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HONORABLE CITY COUNCIL

I am here to present to you the City of Detroit budget for the 2008-2009 fiscal year.

This budget marks several key milestones in our successful efforts to bring our city finances into balance.

It contains a number of examples of how together we have made tremendous progress in the past three years in getting our city finances under control. I'm sure you remember that just three years ago we faced a potential deficit of \$300 million. Structural costs that we had inherited, costs that were built into our budget when economic times were much better, were literally killing us. There was a lot of talk about Detroit being on the brink of payless paydays, bankruptcy and receivership.

But, working together, we have made huge progress in bringing down those structural costs across the board. When we compare our spending in the current fiscal year to spending six years ago we see dramatic reductions.

For example, we have reduced expenditures for operating supplies, which covers such categories as repair and maintenance of office equipment and office supplies, by \$9 million, compared to what we spent in fiscal 2002-2003.

During that same period, we have reduced our expenditures for utilities, rent and insurance by \$46 million. That is an amazing thing. Everyone's rent costs, everyone's utility costs are up compared to 2002-2003. Yet we have reduced ours by \$46 million.

In 2002-2003 we spent \$90 million for contractual services. Over the last six years that has been cut by 43 percent to \$51 million.

Health care costs in the budget I am presenting to you today are \$20 million less than they would have been without the savings we achieved when we sat down with our employee unions and were able to realize savings similar to those being achieved in the private sector.

But perhaps the most dramatic savings have been realized in the size of our work force. We have reduced our total work force by 25 percent since I took office. As a result, the total salary costs for **all** city employees in the budget I am presenting you for fiscal 2008-2009 are \$100 million **less** than the total salary costs the year I took office. That's correct, over a six-year period, we have reduced our salary costs by \$100 million. That is unprecedented.

These across the board savings are a very vivid demonstration of the discipline we have brought to our management of the city's finances.

As you know, our prudent fiscal management has resulted in our bond rating being upgraded by the prestigious Wall Street rating agency Standard and Poor's.

We have very carefully and very responsibly managed our way back to fiscal stability. This morning there is no talk of this city going into receivership. I believe we all can take pride in our ability to work together to achieve a solid fiscal footing.

For several years as we developed our budget, we were, frankly, just holding on. We were coping with an inherited deficit, declining revenues and built-in costs that had been agreed to in better times, but that we simply could no longer afford.

But we have made those adjustments. We have cut our spending. We have reduced our workforce, we have eliminated services that we no longer could afford. Structurally, our budget is in the best shape since we started working together six years ago. But we cannot be satisfied with that. We must be innovative, we must continually look for ways to take care of the glaring needs that still confront us. This budget does that in a very measured way.

I also want to acknowledge at the outset that I am presenting this budget in the midst of what seems to be tremendous tension between the executive and legislative branches of government here in our city.

As a result, I know the public will be watching us more closely than ever in the coming weeks as the 2008-2009 budget is finalized. If we are to serve the people that we were elected to serve, we have to finalize a responsible budget for the people of Detroit.

As you know, adopting the city budget is the most important responsibility we fulfill each year. It is our most basic duty. City government provides a wide range of services that have a very direct, daily effect on the lives of our citizens. Police protection, fire protection, EMS service, trash pickup, snow removal, public health, recreation, workforce development and other services depend on our adoption of a responsible, balanced budget that adequately funds each of these services.

I pledge to work with you, and to do all that my administration can do to maintain the progress we have made in bringing our finances into balance and operate city government in an effective manner that lives within our means. I hope that you will make the same pledge. I commit to you and to the people of Detroit today that I am ready to focus on this budget process and work together in a cooperative, professional manner to achieve a budget that adequately funds all essential services for the people of Detroit.

Our citizens have every right to expect that of us.

The budget I present to you today is a balanced budget.

It projects that we will end the current 2007-2008 fiscal year in balance and it lays out a plan for fiscal 2008-2009 that keeps us in balance.

The balancing of the budget for the current year requires your approval of two proposals that have been submitted to you.

The largest of these is the proposal submitted to you a week ago Friday to transfer our portion of the Windsor Tunnel to a holding company for the next 75 years. In return, we will receive a lump sum payment of \$75 million. After using a portion of the proceeds to fund an annuity for an insurance package on the tunnel as well as financing and legal fees, we should net at least \$65 million. The Windsor City Council already has taken action to transfer their portion of the tunnel to the holding company.

