $49 million for fiscal years 2018 through FY 2022.

Budget Reserve Fund and PLD Decommissioning Fund

The City also has a Budget Reserve Fund and a Public Lighting Department (PLD) Decommissioning Fund recorded in the General Fund Class. Per statutory requirements, the Budget Reserve Fund must maintain a balance of 5% of budgeted expenditures. Currently, the fund has a balance of $62.3 million, which exceeds the minimum balance requirement. The PLD Decommissioning Fund records the proceeds from scrap material sales, which will used for decommissioning purposes.

OTHER CITY FUNDS (NON-GENERAL FUND)

Public Act 279 of 1909, as amended by PA 182 of 2014, requires the City to establish a forecast of anticipated revenues of the City for the fiscal year in which the revenue conference is being held and the succeeding two fiscal years. The chart shown below lists all of the City's Special Revenue Funds and Enterprise Funds. The revenue projections presented for these funds were based on historical data, trend lines and/or current department estimates.

CITY OF DETROIT FUNDS (EXCLUDES GENERAL FUND CLASS)					
(in millions)	FY 2018				
FUND NAME	Adopted Budget	FY 2017 September Projection	FY 2018 February Projection	FY 2019 Projection	FY 2020 Projection
Community Development Block Grant	$ 32.612	$ 32.600	$ 29.727	$ 29.727	$ 29.727
Emergency Solution Grants	2.696	2.700	2.683	2.683	2.683
Bridging Neighborhoods Fund	0.000	32.600	32.600	0.000	0.000
Department Grant Funds (Note 1):					
- Fire SAFER -Other Fire Grants	2.000	2.000	3.055	1.084	.084
- Health Grants (Note 2)	21.700	28.100	25.590	26.357	27.148
- Homeland Security Grants	0.800	0.800	0.800	0.800	0.800
- Mayor's Office Grants	0.110	0.090	0.127	0.085	0.0400
- Police Grants	4.813	4.810	4.813	6.533	6.533
- Dept. of Public Works (General) Grants	0.050	0.050	0.050	0.050	0.050
- Recreation	0.400	0.400	.005	1.105	.005
- Elections Grants (Voter Ed) ($2,500 annually)	0.002	0.002	0.002	0.002	0.002
Construction Code Fund	25.000	25.000	25.000	26.739	26.739
Drug Law Enforcement Fund	1.987	2.010	1.987	2.010	2.010
Library Funds	33.000	33.00	31.876	31.846	32.442
Civil Rights, Inclusion & Opportunity Revolving Fund (Note 2)	0.4500	4.500	3.000	3.000	3.000
Major and Local Streets Fund	77.210	77.210	215.914	85.124	88.625
PA 48 2002 Fund	2.894	2.900	2.900	2.900	2.900
Solid Waste Management	44.035	44.000	50.441	45.426	44.032
Sinking Interest & Redemption (Debt Service)	59.735	53.650	53.650	51.200	50.500
Special Housing Rehab programs (HRD Dept)	4.013	4.010	4.013	4.013	4.013
Airport Funds	1.668	1.900	2.613	2.213	2.213
Municipal Parking Funds	8.133	10.500	35.400	8.238	8.238
Transportation Funds (DDOT)	133.000	133.000	136.590	135.073	136.104
Detroit Water & Sewerage Department-Water Retail	119.848	119.850	134.944	139.332	143.930
Detroit Water & Sewerage Department-Sewerage Retail	278.632	278.630	297.205	331.939	345.518
Total Other Funds	$854.788	$894.312	$1,094.985	$937.479	$957.336

Note 1: *City Departments Grant Funds represent the reorganization of grants previously consolidated under one fund. Not all departments receive annual grant awards; the budget will be amended to reflect any additional grant awards received during the fiscal year. The projections for FY 2019 and FY 2020 assume receipt of recurring departmental grants.*

Note 2: *In conjunction with the Gordie Howe International Bridge Project, the city will receive funds from the State of Michigan, the Windsor Detroit Bridge Authority and from the sale of land. These funds are restricted for specific purposes, such as health, job training, and neighborhood development.*

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 2018 Budget include a General Fund contribution of $1.8 million which is expected to be paid. Projections for FY 2019 and FY 2020 decreases this contribution to $1.4 million. Higher General Fund contribution amounts are necessary to meet rising utility costs (lighting and drainage fees). Enterprise revenues of $2.2 million are expected for FY 2019 through FY 2022.

