

February 2024 Revenue Estimating Conference Report



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City of Detroit
February 2024 Revenue Estimating Conference Report

February 12, 2024

Overview of Revenue Estimating Conference:

State of Michigan Public Act 279 of 1909, Section 117.4t(1)(d), as amended by Public Act 182 of 2014, states the City of Detroit shall hold biannual revenue estimating conferences, which shall establish the official economic forecast and forecast of anticipated revenues of the City. The City holds its Revenue Estimating Conferences in September and February of each fiscal year. The voting principals are the City's Chief Financial Officer (CFO), the State Treasurer (or designee), and a person affiliated with another public entity, including a State institution of higher education, with experience in economic forecasting and revenue projection selected by the CFO and State Treasurer. The voting principals for the February 2024 Revenue Estimating Conference are:

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

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

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

Summary of Revenue Estimates:

Detroit's economy continues to show steady growth marked by job and wage gains for Detroiters and improving employment levels, according to the Detroit Economic Outlook for 2023-2028 released by the Research Seminar in Quantitative Economics (RSQE) at the University of Michigan earlier this month.

The economic outlook report shows "payroll jobs are expected to increase by 3,000 this year after 600 net job losses in 2023. Job gains accelerate to 3,800 in 2025 and then average 1,700 a year for the duration of the forecast." Employment grows for Detroiters by an average of 1,600 residents yearly through 2028, as resident employment grows faster than payroll employment. Payroll employment means jobs located inside

the City, whether held by residents or nonresidents. Resident employment means jobs held by Detroiters, whether located inside or outside the City.

The City's jobless rate is projected to fall from 8.2% to 7.1% by the end of the forecast period. And "those declines come along with growth in the city's labor force, which reaches its highest level since 2013 by the end of our forecast period," according to the economic outlook report. Overall, the report shows City residents will see larger paychecks over the next four years, increasing by 3.7% per year while payroll jobs located in the city will increase by 3.4%. Average resident wages are expected to climb to nearly \$50,000 by 2028, 42% higher than in 2019 and 86% higher than in 2014.

The Revenue Conference reported FY 2024 General Fund recurring revenues projected at \$1.290 billion for the current fiscal year ending June 30, 2024, up nearly \$5.5 million (0.4%) from the previous conference estimate in September 2023. The increase is driven by our growing income and property tax base. The FY 2024 revenue estimates also include an additional \$36.6 million of non-recurring revenues, primarily from short term investment earnings.

General Fund recurring revenues for FY 2025, which begins July 1, 2024, are now forecasted at \$1.329 billion, an increase of \$39.5 million (3.1%) over the revised FY 2024 estimates above. The projected increase is led by income taxes as the local economy continues to see steady growth in jobs and wages. The out-year forecasts for FY 2026 through FY 2028 show continued overall revenue growth of about 2% per year.

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

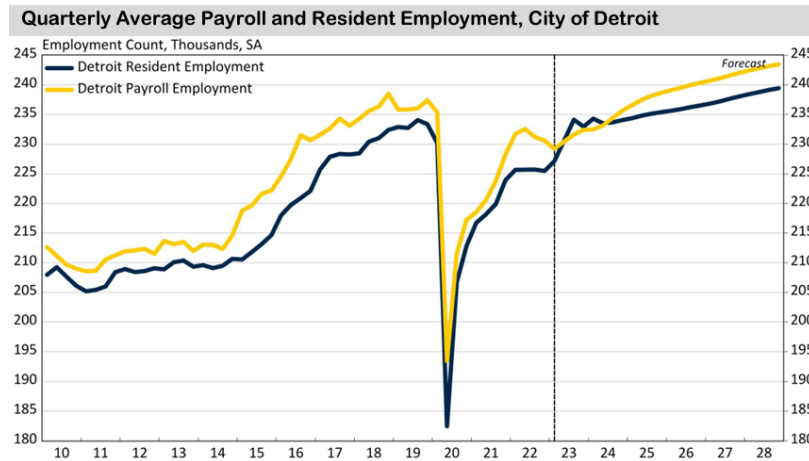
City of Detroit - General Fund Revenue Estimates - Summary

\$ in millions

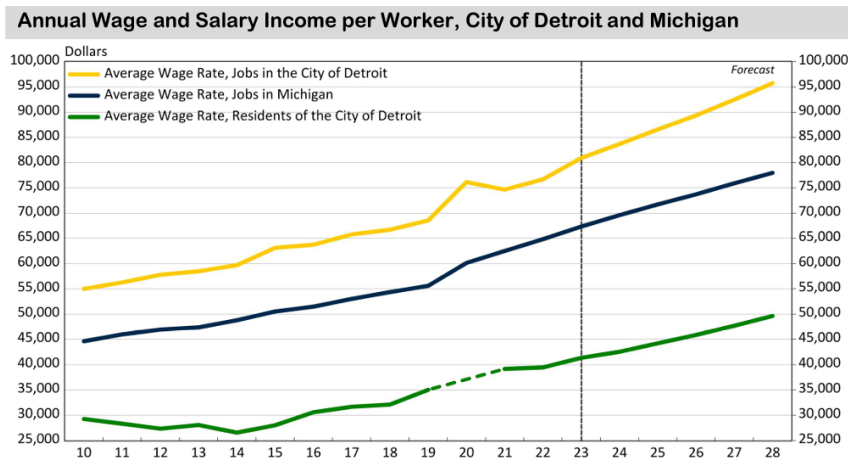
	FY 2022	FY 2023		FY 2024-FY 2028 February 2024 Estimates				
	Audited Actual	Projected Actual	Audited Actual	FY24 Estimate	FY25 Estimate	FY26 Estimate	FY27 Estimate	FY28 Estimate
Major Taxes								
Income Tax	\$ 402.2	\$ 404.5	\$ 408.1	\$ 420.1	\$ 433.9	\$ 448.1	\$ 462.7	\$ 478.9
Recurring Base	366.2	396.5	406.0	420.1	433.9	448.1	462.7	478.9
Non-recurring	36.0	8.0	2.0	-	-	-	-	-
State Revenue Sharing	\$ 219.6	\$ 225.8	\$ 224.7	\$ 235.8	\$ 236.7	\$ 241.2	\$ 245.9	\$ 250.7
Recurring Base	214.9	224.3	223.2	232.7	236.7	241.2	245.9	250.7
Non-recurring	4.7	1.5	1.5	3.1	-	-	-	-
Wagering Tax	\$ 277.6	\$ 255.7	\$ 255.8	\$ 248.7	\$ 256.6	\$ 258.7	\$ 260.8	\$ 262.9
Recurring Base	237.1	255.7	255.8	248.7	256.6	258.7	260.8	262.9
Non-recurring	40.5	-	-	-	-	-	-	-
Property Tax	\$ 128.8	\$ 138.2	\$ 140.0	\$ 147.1	\$ 152.9	\$ 156.7	\$ 160.5	\$ 164.2
Recurring Base	128.8	138.2	140.0	147.1	152.9	156.7	160.5	164.2
Non-recurring	-	-	-	-	-	-	-	-
Utility Users Tax	\$ 38.1	\$ 41.8	\$ 41.1	\$ 42.3	\$ 43.1	\$ 43.7	\$ 44.2	\$ 44.8
Recurring Base	38.5	41.4	41.1	42.6	43.1	43.7	44.2	44.8
Non-recurring	(0.4)	0.4	0.0	(0.3)	-	-	-	-
Subtotal, Major Taxes	\$ 1,066.3	\$ 1,066.0	\$ 1,069.6	\$ 1,094.1	\$ 1,123.2	\$ 1,148.4	\$ 1,174.1	\$ 1,201.4
Major Taxes, Recurring	985.5	1,056.1	1,066.1	1,091.2	1,123.2	1,148.4	1,174.1	1,201.4
Major Taxes, Non-Recurring	80.8	9.9	3.5	2.8	-	-	-	-
Other Revenues	\$ 167.7	\$ 235.3	\$ 236.5	\$ 232.3	\$ 231.1	\$ 213.0	\$ 213.8	\$ 216.7
Recurring	182.0	199.9	195.8	198.6	206.1	210.2	213.0	215.8
Non-recurring	(14.3)	35.4	40.7	33.7	25.1	2.8	0.9	0.9
Total, General Fund	\$ 1,234.0	\$ 1,301.3	\$ 1,306.1	\$ 1,326.4	\$ 1,354.3	\$ 1,361.3	\$ 1,387.9	\$ 1,418.1
General Fund, Recurring	1,167.5	1,256.0	1,261.9	1,289.8	1,329.3	1,358.6	1,387.1	1,417.3
General Fund, Non-Recurring	66.5	45.3	44.2	36.6	25.1	2.8	0.9	0.9