In addition, we submitted to you last Friday a package that would realize \$19 million from real estate sales. These two packages together represent a major step toward eliminating the structural deficit that we inherited and putting us on solid financial footing well into the future. We want to work with you on both of these proposals and are confident that we can do this.

As I mentioned at the beginning, this budget includes several milestones in our continuing effort to achieve a stronger financial footing for our city.

For example, the budget I am presenting today, for the first time in history, has no General Fund subsidy for solid waste disposal. There are two reasons for that.

The first is that this budget makes the final payment on the 20-year revenue bonds that were issued to build the Greater Detroit Resource Recovery plant, also known as GDRRA. We will offset the last bond payments with \$50 million in reserves that were set up as a part of the original financing of GDRRA. Those reserves are made up of \$25 million from a bond reserve and \$25 million from an escrow account that was set up with DTE Energy. Because we are at the end of the 20 years and the bonds are maturing, we can use those escrow accounts to make the final payment.

The fiscal prudence and discipline we have shown over the past six years has enabled to make the final payment this year. We were told several times during our most difficult financial periods that we should refinance the debt and push it out further, rather than sticking to the 20-year repayment schedule. We didn't do that. The fact that we didn't is one of the reasons Standard and Poor's and others are looking to us now to give us upgrades.

The second reason that there is no General Fund subsidy for solid waste disposal is that now that we have completed the bond service payments, the \$300 residential trash collection fee that we enacted two years ago will fully cover the cost of solid waste disposal in Detroit. The current year's budget included a \$22.9 million General Fund

subsidy for solid waste disposal. Two years the General Fund subsidy was \$75 million. This year it is zero. So you can see, this is another area where we will continue to realize the benefits of decisions we have made for many years to come.

This budget also includes the final \$40 million balloon payment on the budget stabilization bonds that we issued five years ago as part of our plan to bring our financial situation back under control. The fact that we can make this payment is proof that the decision to spread our debt out to avoid a more serious dislocation was a prudent one. It is another item that will not reappear in our budget in coming years.

We also are seeing a stabilizing in our revenue picture. This budget projects a 2.1 percent increase in real property taxes. How, you may ask, can property taxes be rising when property values have taken such a hit in the last few years and when we have cut taxes for new home owners in many of our neighborhoods?

The reason is the continuing effects of Proposal A. As you know, there is a considerable gap between the taxable value and the assessed value of many homes in Detroit as a result of the cap that was put on property taxes by Proposal A. That is why we created our Neighborhood Enterprise Zone (NEZ) initiative property tax cut for new homeowners in the city. People buying homes in Detroit have taken a huge hit on property taxes when the cap came off when the property changed hands and taxes “popped up” to the assessed value. That’s why we need to continue expanding the NEZ program.

Because the gap between taxable value and assessed value has become so great, even though the assessed value of homes is going down, it has not dropped to the point where it is equal to the taxable value. So, property tax revenues will continue to rise.

For the first time in a number of years, our City Income Tax revenues are basically flat this year after a number of years of declining revenues. We are projecting income tax revenues of \$275 million, down just \$2 million from the current year.

Income tax revenues peaked at \$378 million in 1999-2000. That was the last year before the rate started declining by .1 percent per year under legislation passed by the Michigan Legislature. My first year in office they had dropped \$67 million to \$311 as a result of the continuing reduction combined with the worsening state economy.

When the state originally mandated that we reduce our income tax, they tied that to a pledge that they would freeze our revenue sharing payments. But the state’s continuing economic problems resulted in their breaking that promise to us. In return, we were able to freeze our income tax at the current rate of 2.5 percent for residents and 1.25 percent for non-residents. This means our income tax revenues are no longer in the free fall that they had been in.

This budget also anticipates the \$8 million increase in revenue sharing that the Governor built into her budget for the coming year.

Our fastest growing source of revenue is the gaming tax levied on our three casinos. This year, for the first time, revenues from the gaming tax have grown to become our third largest source of General Fund revenue at \$194 million. They have almost doubled just since I took office, when they were at \$108 million for the year. That new total puts gaming taxes ahead of property tax revenues, which are expected to total \$176 million.

This budget also includes a credit of \$18 million in overpayments we have made to the Police and Fire Pension Fund over the past couple of years.