Buildings & Safety - Construction Code Fund

The Buildings & 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.

Revenues from the enterprise activity are estimated to increase to $25 million in FY 2018, a 2.9% increase over the previous fiscal year-end total of $24.3 million. Revenue growth of 6.9% is expected for the forecast period. The implementation of new electronic ticketing and new development/construction activity within the city is expected to contribute to revenue growth for the forecast period.

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 boxes, State operating assistance, State and Federal grants, contribution from the General Fund and other miscellaneous revenues. The General Fund contribution for DDOT for FY 2018 is $61.5 million; this amount remains unchanged for the forecast period. Additional restructuring efforts, including the expansion of routes, should allow this level of General Fund support to continue for the foreseeable future. Increased Transportation funding is included in the road funding bills passed by the State Legislature in 2014-2015. This legislation provides additional funding for DDOT, at the discretion of the City's Administration, by authorizing a city that meets specific criteria to allocate some of its Michigan Transportation Fund (MTF) revenues for public transit purposes. DDOT revenues continues at $133 million for FY 2018. FY 2019 revenues are expected to decline slightly by 1.1%. Revenue growth of 0.8% is projected for FY 2020.

Municipal Parking

The Municipal Parking Department is organized 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 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. In addition, certain parking structures have been transferred or optioned for future purchase under terms of the bankruptcy settlement. Revenues from the Enterprise operations for FY 2017 resulted in a surplus of $5.6 million due to revenues from garages, expected to be sold, but not sold during the fiscal year. Revenue estimates for FY 2018 total $35.4 million due to the sale of the Premiere Garage and an inflow of funds utilized to pay debt service. Projected revenues for the forecast period decline to $8.2 million in anticipation of a further reduction in city-owned garage(s).

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 a 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.

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.

A change in processing of delinquent tax bills in FY 2016 resulted in improved collections of solid waste fees. Fiscal Year-end 2017 collections were $54.6 million due to delinquent collections. For FY 2018 revenues are estimated at $50.4 million, inclusive of delinquent collections. Collections are projected to decrease to $44.0 - $45 million for the forecast period.

OTHER CITY FUNDS

Grants

The City receives various Federal and State Grants for various activities administered by city departments. Some of the city's largest programs are noted below.

The Fire Department received revenues from the Staffing for Adequate Fire & Emergency Response (SAFER) grant, a Federal grant sponsored by Federal Emergency Management Agency (FEMA).

The Health Department administers grants from Federal and State sources for HIV/AIDS, Housing Opportunities for Persons with Aids (HOPWA) grants, Immunization, Women, Infants and Children (WIC) and Essential Local Public Health Services (ELPHS) grants.

The Housing and Revitalization Department administers programs and contracts funded by the Community Development Block Grant (CDBG), the Emergency Solutions Grant and HOME funds.

The Police Department receives grants from various State and Federal sources including the Department of Justice-Justice Assistance grants (JAG), Community Oriented Policing (COPS) grants, Auto Theft and Victim's Assistance grants.

Bridging Neighborhoods Fund

The City of Detroit has designated $32 million for the Bridging Neighborhoods Program. The program will provide funds and services for the optional relocation of households and optional retrofits of homes in Del Ray and parts of Southwest Detroit that are most impacted by the Gordie Howe International Bridge Project. In addition, under this project, the city will also receive $1.5 million for job training and $2.4 million for health assessments and long-term emissions monitoring programs. The city has received $20 million to date from this revenue source.

