



# **Revenue Estimating Conference**

**September 10, 2020**

Office of the Chief Financial Officer  
Office of Budget

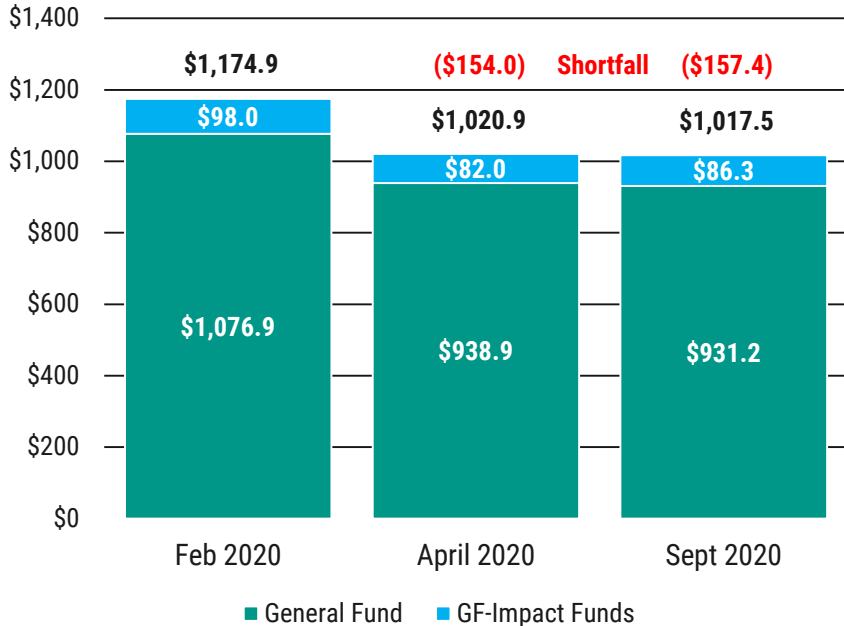
# Overview

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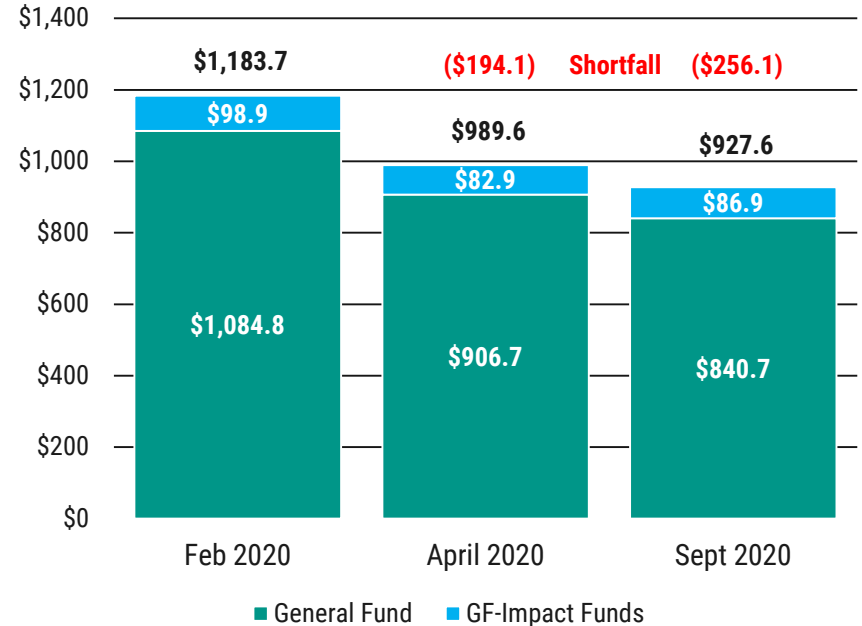
- Michigan PA 279 of 1909, Section 117.4t(1)(d), as amended by PA 182 of 2014, states the City of Detroit shall hold independent biannual revenue estimating conferences (in September and February) that establish the official economic forecast and forecast of anticipated City revenues.
- Revenue estimates must be approved by the voting principals:
  - David P. Massaron: Chief Financial Officer, City of Detroit
  - Eric Bussis: Chief Economist and Director, Office of Revenue and Tax Analysis, Michigan Department of Treasury
  - George Fulton, PhD: Director Emeritus, Research Professor Emeritus, Research Seminar In Quantitative Economics (RSQE), Department of Economics, University of Michigan
- The estimates include the current fiscal year (FY 2021) and the next four years (FY 2022–FY 2025).
- They set the revenues the City uses to begin developing the FY 2022 budget and FY 2022–FY 2025 Four Year-Financial Plan.

# Changes Since February 2020 Estimates

**FY 2020 General Fund / GF-Impact Revenues**  
(\$ in millions)



**FY 2021 General Fund / GF-Impact Revenues**  
(\$ in millions)



Note: GF-Impact Funds includes funds that may require additional General Fund contributions to offset revenue shortfalls (Construction Code, Transportation, and Airport Funds).