Economic Conditions

From the RSQE report [linked here](#): “Detroit payroll employment added 800 jobs in the fourth quarter of 2023 despite the strikes at Blue Cross Blue Shield of Michigan, the Detroit Three automakers, and the three major Detroit casinos.” The RSQE forecast “leaves Detroit payroll employment 1.2 percent short of its pre-pandemic level at the end of 2023. Household employment, on the other hand, is expected to be 1.2 percent above its pre-pandemic level at that time.” The baseline forecast for the city of Detroit relies on the RSQE US and Michigan economic outlook from mid-November. At that time, RSQE assumed that the Federal Reserve would wait until the end of 2024 to cut interest rates. However, it now appears that rate cuts might occur sooner, with multiple cuts during the year. That development, if it came to fruition, could help bolster employment in the city. Modest growth is forecasted for the labor force. The higher wages that resulted from the strikes in the City have been included in the annual wage and salary income per worker forecast below. The positive outlook for employment and wages will contribute to further growth in income tax revenue for the City.

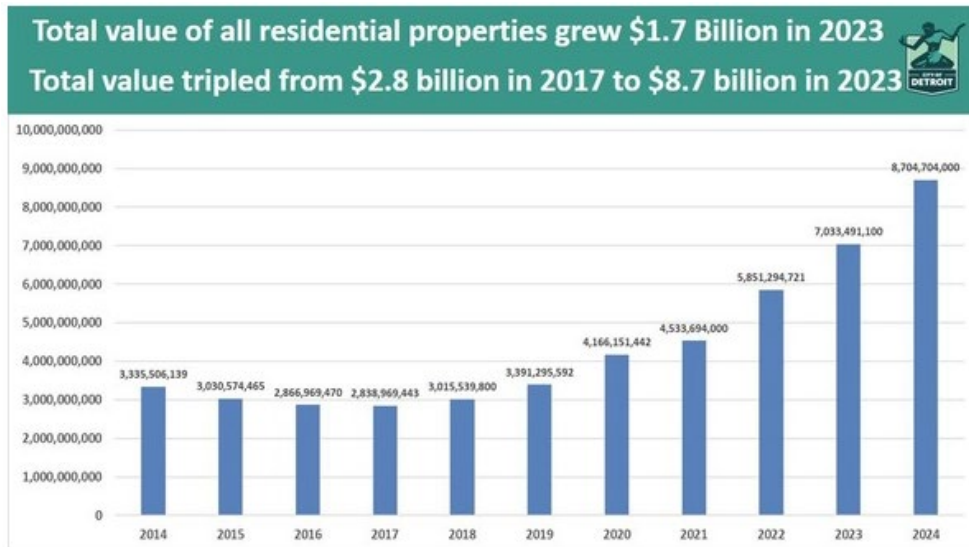


Source: University of Michigan, Research Seminar in Quantitative Economics, City of Detroit Economic Outlook for 2023–2028

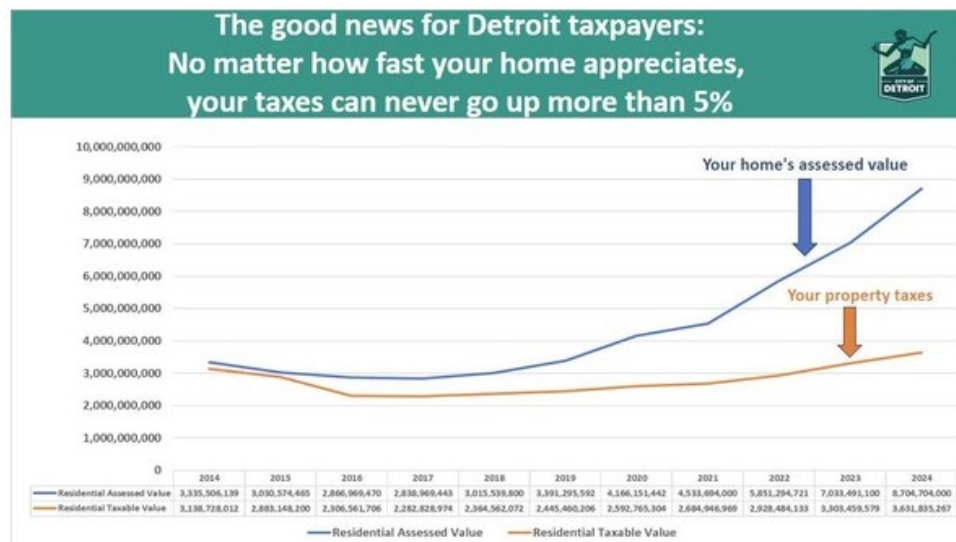


Source: University of Michigan, Research Seminar in Quantitative Economics, City of Detroit Economic Outlook for 2023–2028

According to an announcement made by the [City of Detroit's Office of the Assessor](#) January 22, Detroit residential neighborhoods saw their property values increase by an average of 23% in 2023; a wealth gain of \$1.7 billion from appreciating property values. Strong wage growth coupled with elevated real estate values suggests decreased housing cost pressures for residents.