Many pension funds around the country have a mechanism that amortizes overpayments and underpayments over a period of years. We are working with our pension boards to develop that process to provide more continuity to our financial relationship with them. Until then, we will take an \$18 million credit to cover the overpayments we made to them. I want to thank all of the members of the police and fire pension board for their support of this payment.

This budget basically holds the line on our employment levels, with a net increase of 46 employees compared to the current fiscal year. The two key areas where we are adding a limited number of employees are the police department, where we will add 40 civilian employees to fill Police Assistant positions being vacated by uniformed officers, and Workforce Development, where we are making a change in our service delivery model.

The civilian police assistants will place civilian employees in desk jobs that previously have been held by uniformed officers. Under an Act 312 arbitration award, we are able to make this change as officers retire or leave a desk position through promotion or transfer. The net effect will put more uniformed officers on the street, rather than having them sit behind a desk. +

This budget also includes funds for two new forensic biologists and computers for the new Laboratory Information Management System (LIMS) in the Forensic Services unit of the Detroit Police Department. The department has purchased new DNA testing equipment and the addition of the two new forensic biologists and computers included in this budget will allow the department to become more efficient. These new employees and the new equipment will allow us to increase by ten-fold the number of samples processed for DNA.

This system will greatly improve casework documentation and data management and minimize administrative errors associated with repetitive hand-written documentation.

In the Workforce Development Project, we are hiring 36 employees to staff our One Stop locations as we implement a new service delivery model for the department.

Prior to this change we, as do most other Michigan Works agencies, have managed contractors who provided services. We now, through this pilot demonstration project that has been approved by both the federal and state governments, will bring those jobs in house and provide those services directly through employees.

We believe that through this change we will be better able to address the needs of our customers at each of our four one-stop locations. A worker who evaluates the case, a career developer and a job developer will be assigned to each individual client before that client is referred to a contract entity. The goal is to make the one-stops more of a full service entry point into the system. This will give us a greater ability to insure and manage how our customers are treated by dealing directly with departmental employees.

As you know, when we negotiated the new development agreement with our three casinos, it included a payment to the city of 1 percent of their gross receipts above and beyond the gaming tax. At the time we committed that we would dedicate a portion of that money to Recreation. The current year's budget earmarked \$8 million for Recreation and the budget I present to you today for fiscal 2008-2009 earmarks another \$8 million.

We also are adding 12 auto mechanics in our General Services Department budget to make sure our fleet is running at an efficient rate and to cut down on substantial overtime now being accumulated. The mechanics service all of our vehicles – fire trucks, police cars, DPW vehicles and others.

I'm also pleased to report to you that the new parts management system we implemented this year in GSD is working very smoothly. As you know, last year we entered into a contract with the NAPA auto parts company to supply all parts for our vehicles. NAPA will be set up in all our garages by the end of this year in what is in effect a just-in-time parts management program.

The result has been establishment of a much more efficient system with much less waste. Parts are there when needed and mechanics do not spend down time waiting for them to come in. In addition, as we clean out our inventory and sold all the old parts that were sitting on shelves, we already have realized about \$500,000.

GSD is adding 15 tree artisans, funded through the street fund, to cut down old dead trees and plant new ones on city rights of way around the city.

I am pleased to report to you today that DDOT ridership is up significantly this year. The increase is more than 7 percent, which will translate to an additional 2.5 million riders if the trend continues through June 30. There are a variety of factors for this, including more on-time service, the increased safety riders are feeling because of the sheriff's patrols and rising gas prices.

DDOT's new program launched in March to sell bus passes through the 33 CVS pharmacies located along DDOT routes has been a huge success. Several of the stores sold their allotment of passes in a couple of days and we are having to increase their supply. The new system is much more convenient for our passengers. In the past, the passes were only available at DDOT headquarters on East Warren. The first of the month there would be a huge line at DDOT of people purchasing monthly passes. This month, that line was not there.

This budget also adds three people to the Finance Department to help on production of the Comprehensive Annual Financial Report, better known as the CAFR. As you know, the 2006 report has been filed. We are on a schedule to produce the 2007 report by the end of November. The state currently is not withholding any of our revenue sharing funds.

Unfortunately, the City has a long track record of being late with its CAFR. But we are implementing procedures to get it back on schedule. We are hiring these new employees, beefing up our training and working with the auditor to fix issues on the auditor's side of the equation as well, including putting specific timelines in for them to follow in completing their work.

Before I close today, I want to briefly touch on a completely separate financial proposal that I have submitted to your Honorable Body – my economic stimulus package.