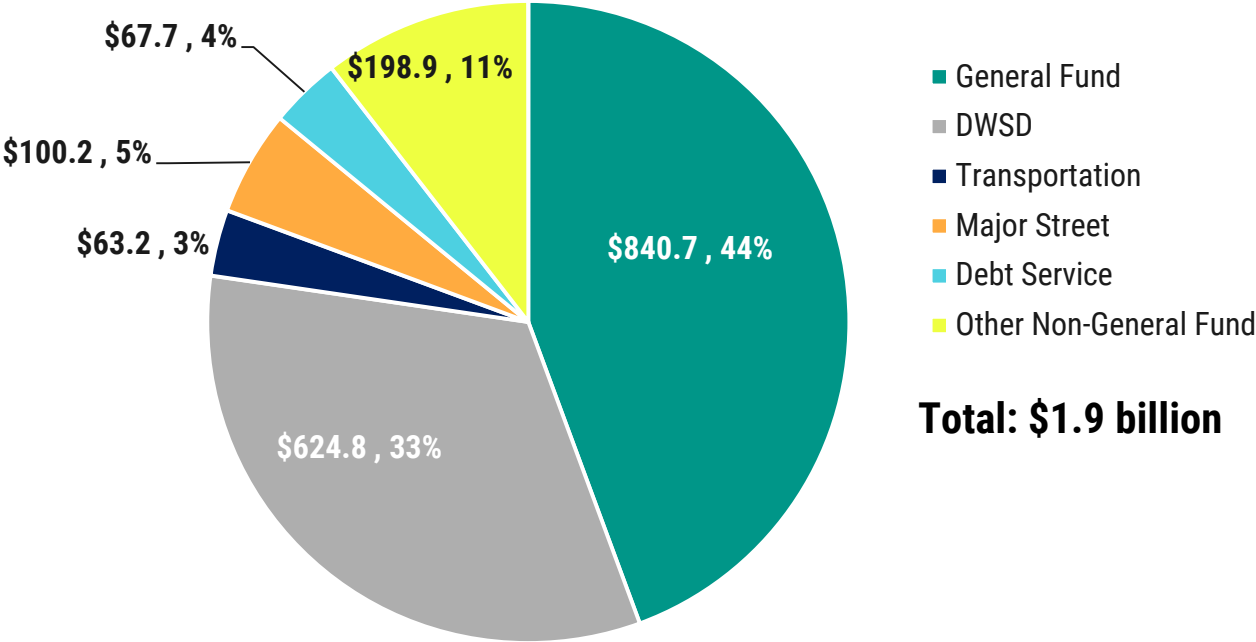
# Changes Since February 2020 Estimates

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- In April 2020, the Office of Budget projected revenue shortfalls of \$154M in FY2020 and \$194M in FY2021 due to the Coronavirus Disease 2019 (COVID-19) pandemic
- The Mayor presented his recommended changes to maintain a balanced budget in April 2020
- The City Council approved the FY 2021 Budget with those changes on May 5, 2020 and approved the changes to the FY 2020 Budget on June 30, 2020
  
- We now project FY 2020 ended with an additional \$3.4M (0.3%) revenue loss vs. April 2020, which was offset by additional underspending
  
- We now project FY 2021 will have an additional \$62M (6.3%) revenue loss vs. April 2020, driven by:
  - Additional gaming losses from casinos reopening later and more gradually
  - Additional income tax refunds from nonresidents working remotely longer
  - Both of these impacts peak in FY 2021 with smaller ongoing impacts in future years

# FY 2021 Revenue Summary, All Funds

FY 2021 September 2020 Estimates  
(in millions)