Library

The Library Fund records the operations of the Detroit Public Library (DPL). DPL is an enterprise agency of the City of Detroit. It is Michigan's largest public library system consisting of a Main Library and 21 neighborhood branches. DPL has a collection of 6.6 million items that includes books, journals, photographs, government documents, and DVDs. A bookmobile makes weekly visits to schools and community centers, and the Library for the Blind & Physically Handicapped serves those with various physical challenges. The February 2018 conference project lower revenues of $31.9 million for this fund for the forecast period; a decline of $1.1 million over the previous forecast.

Major and Local Street Funds

Activity recorded in Major and Local Street Funds provide for the construction and maintenance of streets, bridges, traffic signals and non-motorized improvements. These funds record the city's share of State Gas and Weight Tax revenue that support various projects and accounts for State and Federal grants on a project basis. The Department of Public Works staff manages the Street Fund. The following three divisions are wholly or partially funded through the Street Fund: Street Maintenance Division, City Engineering Division and the Traffic Engineering Division. Increased road funding was enacted with the passage of state legislation amending various public acts in 2014- 2015. The City expects to receive $10- $15 million in additional Gas & Weight Taxes for the forecast period as result of these legislative changes. Revenues from this source are projected to range from $77.2 million in FY 2018 to $88.6 million in fiscal year FY 2020.

The City sold $124.5 million in bonds in November 2017 in order to expedite road improvements projects. These Michigan Transportation Fund Bonds will be repaid from the incremental increases in Gas & Weight Taxes noted above. The funds will be periodically drawn-down as road projects progress.

Sinking and Interest Fund (Debt Service)

The Sinking (bond) and Interest Redemption Fund provides for the scheduled retirement of principal and interest on long-term City debt. This debt derives from the issuance of Unlimited Tax General Obligation Bonds. Debt service on Limited Tax General Obligation Bonds are recorded in the General Fund. The debt service for enterprise funds appears in the Enterprise

Agency sections. The revenues for the Sinking and Interest (Debt Service) Fund are generated from a separate debt service millage on real and personal property located in the city of Detroit. Debt service schedules has funding declining from $53.6 to $50.5 million in FY 2018 and further declining to $44 million in FY 2020 due to the August 2016 refinancing transaction that lowered principal and interest obligations for this fund.

Detroit Water & Sewerage - Retail

The Department was reorganized into two separate entities: the regional Great Lakes Water Authority (GLWA) and the Detroit Department of Water and Sewage Disposal-Retail (DWSD-Retail), effective January 1, 2016. Projections presented for the forecast period are for DWSD-Retail only. The February 2018 conference estimated revenues of $134.9 million and $297.2 million for water and sewerage operations respectively for FY 2018. Revenues are projected to increase by approximately 4% for each of the forecast years. The September 2017 estimate reflects the amount included in the current Four Year Financial Plan.

Under the reorganization, Detroit maintains its own local system. The city keeps exclusive control of the local water and sewer system in DWSD – under authority of the Mayor and City Council. The Detroit local system is made up of approximately 3,000 miles of local sewer pipe and 3,400 miles of local water mains serving the neighborhoods of Detroit. The City has full authority to repair and rebuild the local system.

Great Lakes Water Authority (GLWA) is an authority formed to operate the regional system. GLWA operates the regional water and sewer assets. The GLWA Board is made up of 6 members: 2 appointed by the Mayor of Detroit, 1 each by Wayne, Oakland and Macomb Counties, and 1 by the Governor from the service area outside the three counties. The Authority provides services to communities in Oakland, Wayne and Macomb counties, estimated as 4 million customers from 127 communities.