Source: City of Detroit, Office of the Assessor, January 22, 2024



Source: City of Detroit, Office of the Assessor, January 22, 2024

Economic Risks

Housing Costs

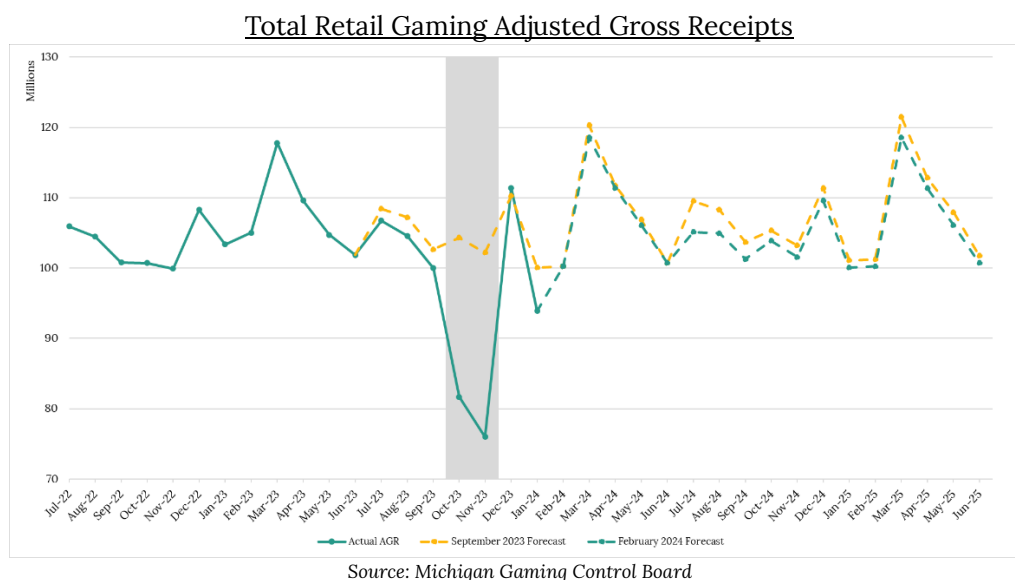
Rising housing costs in the City pose a risk to the economic forecast. While inflation is declining and expected to continue a downward trend, housing CPI rose 6.4% between December 2022 to December 2023.¹ This could impact Detroit households' ability to realize more buying power following the wage gains seen in the forecast. "We estimate that nominal wage growth in the City accelerated to 5.5 percent in 2023, still 0.4 percentage points behind local inflation for the year. We expect wage growth to lag inflation by 0.3 percent in 2024."² Regarding property taxes, the forecast remains conservative by assuming an inflation rate applied to the taxable values for property tax. This provides an upward risk. As there are instances where property

taxes increase above that level, as the result of uncapping from property sales or additions to the tax base, that would add to the property tax revenues as well.

Retail Gaming Trends

Another risk to the City's revenue estimates is lower levels of in-person (retail) activity at the casinos. Retail gaming levels have not recovered to pre-pandemic levels, most likely due to the introduction of internet gaming and sports betting in January 2021. In calendar year (CY) 2021, the average retail gaming activity for the Detroit casinos was 13% lower than it was in CY 2019. The same average for CY 2022 was 1% lower than CY 2021 and CY 2023 was 2.7% lower than CY 2022. Retail sports betting levels have decreased since their start in January 2021 as well; CY 2022 average adjusted gross receipts (AGR) was 30% lower than CY 2021 and CY 2023 AGR was 25.7% lower than CY 2022. However, this risk is at least partially mitigated by the new internet gaming revenue and its potential for further growth beyond substitution.

The chart below shows the total retail AGR values across the three casinos in Detroit. Since the observation of the retail vs internet substitution effect, the forecasts used in the Revenue Estimating Conference have been brought down over time. The most recent adjustment is shown in the chart. The two months highlighted in grey were months that casino workers were on strike, so limited gaming options were available at the casinos at the time. Between October and November 2023, the difference between the AGR forecasted back in September 2023 and the actual AGR converts to about \$5.3 million.



Sources:

1. U.S. Census Bureau of Labor Statistics, Consumer Price Index – December 2023
https://www.bls.gov/regions/midwest/news-release/ConsumerPriceIndex_Detroit.htm
2. University of Michigan, Research Seminar in Quantitative Economics, The Michigan Economic Outlook for 2023–2028, February 2024

Summary of Economic Drivers:

<u>Major Revenue</u>	<u>Economic Input</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
Municipal Income Tax	Resident Employment Growth ¹	1.5%	2.9%	0.2%	0.6%	0.5%	0.6%
	Nonresident Employment Growth ¹	0.6%	0.9%	1.6%	1.2%	0.7%	0.7%
	Resident Wage Growth ²	5.3%	3.9%	3.3%	3.9%	3.8%	4.0%
	Nonresident Wage Growth ²	4.4%	3.8%	3.8%	3.2%	3.3%	3.5%
	Corporate Income Growth ⁴	46.2%	-3.8%	-0.2%	-0.9%	0.0%	0.0%
	Partnership Income Growth	-1.9%	-3.8%	-0.2%	-0.9%	0.0%	0.0%
Property Tax	U.S. Consumer Price Index for All Urban Consumers (U.S. CPI-U) ³	3.3%	5.0%	5.0%	2.6%	2.6%	2.6%
State Revenue Sharing	State Sales Tax Forecast ⁴	1.6%	1.7%	1.8%	1.8%	1.8%	1.8%
	City/State Population Ratio ⁵	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%
Wagering Tax	Onsite Adjusted Gross Receipt (AGR)	-3.3%	-3.8%	3.8%	0.7%	0.7%	0.7%
	Growth Rate						
	Internet AGR Growth Rate	26.1%	1.3%	3.3%	1.0%	1.0%	1.0%
Utility Users	Net UUT Growth Rate	7.9%	3.0%	1.9%	1.3%	1.3%	1.3%

Sources:

1. U.S. Census Bureau and Local Area Unemployment Statistics
2. Quarterly Census of Employment and Wages
3. Actual CPI was 7.9%, but Taxable value growth cannot exceed 5% per Proposal A limits. FY 2023 uses the average annual US CPI-U for 2021 set by the State Tax Commission, FY 2024 uses the average annual US CPI-U for 2022 as reported from the U.S. Bureau of Labor Statistics, FY 2025-2028 uses the 2023-2025 US CPI-U consensus forecast from the Survey of Professional Forecasters.
4. State of Michigan May 2023 Consensus Revenue Estimating Conference
5. U.S. Census Bureau, 2020 Decennial Census Redistricting Data

Current Year General Fund Revenue Estimates:

As shown in the summary table on page 3, the FY 2023 recurring General Fund revenue is \$1,261.9 million. Fiscal year 2024 is projected to grow by 2.2% to \$1,289.8 million. The updated FY 2024 estimates have been increased by \$5.5 million since the September 2023 Revenue Estimating Conference, representing a 0.5% gain. The increase is primarily driven by higher wages putting upward pressure on income tax and elevated internet gaming tax receipts. Utility users tax collections have not been as strong as predicted in September due to a milder winter than expected.

Compared to FY 2024 projections, recurring FY 2025 revenues are expected to increase overall by \$39.4 million (3%). Income tax growth is the main driver behind this expected increase and accounts for \$13.7 million of the \$39.4 million. FY 2025 revenue growth is also spread between other major revenue streams: \$5.8 million in higher property tax collections and \$7.9 million in the growing wagering tax base. Recurring Other Revenues for FY 2025 are forecasted to increase \$7.5 million over the FY 2024 projected value.