# Revenue Summary, General Fund

## General Fund Revenue Estimates - Summary, FY 2021 - FY 2025

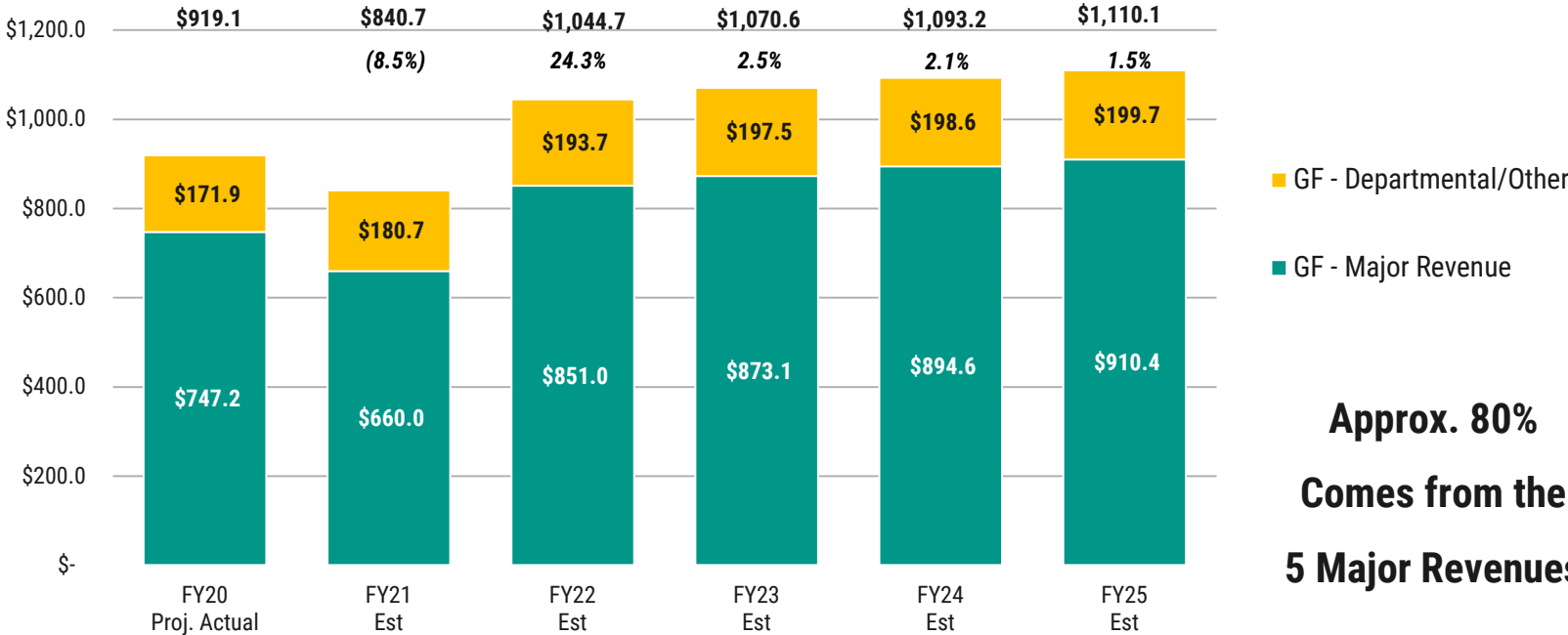
\$ in millions

	Proj. Actual	Adopted	September 2020 Estimates and Year-Over-Year Change									
	FY20	FY21	FY21	Change	FY22	Change	FY23	Change	FY24	Change	FY25	Change
<b>Major Taxes</b>												
Income Tax	\$ 283.1	\$ 239.4	\$ 227.4	-19.7%	\$ 319.7	40.6%	\$ 337.8	5.7%	\$ 355.7	5.3%	\$ 366.4	3.0%
Recurring	286.6	239.4	227.4	-20.7%	319.7	40.6%	337.8	5.7%	355.7	5.3%	366.4	3.0%
Non-recurring	(3.5)	-	-	-100.0%	-	-	-	-	-	-	-	-
State Revenue Sharing	181.7	190.5	201.4	10.8%	201.3	0.0%	202.5	0.6%	203.6	0.5%	204.8	0.6%
Wagering Tax	132.3	135.3	86.6	-34.5%	182.9	111.2%	186.7	2.1%	188.6	1.0%	190.5	1.0%
Property Tax	120.2	111.9	116.3	-3.2%	118.6	2.0%	117.4	-1.0%	117.8	0.3%	119.6	1.5%
Utility Users Tax	26.4	28.5	28.3	7.2%	28.5	0.7%	28.7	0.7%	28.9	0.7%	29.1	0.7%
<b>Subtotal, Major Taxes</b>	<b>\$ 743.7</b>	<b>\$ 705.6</b>	<b>\$ 660.0</b>	<b>-11.3%</b>	<b>\$ 851.0</b>	<b>28.9%</b>	<b>\$ 873.1</b>	<b>2.6%</b>	<b>\$ 894.6</b>	<b>2.5%</b>	<b>\$ 910.4</b>	<b>1.8%</b>
<b>Major Taxes (Recurring Only)</b>	<b>\$ 747.2</b>	<b>\$ 705.6</b>	<b>\$ 660.0</b>	<b>-11.7%</b>	<b>\$ 851.0</b>	<b>28.9%</b>	<b>\$ 873.1</b>	<b>2.6%</b>	<b>\$ 894.6</b>	<b>2.5%</b>	<b>\$ 910.4</b>	<b>1.8%</b>
<b>Other Revenues</b>	<b>\$ 187.5</b>	<b>\$ 201.1</b>	<b>\$ 180.7</b>	<b>-3.6%</b>	<b>\$ 193.7</b>	<b>7.2%</b>	<b>\$ 197.5</b>	<b>2.0%</b>	<b>\$ 198.6</b>	<b>0.6%</b>	<b>\$ 199.7</b>	<b>0.6%</b>
Recurring	171.9	201.1	180.7	5.1%	193.7	7.2%	197.5	2.0%	198.6	0.6%	199.7	0.6%
Non-recurring	15.6	-	-	-100.0%	-	-	-	-	-	-	-	-
<b>Grand Total, General Fund</b>	<b>\$ 931.2</b>	<b>\$ 906.7</b>	<b>\$ 840.7</b>	<b>-9.7%</b>	<b>\$ 1,044.7</b>	<b>24.3%</b>	<b>\$ 1,070.6</b>	<b>2.5%</b>	<b>\$ 1,093.2</b>	<b>2.1%</b>	<b>\$ 1,110.1</b>	<b>1.5%</b>
<b>General Fund, Recurring Only</b>	<b>\$ 919.1</b>	<b>\$ 906.7</b>	<b>\$ 840.7</b>	<b>-8.5%</b>	<b>\$ 1,044.7</b>	<b>24.3%</b>	<b>\$ 1,070.6</b>	<b>2.5%</b>	<b>\$ 1,093.2</b>	<b>2.1%</b>	<b>\$ 1,110.1</b>	<b>1.5%</b>

# General Fund Revenues

## Recurring General Fund Revenue: FY 2020 - FY 2025

(in millions)

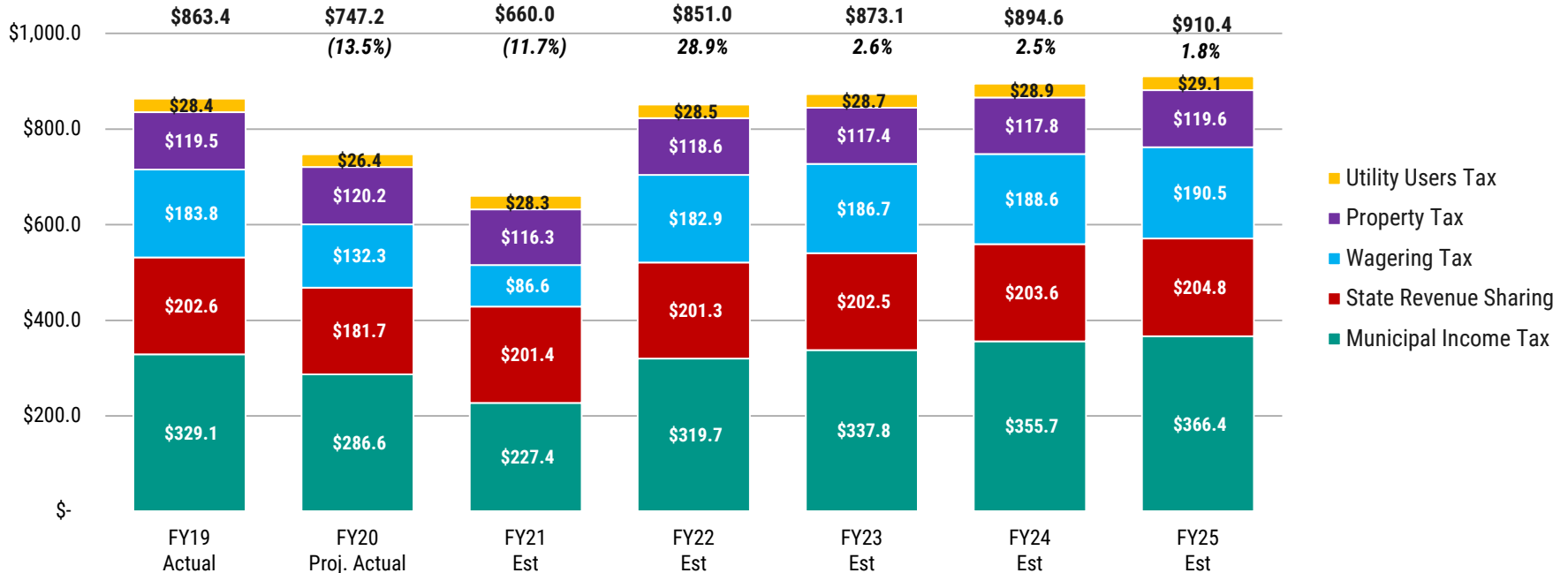


**Approx. 80%  
Comes from the  
5 Major Revenues**



# Major Revenues

Recurring Major Tax Revenue History and Projection: FY 2019 - FY 2025  
(in millions)