The Authority sets the rates for all water and sewerage services. Rate increases are capped at 4% annually per agreement. GLWA entered into a long-term 40-year lease of the water and sewer assets owned by the Detroit Water and Sewerage Department. Lease terms provide for the payment of $50 million per year for the next 40 years to the City of Detroit for water and sewer infrastructure improvements. This will allow Detroit to finance up to $500-$800 million in bonds to rebuild the city's aged water and sewer system.

SET ASIDES

The FY 2018 Budget included $50 million from prior years' budget surplus for capital, technology and blight spending. An additional $50 million in unassigned General Fund Balance was appropriated for the Retiree Protection Fund, for a total of $105 million plus interest contributed by the city to the fund to date.

RISKS TO FORECAST

- Changes to federal fiscal policy may negatively impact federal entitlement programs resulting in a loss of funds to state and local municipalities.
- Increased uncertainty in federal government monetary and trade policy. Failure to raise debt ceiling would have a negative impact on the economy.
- Challenges to State budget from declining local finances and other critical issues may unfavorably impact the Statutory State Revenue Sharing distribution to local municipalities. Lower Sales Tax revenues/slowing auto sales directly impact local share.
- Risks to estimated property tax collections due to the impact of Wayne County chargebacks netted against the delinquent accounts revolving fund payment.
- Loss to personal property tax collections not fully reimbursed by the state.
- Lower consumer confidence depresses spending and reduces sales tax revenues.
- Rising interest rates resulting in lower consumer spending/housing activity. Uncertainty in fed actions on when/how much Fed Fund Rate will rise.
- Rising inflation adversely impacts economic performance.
- Lower census numbers result in loss of federal/state funds tied to population.
- Potential recession in the near future.

POTENTIAL UPWARD ADUSTMENTS TO FORECAST

- Major development projects, announced or in process, are not included in revenue estimates until revenue stream to the city materializes. The potential for increased economic development to increase the city's tax base and generate additional revenues for the city.
- Ongoing improvements to collection efforts in FY 2018 results in additional tax revenues not currently reflected in the estimates.
- State of Michigan processing of the City's income tax and subsequent withholding collections results in increased compliance and generate additional revenues for the city. E-pay payment option should improve collection activity.
- Passage of State legislation requiring non-Detroit businesses to withhold income taxes of employees residing in Detroit should significantly increase income tax collections.
- Revenue initiatives in the Four-Year Financial Plan, but not included in the estimates/projections may result in additional revenues if timely and successfully implemented.
- Sales tax on internet purchases may increase state local share distributions to city/villages/townships.

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MICHIGAN STATE UNIVERSITY | Extension
Center for Local Government Finance and Policy

Economic Forecast Prepared for City of Detroit

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MSUE Center for Local Government Finance & Policy
February 2018

U.S. Economy

The national economy continued to grow at a moderate pace in 2016, but slightly faster than the growth rate of recent years. Real GDP increased at a rate of 2.3% compared with 1.5% in 2016, and 2.15% over the last 4 years. The relatively slow rates of growth are due mainly to weak government spending, slow growth in exports due to the strength of the dollar (until recent months), increasing income inequality, and in 2017, the maturity of the economic recovery which has reached 102 months, the third longest in history.

A comparison of growth rates by sector for the last 4 years and the last year shows an improvement in the recent period in business investment and exports and weakening in residential investment and a modest weakening in consumption. In the last two quarters, consumption and exports have shown improved growth.

Employment growth slowed in 2017, as job gains averaged 171,000 a month compared with 206,000 for the previous two years.

Light motor vehicle sales maintained a strong pace in 2017, reaching 17.2 million units, but down from in a record 17.5 million units in 2016.

The forecast is for real GDP to continue to grow at about a 2.5% rate in 2018 and weaken over the next two years; 2019 (2.1%) and 2020 (1.9%).

Wage and salary growth will continue to slow in the next three years, increasing 1.5% in 2018 and, 0.9% in 2019 and 2020, compared to 1.4% in 2017.

Motor vehicle sales will remain at a high level but fall below the 2015 and 2016 records. The consensus forecast for 2018 is 16.9 million units. The forecast is 16.8 million units for 2019 and 16.7 million units for 2020.