Non-recurring revenues of \$44.2 million were received in FY 2023. These revenues include \$14 million from one-time investment activity and \$7.5 million from one-time sale of City assets. In FY 2024, non-recurring

revenues are expected to be \$36.6 million, about half of which is from one-time investment activity (\$18.9 million).

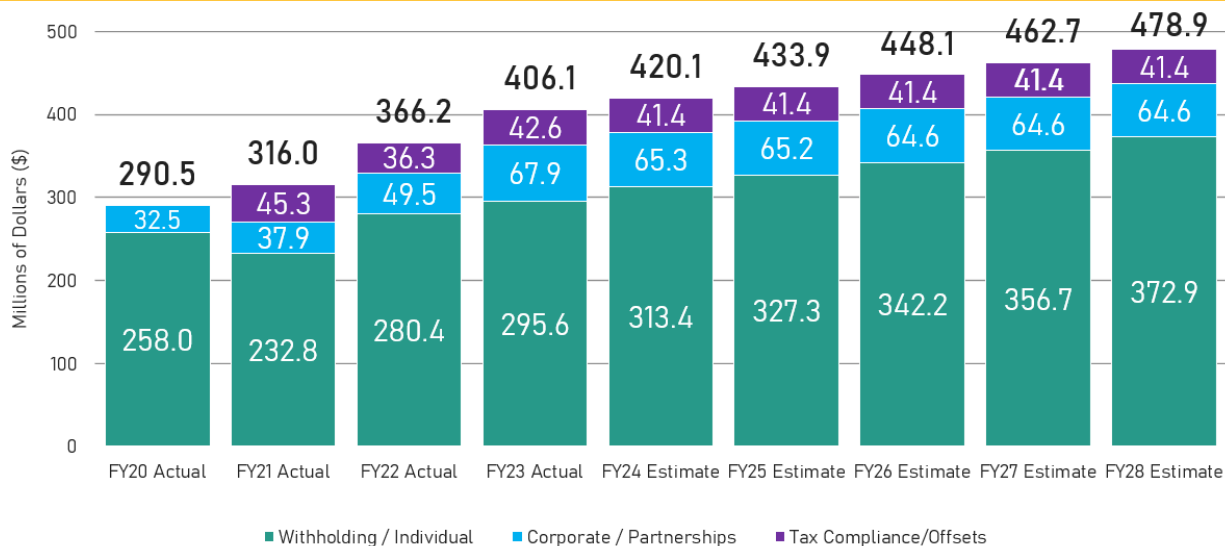
Summary of Major Taxes:

As shown in the summary table below, the actuals for the General Fund major revenues in FY 2023 are \$1,069.6 million, \$3.5 million of which is non-recurring. Recurring major revenue in FY 2024 is projected to be 2.4% higher than FY 2023. The forecasts for FY 2025-2028 also show an increase in recurring revenue spurred by growth in all recurring major revenue categories. Please see the sections below for additional details on the major revenues forecast:

City of Detroit - General Fund Major Revenue Estimates - Detail									
\$ in millions									
	FY 2022 Audited Actual	FY 2023 Projected Actual Audited Actual		FY 2024-FY 2028 February 2024 Estimates					
				FY24 Estimate	FY25 Estimate	FY26 Estimate	FY27 Estimate	FY28 Estimate	
Major Taxes									
Income Tax	\$ 402.2	\$ 404.5	\$ 408.1	\$ 420.1	\$ 433.9	\$ 448.1	\$ 462.7	\$ 478.9	
Withholding	309.1	325.3	331.7	351.1	366.3	382.6	398.5	416.3	
Individual Returns	28.7	24.7	26.6	28.0	29.2	30.5	31.8	33.2	
Corporate	40.3	60.8	58.9	56.6	56.5	56.0	56.0	56.0	
Partnership	9.2	8.9	9.0	8.6	8.6	8.6	8.6	8.6	
Tax Compliance/Offsets	36.3	42.6	42.6	41.4	41.4	41.4	41.4	41.4	
Total Refunds	(57.4)	(65.8)	(62.7)	(65.7)	(68.3)	(70.9)	(73.6)	(76.6)	
Regular Refund Estimate	(30.0)	(31.6)	(32.2)	(34.1)	(35.6)	(37.2)	(38.7)	(40.5)	
Nonresident Remote Work Estimate	(27.4)	(34.2)	(30.5)	(31.6)	(32.6)	(33.7)	(34.9)	(36.2)	
Non-Recurring	36.0	8.0	2.0	-	-	-	-	-	
State Revenue Sharing	\$ 219.6	\$ 225.8	\$ 224.7	\$ 235.8	\$ 236.7	\$ 241.2	\$ 245.9	\$ 250.7	
Statutory	147.2	154.5	154.5	162.3	165.5	168.8	172.2	175.6	
Constitutional	67.7	69.8	68.7	70.5	71.2	72.4	73.7	75.0	
Non-Recurring	4.7	1.5	1.5	3.1	-	-	-	-	
Wagering Tax	\$ 277.6	\$ 255.7	\$ 255.8	\$ 248.7	\$ 256.6	\$ 258.7	\$ 260.8	\$ 262.9	
Retail Gaming	141.9	140.8	137.6	132.5	137.7	138.7	139.7	140.6	
Internet Gaming	59.1	74.0	77.2	77.4	78.4	79.2	80.0	80.7	
Retail Sports Betting	1.0	0.6	0.6	0.6	0.5	0.5	0.5	0.5	
Internet Sports Betting	3.5	4.8	4.8	4.0	4.6	4.6	4.7	4.7	
Percentage Payment - Retail	19.3	23.7	19.1	17.9	18.8	18.9	19.0	19.2	
Percentage Payment - Internet	12.3	11.8	16.4	16.3	16.7	16.8	17.0	17.2	
Non-Recurring	40.5	-	-	-	-	-	-	-	
Property Tax	\$ 128.8	\$ 138.2	\$ 140.0	\$ 147.1	\$ 152.9	\$ 156.7	\$ 160.5	\$ 164.2	
Gross Current	109.7	118.9	119.1	125.6	131.0	134.5	138.0	141.4	
TIF Distributions	(15.1)	(18.2)	(18.2)	(19.0)	(20.0)	(20.5)	(21.0)	(21.6)	
Delinquent	30.4	33.3	34.9	35.6	36.7	37.3	38.0	38.7	
Special Acts	3.8	4.2	4.2	5.0	5.2	5.4	5.5	5.7	
Non-Recurring	-	-	-	-	-	-	-	-	
Net Utility Users Tax	\$ 38.1	\$ 41.8	\$ 41.1	\$ 42.3	\$ 43.1	\$ 43.7	\$ 44.2	\$ 44.8	
Utility Users Tax	51.0	53.9	53.6	55.1	55.6	56.2	56.7	57.3	
To Public Lighting Authority	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	
Non-Recurring	(0.4)	0.4	0.0	(0.3)	-	-	-	-	
Total, Major Taxes	\$ 1,066.4	\$ 1,066.0	\$ 1,069.6	\$ 1,094.1	\$ 1,123.2	\$ 1,148.4	\$ 1,174.1	\$ 1,201.4	
Major Taxes, Recurring	985.5	1,056.1	1,066.1	1,091.2	1,123.2	1,148.4	1,174.1	1,201.4	
Major Taxes, Non-Recurring	80.8	9.9	3.5	2.8	-	-	-	-	

Municipal Income Tax:

Recurring Income Tax



Note: Excludes estimated one-time activity totaling \$36 million in FY22 and \$2 million in FY23.