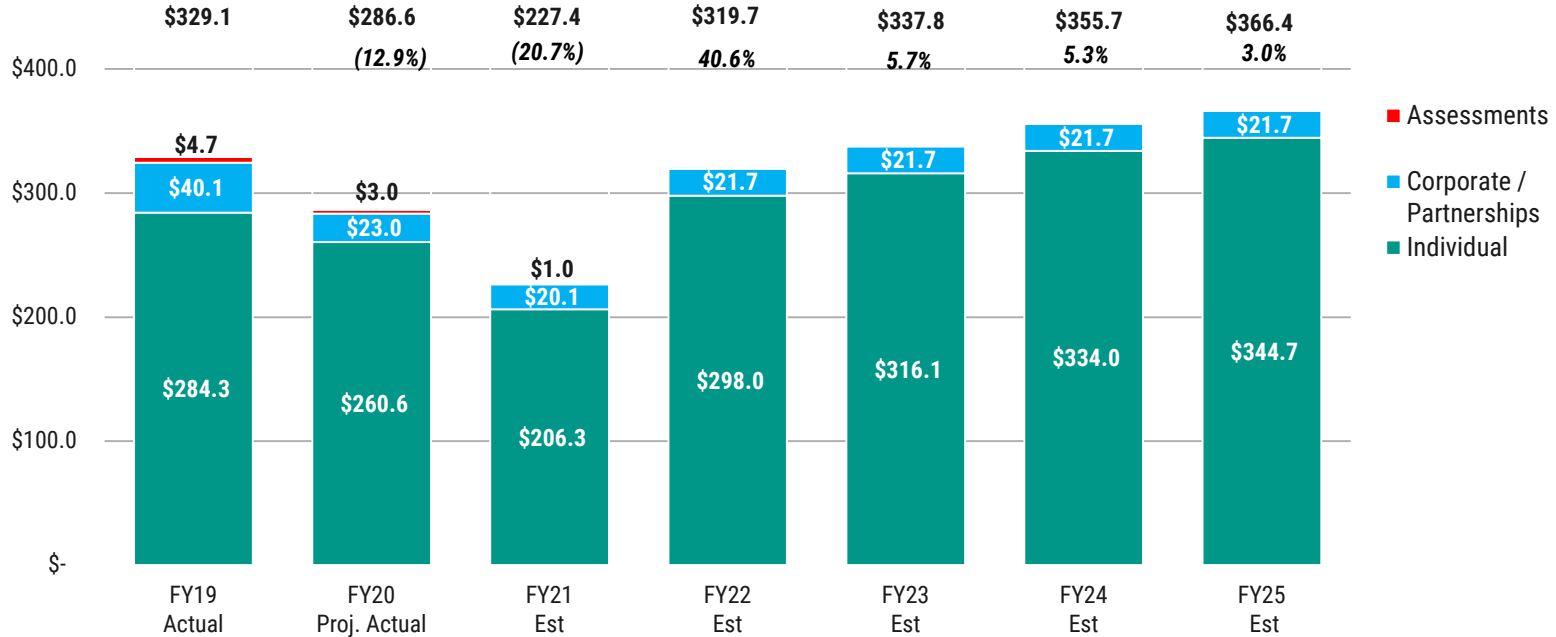




# Income Tax

## Recurring Municipal Income Tax

(in millions)



FY19 Actual excludes \$23m one-time corporate collections, \$2m one-time partnership collections, and \$6.9m prior-year adjustments.



# Income Tax Highlights

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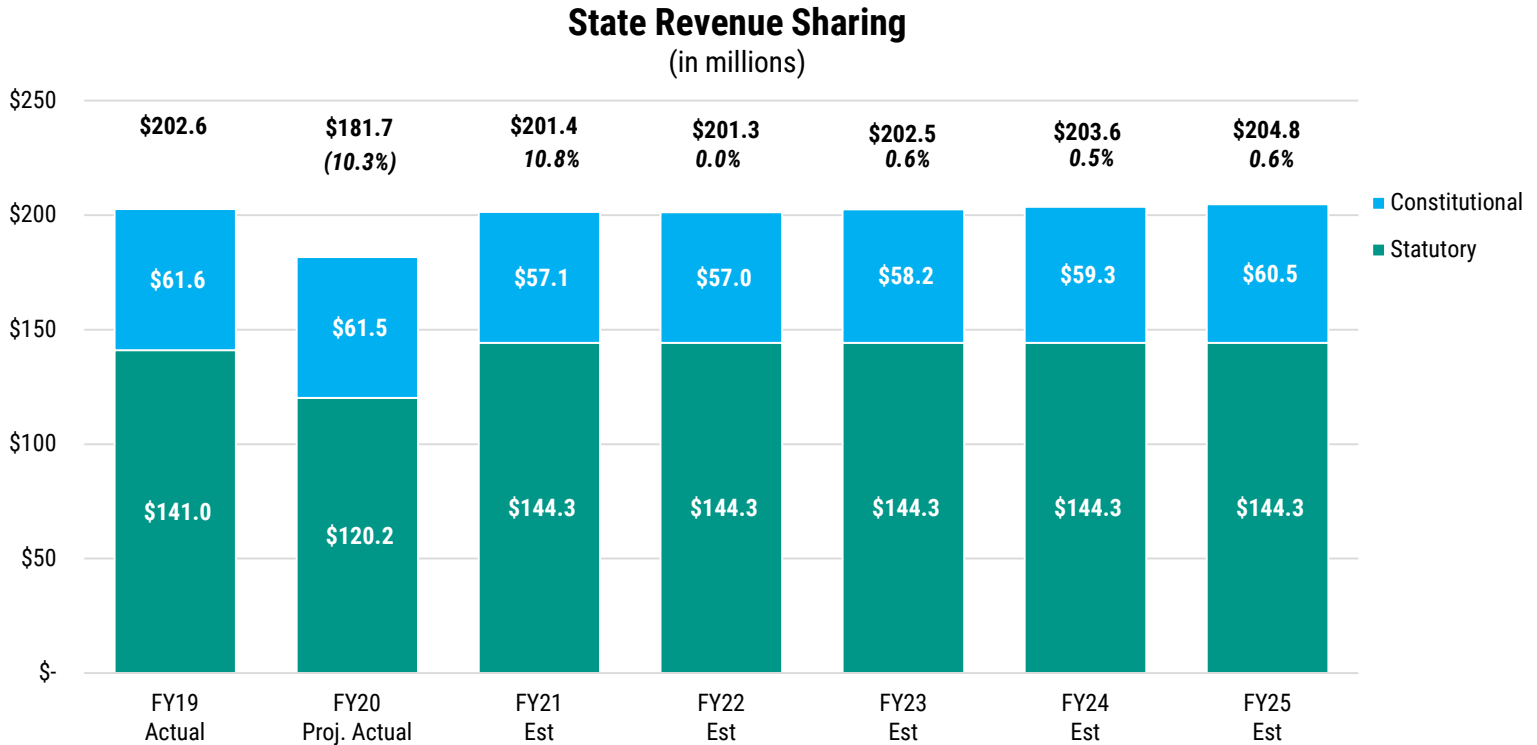
## Tax Structure

- 2.4% Resident individuals working in and outside the city (excludes unemployment compensation)
- 1.2% Nonresident individuals working in the city (excludes remote work outside the city)
- 2.0% Corporations and Partnerships

## Forecast Assumptions

- Driven by movements in employment and wages forecasted by the Summer 2020 Detroit Economic Outlook prepared by the University Economic Analysis Partnership.
- Additional remote work refund liability assumed to peak in FY 2021 and continue at 10% of nonresident withholding from FY 2022 and onward
- Expected decrease in corporate tax collections in FY 2020, no growth expectations in the out years.
- Does not include potential upside from new development projects.
- Does not include potential upside from improved compliance efforts.