Since I submitted the package, it has been criticized by a variety of critics. I notice that some have even said it should be called something other than an economic stimulus package. Some have said it should be called a capital improvements package, as if this city doesn't have a crying need in many areas for capital improvements. But, in fact, it is an economic stimulus package because of the effect it would have on the Detroit-based businesses that would be contracted to implement all the different projects it will fund.

This package was carefully developed over an 18-month period during which we evaluated the most pressing capital needs of this city. We brought in financial experts from New York, legal experts and gaming experts as we looked carefully at developing an affordable way to pay for these badly needed improvements.

What we developed was a package that addresses our most pressing capital needs that can be financed by allocating only 15 percent of our casino wagering taxes for the next 30 years. This tax didn't even exist 10 years ago. It is a new source of revenue for us. If we cannot allocate just 15 percent of a new source of revenue to address some of this city's most basic capital needs, we need to take a look at our priorities. This package deals very directly with the kind of city we are leaving for our children and grandchildren.

We have identified specific projects that we can make a reality by earmarking that small portion of wagering revenues. We know exactly where we want to build, what we want to build, and how it will help us in the future:

- The plan will build one new police district on the east side and expand three existing districts so that in just six short years all of our district headquarters are state of the art. That will, among other things, address a major concern of the federal government which brought the consent decrees to our city. If you think we don't need state of the art headquarters for the men and women who protect us, then let's have a policy discussion on this issue.

- The plan will build two new fire stations, one on the east side and one on the west. If you disagree about the need for these new stations, then let's have a policy discussion on this proposal to exchange ideas.
- The plan will install electrical generators at all fire stations that would kick in if there is another blackout or other emergency. If you think, particularly after our experience with the last blackout, that is an unnecessary extravagance, we are ready to sit down and explore this issue with you to reach a common ground.
- The plan will build a new fire training complex to consolidate all training for the Detroit Fire Department in one facility ... provide training to other municipalities and provide a rigorous driver training facility for both our Police and Fire Departments. If you disagree with the need for this facility, we are ready to sit down and discuss this proposal with you.
- The plan will remodel our two neighborhood health centers to provide better pre-natal care and better care for infants and children. If you disagree with this proposal, we are ready to discuss this with you as well.
- The plan identifies 50 vacant commercial and apartment structures around the city that are crying out for demolition and that will be demolished. If you think there are any of those 50 that shouldn't be demolished, we are ready to hear your ideas for addressing this problem that continues to plague our neighborhoods.

I'm ready to listen to your plans. I welcome your proposals. We need a full session on this economic stimulus package to get into the details. It took us 18 months to develop this. You've had it before you for eight days. There is no pride of authorship in this plan. We are eager to hear your ideas. We would welcome the opportunity to make this a better package.

Let's have a policy discussion that produces the best result for our citizens.

Let's deal with this economic stimulus proposal, and the budget I present to you today, on the facts before us. We are ready to answer your policy questions and receive your suggestions and input.

As you examine the budget, you will see that this is a bare bones budget. It includes initiatives in several critical areas but also is drawn up with a clear focus on the need to stay in balance. It continues the discipline that we have brought to our budget process in recent years that has enabled us to bring our finances back in balance.

I look forward to working with you as you conduct your review of this budget in the coming weeks. As I said at the beginning, when we look back over the past six years it is clear we have made tremendous progress in cutting our costs to bring them in line with our revenues. No one is talking about payless paydays or bankruptcy or receivership for

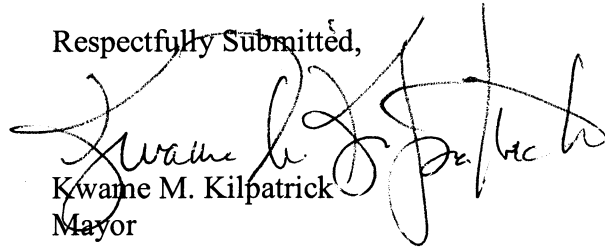
Detroit today. Instead, we hear talk of progress, of new development and of a new pride that is manifesting itself in our neighborhoods, along our riverfront and in our downtown.

This budget positions city government to continue that progress.

I look forward to working closely with your Honorable Body in the coming weeks as we finalize the City Budget for fiscal 2008-2009.

Thank you.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Kwame M. Kilpatrick". The signature is stylized and overlaps the printed name below it.

Kwame M. Kilpatrick
Mayor