The risks to the forecast beyond 2017 are substantial. Some of the major risks are potential conflicts on trade causing job losses, enacted major tax cuts that will likely balloon the deficit, sharp cuts in government spending that could slow economic growth, over tightening by the Fed, the failure to raise the debt ceiling, and policy mistakes by inexperienced members of the new administration.

The forecasts are largely those agreed to in the State's revenue estimating conference that convened in January.

Michigan Economy

Michigan's economic performance is largely dependent on the national economy, particularly on motor vehicle sales.

Michigan added 57,000 wage and salary jobs in 2017 (December to December). This compares with an average gain of 77,000 from 2011 to 2016, and a gain of 92,000 in 2016.

Using another measure, the monthly average for 2016 and 2017, the increase was 66,000, down from 85,000 in 2016.

After very slow growth in the first half of 2017, wage and salary employment rose 40,000 in the last half of the year. However, growth has slowed in every major sector in the past year compared with the previous year, with the overall growth down from 2.4% to 1%. For example, motor vehicle employment rose 4.5% in 2016 but fell 1.6% in 2017.

Michigan has added 564,000 jobs since hitting bottom in March, 2010, and has more than regained all the jobs lost during the Great Recession. However, wage and salary employment is still 265,000 below the 2000 peak.

The slowing of the national economy, beginning in 2019, and the modest decline in auto sales will slow Michigan employment growth in 2018, 2019, and 2020 to about half the 2016 increase; an increase of 40,000 jobs in 2018 and 2019 and, 49,000 in 2020. These estimates are based on the monthly average rather than the December-to-December change.

The consensus forecast is for the unemployment rate to average 4.3% in 2018, down slightly from 4.5% in 2017, 4.3% in 2019 and 4.2% in 2020. These estimates appear to be somewhat optimistic. The December unemployment rate was 4.7%, up from 3.7% in July. This is concerning as the unemployment rate has never increased this much without a recession following. There are no clear signs of a recession, but given the length of the current economic expansion, a recession in the next 2 to 3 years would not be a surprise. Estimates for 2019 and 2020 should be cautious.

Michigan's low unemployment rate is misleading. Since employment bottomed in late 2009, the Michigan labor force has increased only 0.6%, with all the growth in the last two years, while the U.S. labor force has increased 4.4%. If Michigan's labor force had increased as fast as the national labor force the Michigan unemployment rate would be 8.2%.

Michigan personal income increased an estimated 3.0% in 2017 down from 4.6% in 2016. The forecast is for a 4.3% increase in 2018, a 4.4% increase in 2019, and a 4.5% increase in 2020. The average annual gain since 2010 is 4%. I believe the estimates for 2019 and 2020 are optimistic. There has been only one year since 2000 when personal income has increased faster than 4.6%. A more reasonable estimate would be in the range of 3.5% to 4%. The estimates are produced by the University of Michigan's (RSQE) economic model; their explanation for relatively fast growth is larger than normal increases in transfer and property income due to Federal tax changes and higher inflation.

There has been little inflation in the last three years, due in part to the decline in oil prices. The Detroit CPI increased 1% in 2014, fell 1.4% in 2015, and increased 1.6% in 2016 and 1.8% in 2017. The forecast is for a 1.6% increase in 2018, a 1.9% increase in 2019, and a 2.2% increase in 2020. The increase in inflation is due, in large part, to the forecast of stable to rising oil prices, and some upward pressure on wages from the tightening labor market.

For both the U.S. and Michigan, forecasts for 2019 and 2020 should be cautious as I believe there is a good chance of a significant slowdown in economic growth in 2019 or even a recession. The current economic expansion will become the longest in history in July, 2019 if it continues. This fact combined with the other risks discussed above raises concerns about how long this expansion can continue.

Exhibit 1 summarizing the U.S. and Michigan Forecast.