# State Revenue Sharing



# State Revenue Sharing Highlights

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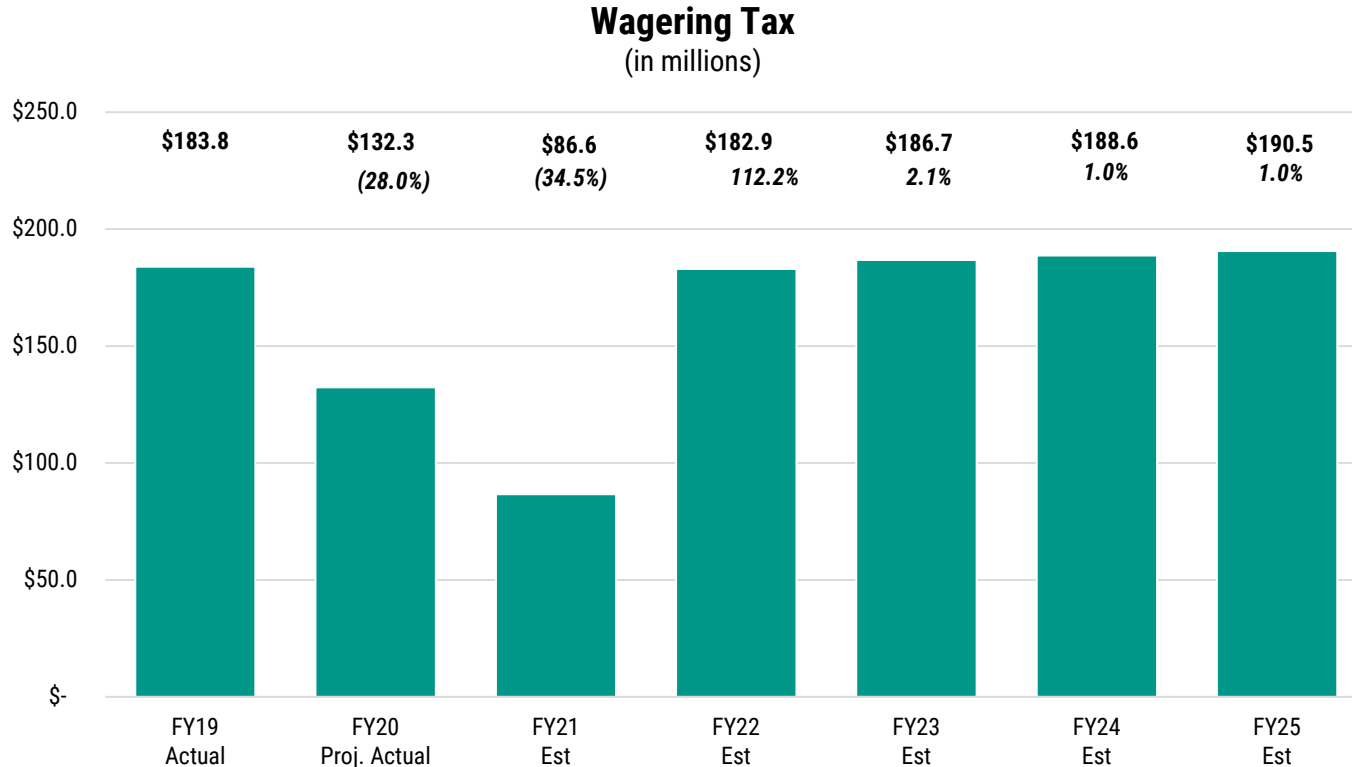
## Tax Structure

- Constitutional share (30%): State sales tax collections (15% of 4% portion)
- Statutory share (70%): Set annually via State budget.

## Forecast Assumptions

- No changes assumed for annual State statutory share.
- FY 2021 constitutional share declines assuming 2020 Census population decreases vs. 2010 Census.
- Forecast is based on State's August 2020 Consensus Revenue Estimating Conference
- Does not include 2.5% statutory share increase in the Governor's proposed FY 2021 budget from February (pre-COVID).