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

The FY 2024 projection represents a 3.4% increase compared to FY 2023 actuals. The FY 2024 forecast anticipates a \$34.1 million revenue loss from nonresidents working remotely, slightly above the estimated \$32.2 million revenue loss in FY 2023. There is an assumption that remote work has reached a steady state and that growth for income tax will be driven by the anticipated growth in resident wages. Remote work is assumed to be nontaxable, and subject to either an adjustment in withholding or a future tax refund. Of course, not all nonresident employment can be conducted remotely (e.g., health care, manufacturing, construction, leisure and hospitality). The remote work estimates are projected to grow at the same rate as withholding – between 4% and 5% annually from FY 2025 – FY 2028.

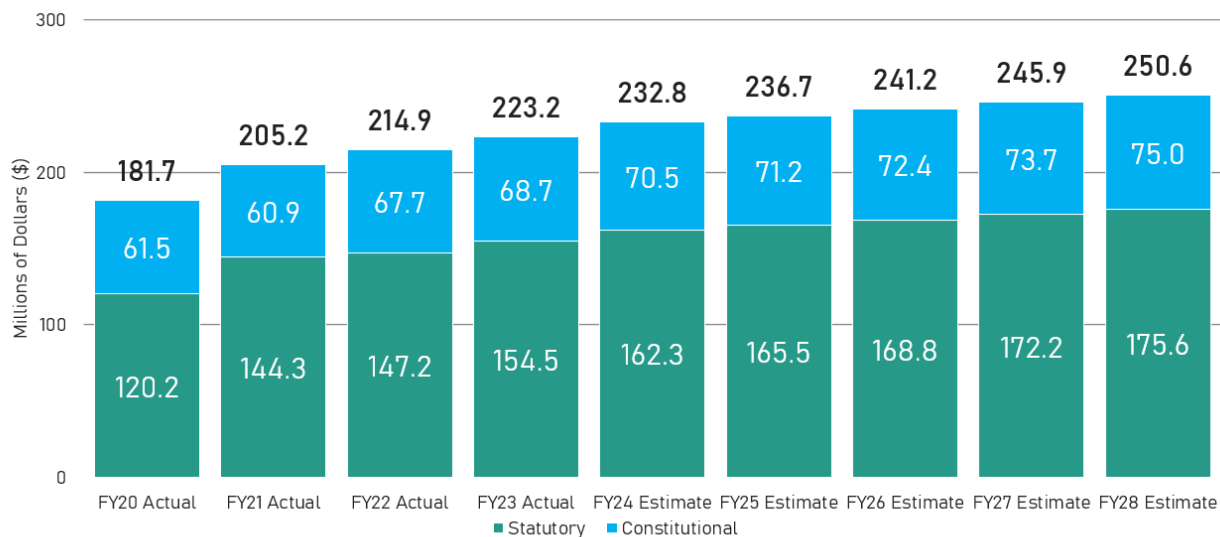
In FY 2021, City Treasury began a large-scale tax compliance program in partnership with the State of Michigan to collect income taxes owed to the City not otherwise collected from withholding or individual tax payments. In this program, a delinquent taxpayer is identified through a process where the primary address that the taxpayer used when filing State returns is matched with City tax filings to verify that all taxes due are paid. If there are outstanding taxes owed, collections efforts are initiated. The majority of collection on these prior year income taxes come from income tax refund offsets, where a refund owed to a taxpayer from federal and/or state income taxes is used to pay off income taxes owed to the City. The tax compliance program collected \$45.3 million in FY 2021 and was treated as non-recurring revenue in the February 2022 forecast until more information was received. \$36.3 million was collected through the

program in FY 2022 and through communications with the State, it was determined that collections were likely to continue at a similar magnitude. In line with expectations, \$42.6 million was collected in FY 2023. FY 2024 is projected to have a similar level of collections; \$41.4 million is expected for FY 2024. In the FY 2025 – FY 2028 forecast, it is estimated that the average of FY 2021 – FY 2023 collections are likely to continue (the estimate is held flat for FY 2024 – FY 2028 at \$41.4 million).

Corporate income tax revenue increased by 46% from FY 2022 to FY 2023. The State of Michigan expects corporate income tax to fall by 3.8% from FY 2023 to FY 2024 and to fall again from FY 2024 to FY 2025 by 0.2%. This pattern is how the City’s corporate income tax is projected to change as well. Partnership income tax revenue is projected to follow the same trend as corporate income tax revenue. The forecast does not include potential upside on current year taxes from new development projects or increased compliance efforts. Income tax activity that has been identified as non-recurring is not included in the forecasted base.

State Revenue Sharing:

Recurring State Revenue Sharing



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

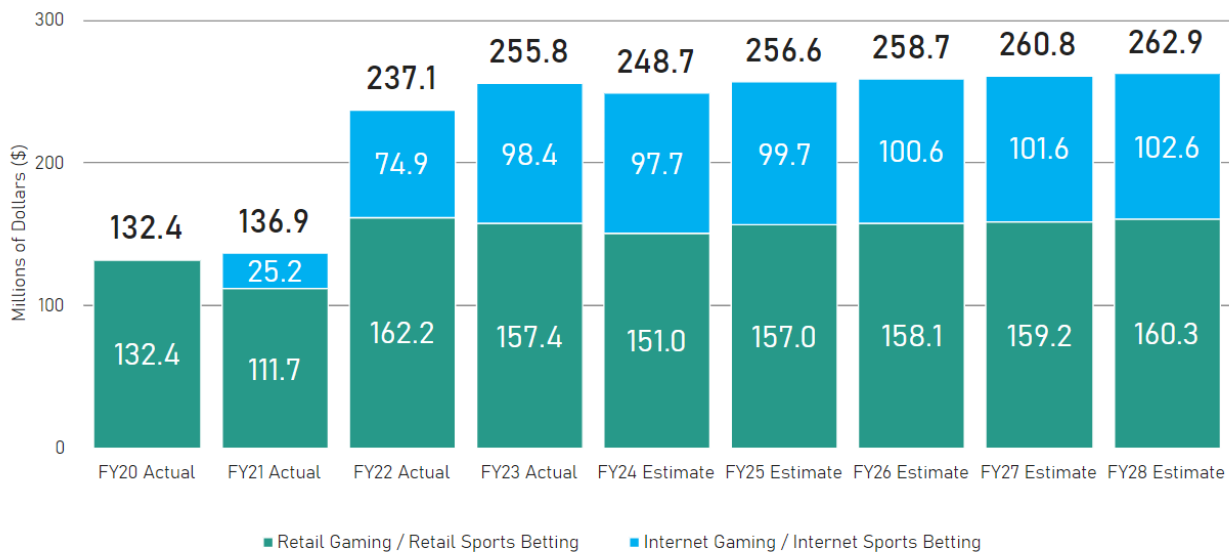
Revenue sharing payments from the State come from two components: constitutional and statutory. The State Constitution of 1963, Article IX, Section 10, as amended, requires constitutional revenue sharing payments to municipalities based on 15% of the 4% portion of Michigan’s sales tax collections. The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