EXHIBIT 1

SUMMARY OF U.S. AND MICHIGAN FORECAST, 2017 AND 2018

	2018	2019	2020
U.S.			
Real GDP	2.5%	2.1%	1.9%
Wage & Salary Employ. Growth	1.5%	1.2%	0.9%
Unemployment Rate	4.2%	4.0%	4.1%
Motor Vehicle Sales (millions)	16.9	16.8	16.7
CPI	2.5%	1.9%	2.2%
Michigan			
Personal Income	4.3%	4.4%	4.5%
Wage & Salary Employ. Growth	0.9%	0.9%	1.1%
Unemployment Rate	4.3%	4.3%	4.2%
Detroit CPI	1.6%	1.9%	2.2%

Detroit Economy and Revenues

There is little current economic data available for the city of Detroit but the same trends that affect the national and Michigan economies will affect Detroit, although there will clearly be some differences.

Current employment data is available for the Detroit-Dearborn-Livonia Metro area, which covers Wayne County. Wayne County has grown much slower than the state since 2010, and has been growing at a rate of about 2% in recent quarters, slightly faster than the state.

Detroit's major revenue sources are the income tax, property taxes, casino taxes, and state revenue sharing.

Income Tax

The income tax accounts for about 25% of Detroit's General Fund (GF) revenue.

The average annual growth rate from 2012 to 2016 was 2.9%. The increase for FY 2017 was 8.1%. The large increase was mainly due to state assistance in the collection of the tax.

Estimating revenues for FY 2018, FY 2019, and FY 2020 is difficult for two reasons. First, the state has taken over the processing of income tax returns which is resulting in increased collections, but it is too early to estimate the additional revenue, and second, the corporate income tax is very volatile and difficult to estimate. Based on the forecast for Michigan personal income and looking at 2018 estimates for other income tax cities, a reasonable estimate for the individual income tax is 3% for FY 2018 and 2.0% for FY 2019 and FY 2020, excluding any impact from state collection, or other unusual events. The estimates are $283.3 million for FY 2018, $289 million for FY 2019 and $295 million for FY 2020.

State Revenue Sharing

Revenue sharing payments have increased the last four years, but are down about 25% since 2008. The estimates are $198.9 million for FY 2018, $200.7 million for 2019, and $202.4 million for 2020. The 2018 number is the January estimate from the Senate Fiscal Agency. The 2019 and 2020 estimates assumes a 3% increase in the constitutional portion, which is tied to the growth in the sales tax, and no change in the statutory portion.

Property Taxes

Property taxes account for only 12% of GF revenues. The average for all cities is 43%.

The key determinant of growth in property taxes for most local governments is the change in the U.S. CPI, as taxable value is limited to the rate of inflation or 5%, whichever is less. The cap in 2017 was 0.9% and the projected cap for 2018 in 2.1%.

Detroit's TV has declined 28.5% since 2012, and the decline in 2017 was 5.9%. It is likely that the worst of the declines is over, and that growth in future years will be limited by the cap.

The estimates are $124 million for FY 2018, $126 million for 2019, and $128 million for 2020. These estimates to not take into account new tax abatements or other special factors.

Wagering Taxes

These taxes provide about 16% of GF revenue. The recent trend has been uneven. Up in 2012 (2.6%), down in 2013 and 2014 (7.5%), up in 2015 and 2016, and down in 2017. A baseline forecast might be the average of the last 5 years, which is about $175 million. Special factors such as increased competition or upgraded facilities could affect the estimate.

Exhibit 2 summarizes the Detroit revenue forecast.

EXHIBIT 2

DETROIT REVENUE PROJECTIONS

(in millions)

	2018	2019	2020
Property Tax	$124.0	$126.0	$128.0
Income Tax	$283.3	$289.0	$295.0
Revenue Sharing	$198.9	$200.7	$202.4
Casino Tax	$178.0	$179.8	$180.0