# Wagering Tax



# Wagering Tax Highlights

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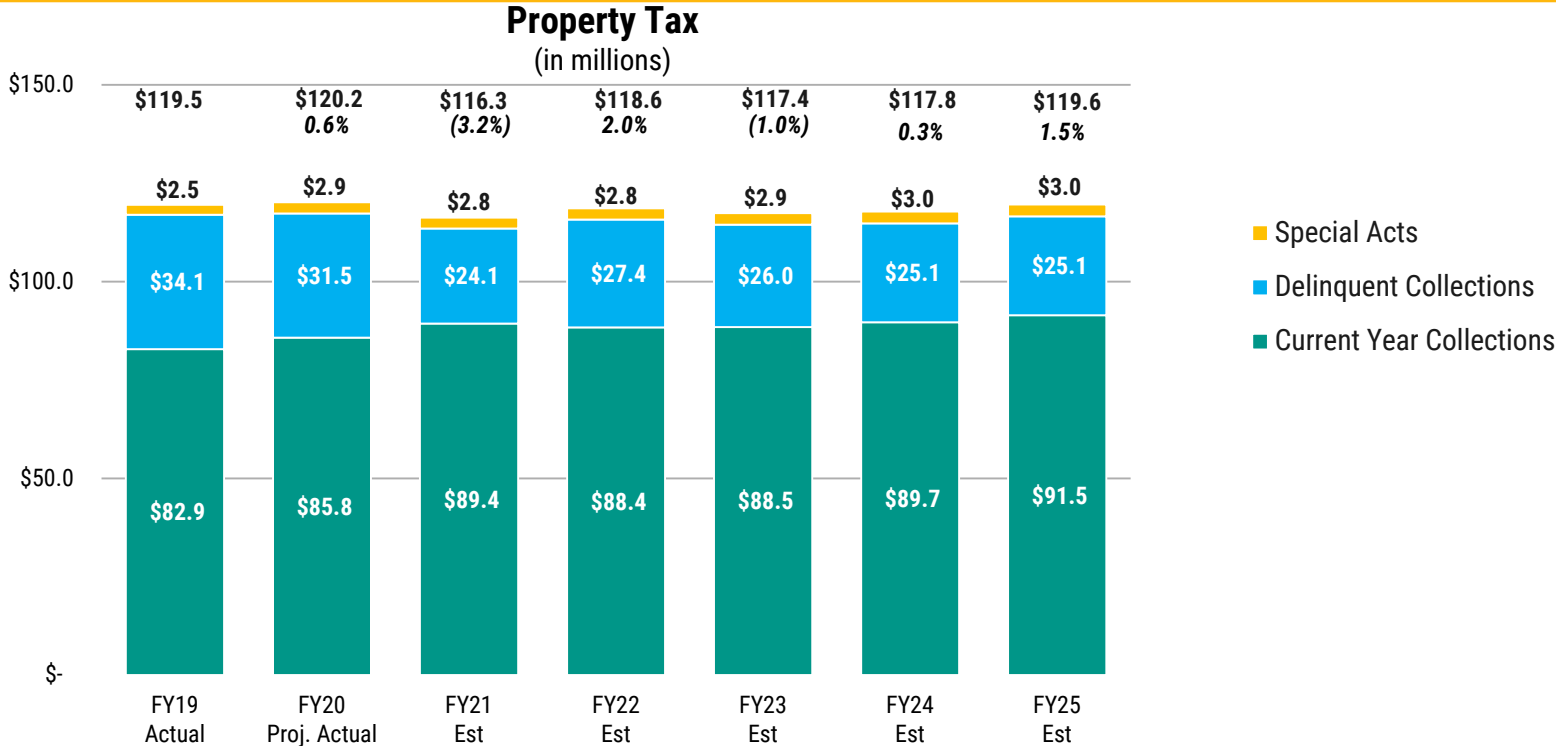
## Tax Structure

- Tax on adjusted growth receipts applied to the three casinos operating in Detroit.
- 11.9% tax rate (10.9% State law, 1% per casinos development agreements).
- Supplemental 1% tax if a casino's gross receipts exceed \$400 million.
- Municipal service fee 1.25% of gross receipts or \$4 million, whichever is greater (included separately in "Other Revenues")

## Forecast Assumptions

- FY21 and FY22 assumes reduced collections due to August 5, 2020 reopening and gradual phase-in to full capacity.
- Ranges from 20% of normal revenue at reopening to 95% by FY22.
- 1% annual growth rate from FY 2023 - FY 2025.
- Does not include potential upside from internet gaming and sports betting pending implementation.

# Property Tax



# Property Tax Highlights

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## Tax Structure

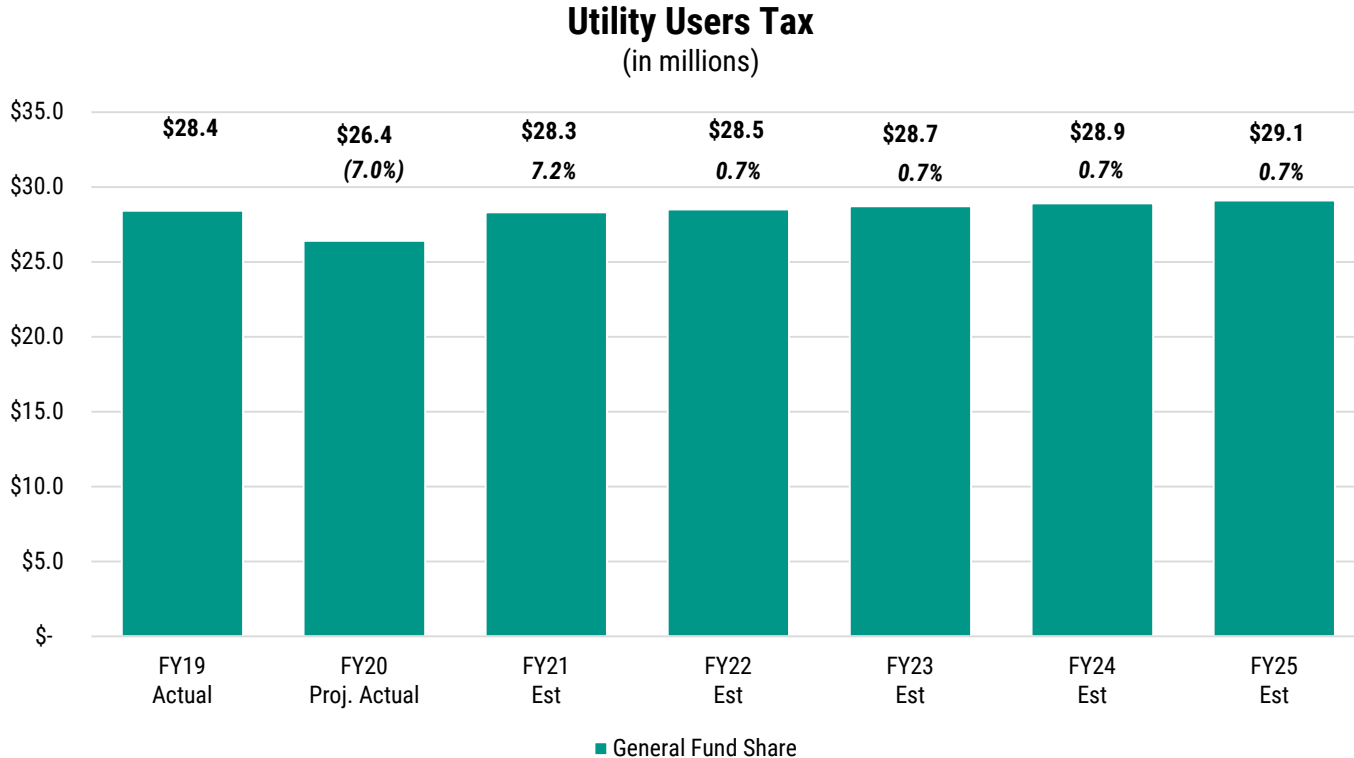
- Ad valorem taxes on real and personal property at 19.952 mills
- Comprised of current year and prior-year delinquent taxes less tax increment capture distributions.