The forecast assumes growth in the constitutional share based on the State’s January 2024 Consensus Revenue Estimating Conference. The forecast uses the reported 2020 Census results to estimate Detroit’s share of constitutional revenue sharing. Under state law, the City was also subject to recoupment in FY 2022 for the difference in the reported 2020 Census versus the 2010 Census, going back to FY 2021. Instead of the

recoupment to adjust the constitutional revenue sharing payment to reflect the new population ratio, Detroit was allowed to keep the revenue sharing payments it had received before the population ratio was set. These are represented as non-recurring “hold harmless” funds, where \$8.8 million was kept in FY 2021 and \$4.7 million was kept in FY 2022, totaling to \$13.5 million in non-recurring activity. The statutory revenue sharing amount for FY 2024 includes a 5% increase over the recurring actual total for FY 2023 along with a \$3.1 million one-time increase that is not projected to continue. A 2% growth rate is forecasted for the statutory portion for fiscal years 2025 – 2028.

Wagering Tax:

Recurring Wagering Tax



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

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

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

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

- a) For adjusted gross receipts less than \$4,000,000, a tax of 20%.

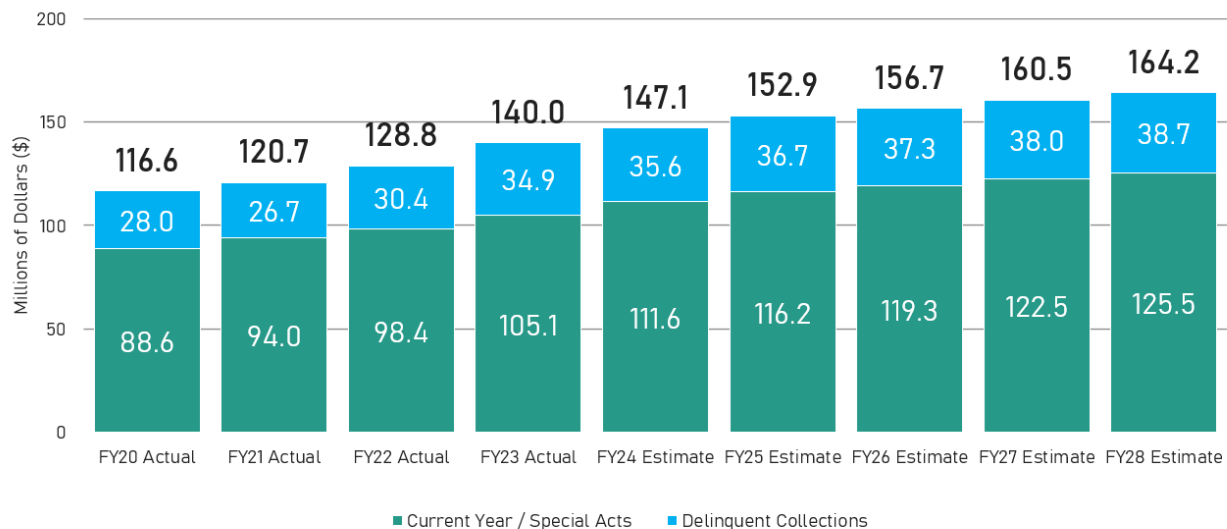
- b) For adjusted gross receipts of \$4,000,000 or more but less than \$8,000,000, a tax of 22%.
- c) For adjusted gross receipts of \$8,000,000 or more but less than \$10,000,000, a tax of 24%.
- d) For adjusted gross receipts of \$10,000,000 or more but less than \$12,000,000, a tax of 26%.
- e) For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

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

The most recent wagering tax revenue forecast shown above includes the updated activity through November 2023, which represents the most accurate picture of the gaming trends so far. Each of the three casinos in Detroit has been observing different growth patterns across the different types of AGR. Therefore, the universal 1% growth rate is no longer being implemented in the forecasted years. Instead, each casino has a custom forecast for each of their gaming categories based on the reality of the different growth patterns. Overall, revenue from wagering tax is expected to grow at about 0.8% between FY 25 and FY 28. Between FY 24 and FY 25, revenue is expected to jump by about 3% because the FY 24 total is affected by the strikes that occurred in the later months of 2023. In October and November 2023 (actual dates vary between casinos), dealers, cleaning staff, valets, and food staff were on strike which left slots and sports betting kiosks open for those wishing to still gamble at the casinos.

Property Tax:

Recurring Property Tax



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

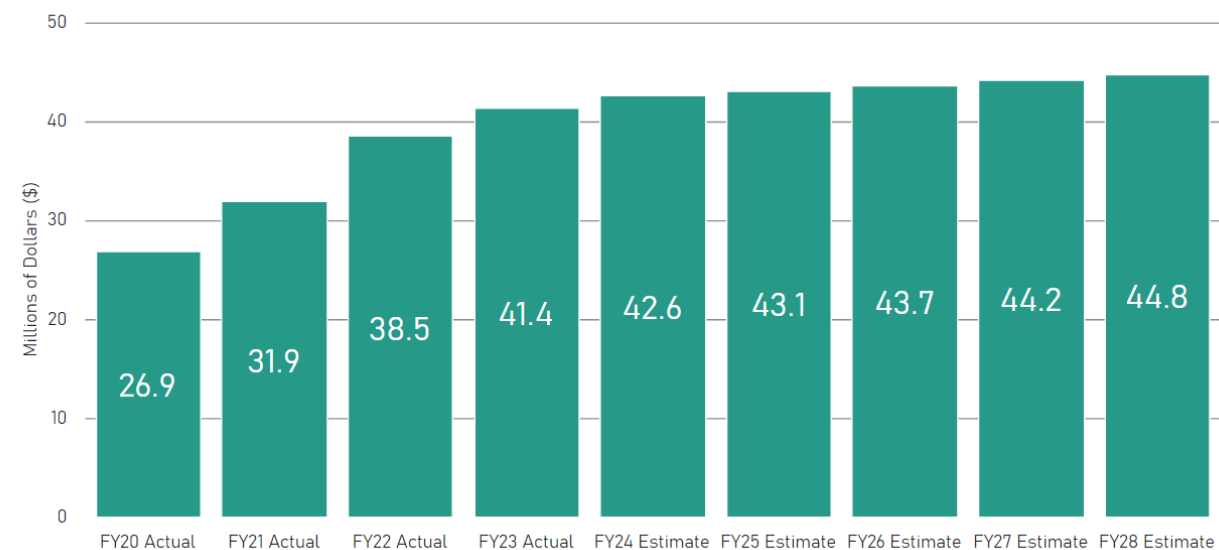
In accordance with the General Property Tax Act (Public Act 206 of 1893, as amended), the City levies taxes on real and personal property. Collections consist of current year taxes, delinquent taxes, and related auction proceeds. The City currently levies 19.952 mills for general operating purposes. However, the millage rate and taxable values are subject to various abatements and exemptions. The actual General Fund collections

and revenue estimates are net of captured tax increment financing distributions. The amounts include ad valorem property tax revenue and Special Act property tax revenues from Neighborhood Enterprise Zones, Industrial Facilities Tax, and Obsolete Property Rehabilitation Act parcels.

The primary driver for growth during the forecast period is a lagged inflation rate determined by the State Tax Commission (US Consumer Price Index for Urban Consumers lagged by one year) applied to the reported tax year 2023 base, which is defined as the cap for growth in taxable value under the State constitution (Proposal A). This growth is partly offset by the State-mandated phase-out of industrial personal property taxes through FY 2024. The FY 2022 collection rate of 85.1% is held constant throughout the forecast period. Other components, such as payments from Wayne County for delinquent real property tax collections and revenue capture by TIF authorities, are also factored into the forecast based on current and historical observations. Updated taxable values applicable to FY 2023 were higher than expected, leading to an upward revision of the forecast. The calculated inflation cap is expected to remain elevated in FY 2024 and FY 2025 and stabilize at 2.6% in fiscal years 2026-2028 as inflationary pressures wane. The forecast does not include prospective gains from additions to the tax base or the “uncapping” of taxable value.

Utility Users Tax:

Recurring Utility Users Tax



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

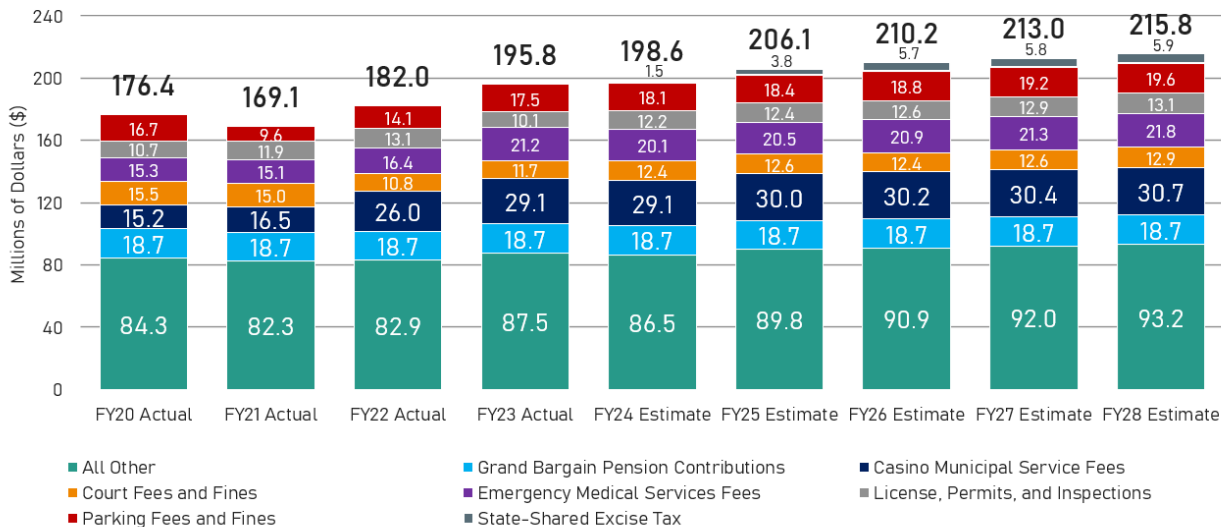
In accordance with the City Utility Users Tax Act (Public Act 100 of 1990, as amended), the City levies a 5% tax on consumption of electricity, gas, steam, and telephone services. The estimated revenues shown in the graph are net of \$12.5 million disbursed annually to the Public Lighting Authority (PLA). Annual changes in the revenue forecast are consistent with prior-year trends.

Weather conditions have a large effect on how much revenue is received from this tax since it affects demand of utilities. Since the winter months of 2024 have been milder than expected, revenues received year-to-date for FY 2024 have been lower than expected. For the Detroit MSA, CPI increases for categories that affect the UUT revenue overall have cooled since October 2022 but picked back up since April 2023 and resumed pre-

pandemic growth trend. Electricity is one category of CPI that has stayed elevated above pre-pandemic trends.

Other Departmental General Fund Revenue:

Recurring Other Revenues (General Fund)



The Other Revenue category includes various non-major revenues mostly administered by individual departments related to their operations and services. The graph above shows the largest categories of these revenues. The FY 2023 actual total grew by 7.6% over the FY 2022 actuals, driven by a \$3.1 million increase in casino municipal service fee revenue, related to higher internet and sports betting activity than previously estimated, and higher EMS fee activity year-over-year. The estimates also assume that revenue sources have stabilized since COVID-19 and continue an aggregate long-term growth trend of 0.8% to 2.0% through FY 2028. The forecast excludes non-recurring items, such as asset sales. The full breakdown of other revenues in the General Fund is shown below.

City of Detroit - General Fund Other Revenue Estimates - Detail

\$ in millions

	FY 2022	FY 2023		FY 2024-FY 2028 February 2024 Estimates				
	Audited Actual	Projected Actual	Audited Actual	FY24 Estimate	FY25 Estimate	FY26 Estimate	FY27 Estimate	FY28 Estimate
Other Revenue (Recurring)								
Casino Municipal Service Fees	\$ 26.0	\$ 30.3	\$ 29.1	\$ 29.1	\$ 30.0	\$ 30.2	\$ 30.4	\$ 30.7
State-Shared Excise Tax	-	-	-	1.5	3.8	5.7	5.8	5.9
Emergency Medical Services Fees	16.4	20.8	21.2	20.1	20.5	20.9	21.3	21.8
Central Staff Indirect Cost Recoveries	18.5	19.5	19.5	19.9	20.8	21.2	21.6	22.1
DIA/Foundation Grand Bargain Contributions	18.7	18.7	18.7	18.7	18.7	18.7	18.7	18.7
Parking Fees and Fines	14.1	16.8	17.5	18.1	18.4	18.8	19.2	19.6
Licenses, Permits, & Inspection Charges	13.1	12.8	10.1	12.2	12.4	12.6	12.9	13.1
Court Fees and Fines	10.8	11.7	11.7	12.4	12.6	12.4	12.6	12.9
Earnings on Investments	3.6	11.1	11.1	11.2	11.2	11.2	11.2	11.2
Inter-agency Billings	7.0	7.5	7.7	6.4	6.5	6.6	6.7	6.9
Other Fees	35.1	33.7	33.1	35.6	36.2	36.8	37.4	38.0
Other Taxes, Assessments, & Interest	6.3	6.0	6.9	6.3	6.4	6.5	6.5	6.6
Other Fines, Forfeits, & Penalties	3.3	3.8	3.8	3.9	4.0	4.0	4.1	4.2
Other Revenue	9.1	7.2	5.4	3.3	4.7	4.6	4.4	4.2
Subtotal, Other Revenue (Recurring)	\$ 182.0	\$ 199.9	\$ 195.8	\$ 198.6	\$ 206.1	\$ 210.2	\$ 213.0	\$ 215.8
Other Revenue (Non-Recurring)								
Sale of Assets	\$ 5.6	\$ 7.8	\$ 7.5	\$ 0.9	\$ 0.9	\$ 0.9	\$ 0.9	\$ 0.9
Casino Municipal Service Fees	(4.0)	-	-	-	-	-	-	-
Central Staff Indirect Cost Recoveries	-	-	3.0	-	-	-	-	-
Other Fees	-	-	0.8	-	-	-	-	-
Other Fines, Forfeits, & Penalties	-	-	1.8	-	-	-	-	-
Licenses, Permits, & Inspection Charges	-	-	3.0	-	-	-	-	-
Presidential Primary Reimbursement	-	-	-	-	4.0	-	-	-
Earnings on Investments	-	13.8	14.0	18.9	12.9	1.9	-	-
Unrealized Gain/(Loss) on Investments	(18.9)	6.9	5.9	9.1	7.3	-	-	-
Other Revenue	3.0	6.9	4.8	4.9	-	-	-	-
Subtotal, Other Revenue (Non-Recurring)	\$ (14.3)	\$ 35.4	\$ 40.7	\$ 33.7	\$ 25.1	\$ 2.8	\$ 0.9	\$ 0.9
Total, Other Revenue	\$ 167.7	\$ 235.3	\$ 236.5	\$ 232.3	\$ 231.1	\$ 213.0	\$ 213.8	\$ 216.7