## Forecast Assumptions

- Taxable value growth is based on tax year 2020 values, U.S. CPI inflation (Proposal A tax limitation), and industrial personal property phase-out per State law.
- FY 2020 collection rate (84%) is held constant throughout the forecast.
- Forecast does not include additions to the tax base or uncapping of taxable value.
- Delinquent tax revenue comes from Wayne County Delinquent Tax Revolving Fund and monthly payment plans, less exclusions and chargebacks



# Utility Users Tax



# Utility Users Tax Highlights

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## Tax Structure

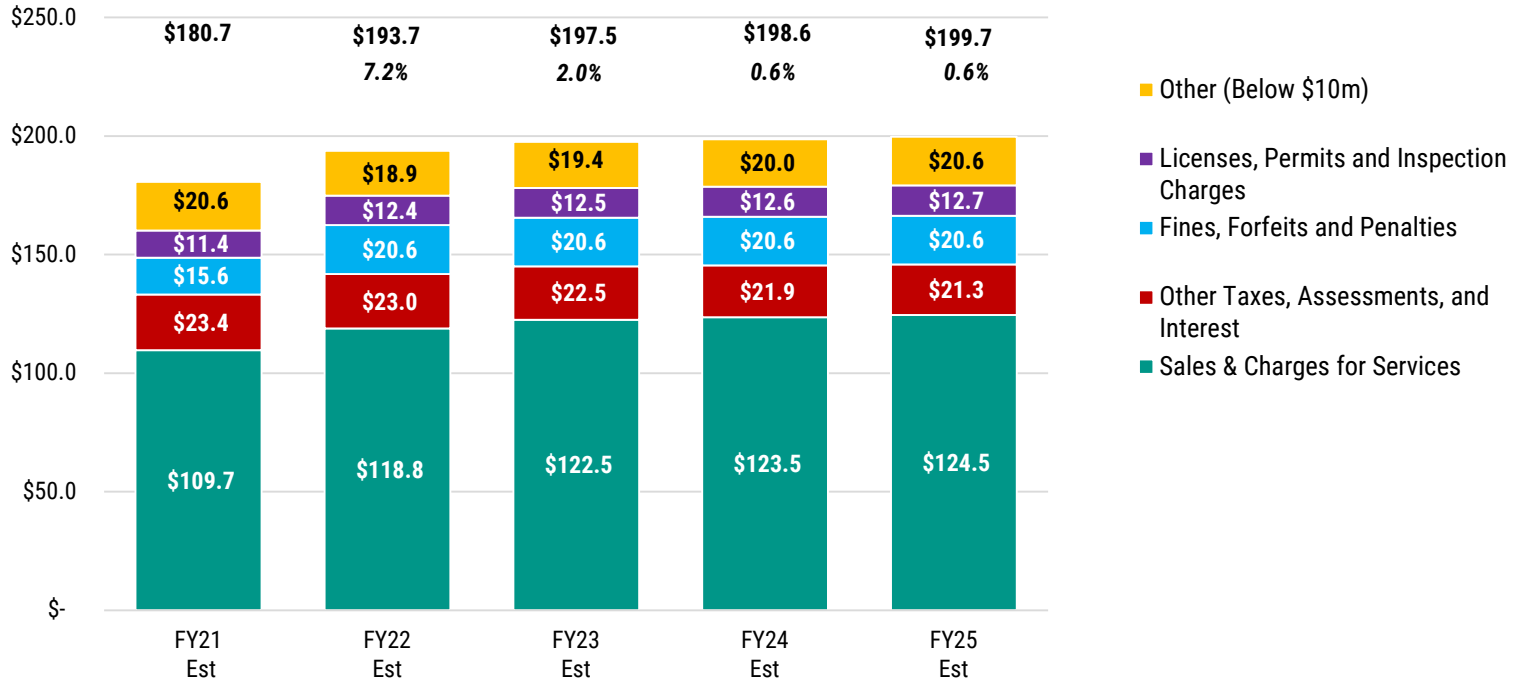
- 5% tax on consumption of electricity, gas, steam, and telephone services.

## Forecast Assumptions

- Revenue in FY 2021 is expected to shrink due to lower natural gas and electricity consumption and lower energy prices.
- Growth rate in FY 2022 - FY 2025 held constant at 0.5% household growth rate to mitigate impact of future volatility.

# Departmental & Other Revenues

**Recurring Departmental/Other General Fund Revenues**  
(in millions)



# Departmental & Other Revenue Highlights

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## Significant Departmental Revenues

- **License, Permits and Inspection Charges:** BSEED (Business Licenses), Public Works (Street Use Permits and Construction Inspection Charges), Fire Department (Safety Inspection Charges)
- **Fines, Forfeits and Penalties:** Parking fines and 36<sup>th</sup> District Court
- **Sales & Charges for Services:** Fire (EMS Service Fee), Parking fees, Health (Inspection Charges), BSEED and Administrative Hearing (Blight Tickets), Court fees, casino municipal service fees

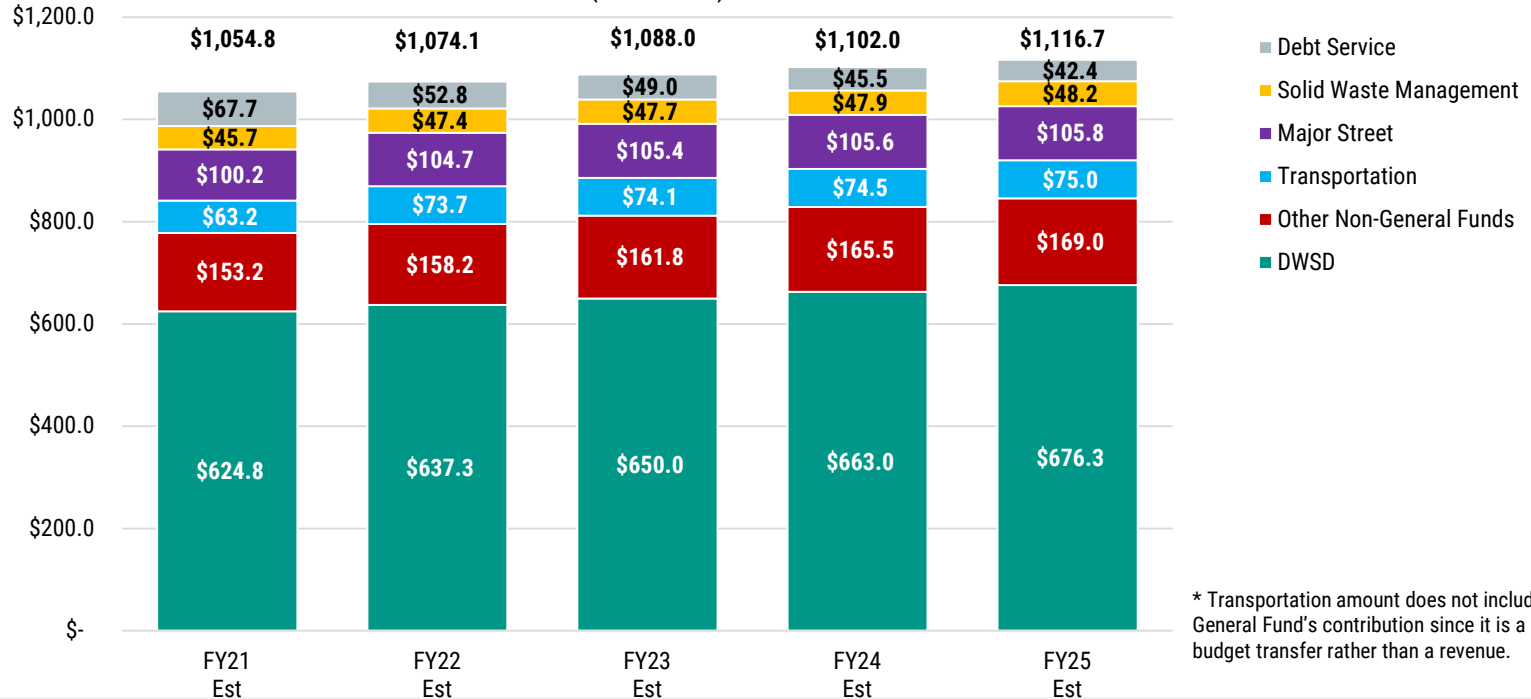
## Forecast Assumptions

- **Sales & Charges for Services:** Reduced Parking fee activity and casino municipal service fees
- **Fines, Forfeits and Penalties:** Reduced Parking fine revenues due to assumed reduction in overall parking activity
- **Other:** Reduced earnings on investments

# Non-General Fund Revenues

## Non-General Fund Revenue Estimates: FY 2021 - FY 2025

(in millions)



\* Transportation amount does not include the General Fund's contribution since it is a budget transfer rather than a revenue.



# Non-General Fund Revenues Highlights

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## Non-General Fund Categories

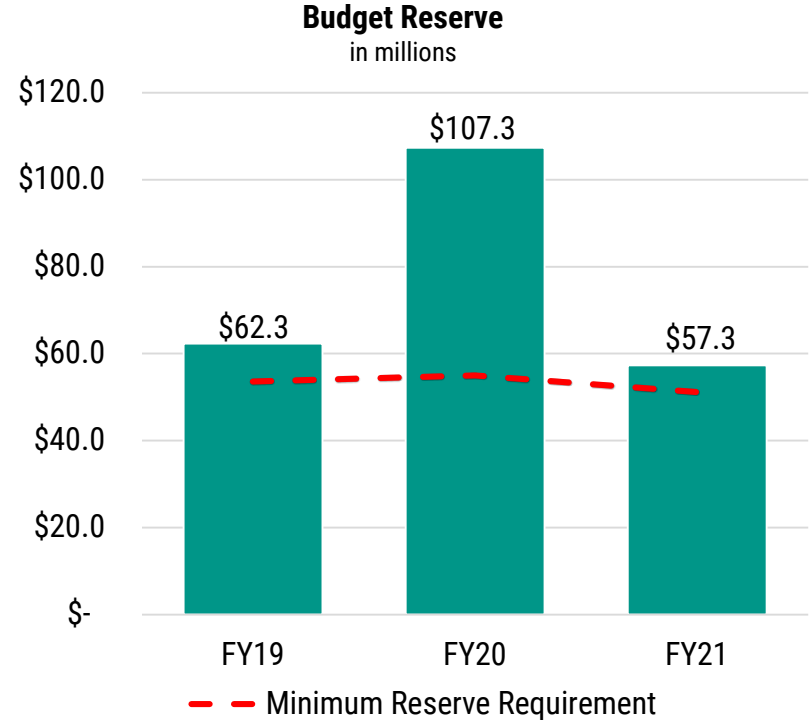
- **Debt Service:** Ad valorem taxes on real and personal property at 9 mills dedicated for debt service
- **Solid Waste Management:** Garbage collection fees charged to property owners
- **Major Street:** City's share of State gas and weight taxes for roads
- **Transportation:** DDOT bus fares, State transit funding, and grants
- **Other Non-General Funds:** Construction Code fees, Library property tax, and other restricted revenue
- **DWSD:** Water and sewer fees charged to property owners

## Major Forecast Assumptions

- **Solid Waste Management:** Revised downward due to updated customer count and elimination of monthly payment plans (PAYS plan forgives delinquent solid waste fees moving forward)
- **Major Street:** Reduced forecast based on projected State fuel tax losses
- **Transportation:** FY21 assumes DDOT fares remain suspended through December 2020

# Budget Reserve (Rainy Day Fund)

- State law requires the City of Detroit to maintain a General Fund reserve of no less than 5% of the projected expenditures for the fiscal year.
- The FY 2020 Adopted Budget provided for an ending reserve balance of \$107.3M, or nearly 10% of projected expenditures.
- The FY 2021 Adopted Budget assumes the City will draw down only \$50M to help address COVID-19 revenue shortfalls, keeping the balance above 5%.



# Risks & Potential Upside

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## Risks

- Second wave of COVID-19 and another round of mandatory closures
- Extended and more severe COVID-19 economic recession
- Federal and state budget pressures
- Worse than expected remote work refund liability and casino capacity limitations
- Permanent reductions in economic activity due to capacity limits and behavior changes (e.g., office work, restaurants, hotels, entertainment)
- Negative COVID impact on commercial property values and collection rates

## Potential Upside

- Additional federal fiscal relief and economic stimulus
- New and ongoing development projects throughout the city
- Expiring tax abatements and taxable values uncapping from property sales
- Internet gaming and sports betting implementation