Non-General Fund Revenues:

City of Detroit - Non-General Fund Revenue Estimates									
\$ in millions									
	FY 2022 Audited Actual	FY 2023		FY 2024-FY 2028 February 2024 Estimates					
		Projected Actual	Audited Actual	FY24 Estimate	FY25 Estimate	FY26 Estimate	FY27 Estimate	FY28 Estimate	
Special Revenue and other Restricted Funds									
Community Development Block Grant	\$ 53.3	\$ 31.0	\$ 48.7	\$ 33.7	\$ 34.3	\$ 35.0	\$ 35.7	\$ 36.4	
Other Grant Funds	66.4	83.2	62.5	52.2	53.6	54.7	55.7	56.9	
BSEED Construction Code Fund	26.7	26.2	26.7	27.6	29.2	29.7	30.3	30.9	
Other Special Revenue Funds	9.2	15.8	17.0	11.0	11.2	11.4	11.8	12.0	
DPD Drug Law Enforcement and Forfeiture Funds	1.4	0.9	0.9	1.2	1.2	1.3	1.3	1.3	
CRIO Workforce Development Fund	3.4	2.9	2.9	3.1	3.1	3.2	3.2	3.3	
Detroit Public Library	34.1	26.5	37.3	38.9	39.6	40.4	41.2	42.1	
DPW Street Funds	104.0	106.2	104.8	102.4	104.6	106.6	108.7	110.9	
DPW METRO Fund	3.1	3.3	3.3	3.3	3.3	3.3	3.3	3.3	
PLD Decommissioning Reserve Fund	1.3	2.5	2.7	2.5	2.5	2.5	2.5	2.5	
UTGO Debt Service Fund	73.0	77.6	77.3	71.6	66.0	54.1	47.7	47.6	
DPW Solid Waste Management Fund	52.4	51.6	54.2	54.7	57.2	59.8	62.4	63.0	
All Other Funds	2.9	4.7	4.6	-	-	-	-	-	
Enterprise Funds (Operating and Grants)									
Coleman A. Young International Airport	0.5	0.5	0.4	0.5	0.4	0.4	0.4	0.4	
Detroit Department of Transportation	109.2	65.2	101.4	67.6	68.6	68.7	68.9	69.1	
Detroit Water and Sewerage Department	538.3	629.1	517.1	632.7	645.3	658.2	671.4	684.8	
Total, Non-General Fund Revenue	\$ 1,079.2	\$ 1,127.2	\$ 1,061.8	\$ 1,102.9	\$ 1,120.1	\$ 1,129.4	\$ 1,144.8	\$ 1,164.7	

Notes:

- * Amounts exclude inter-fund transfers. Actuals include various grant reimbursements and other one-time items not included in forecasts.
- * DWSD estimates include use of bonds and other fund balances not reported in revenue actuals.
- * Solid Waste Fund includes \$10 per year residential fee increase for the next three years, approved by City Council on 2/6/24.
- * All Other Funds includes Risk Management, Blight, and Gordie Howe Bridge Project revenues not expected to be recurring.

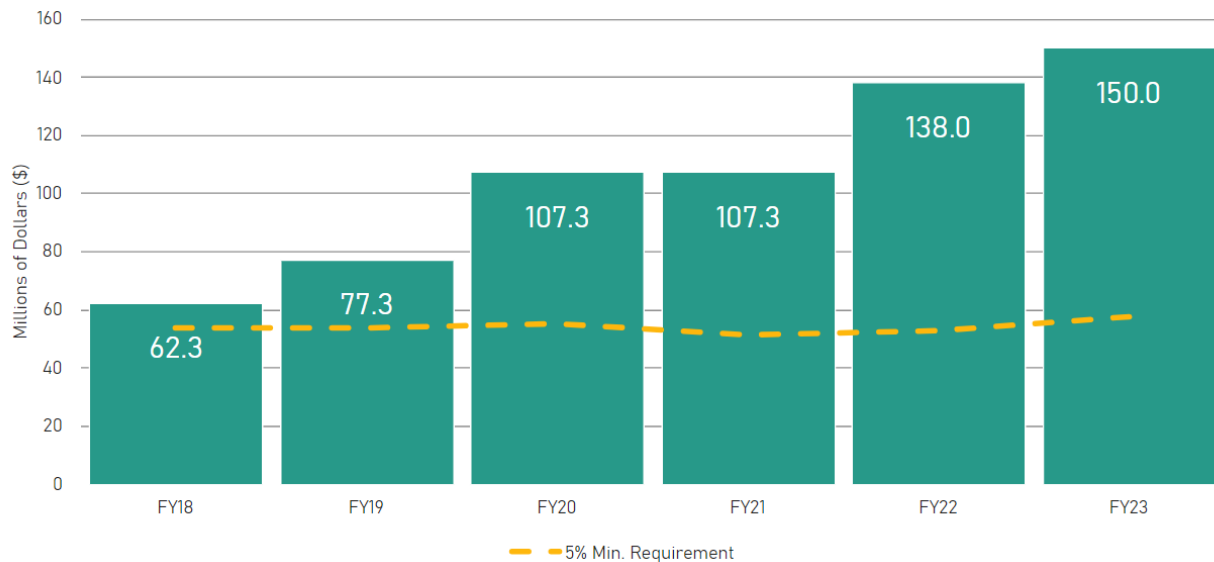
Non-General Fund revenues include enterprise, grants and special revenue funds. Major examples include water and sewer bills, bus fares, solid waste fees, intergovernmental aid for roads and transit, and other restricted revenues. Note that the amounts above exclude General Fund contributions, interfund transfers, and the use of fund balance. The Major Street Fund receives most of its revenue from gas and weight tax distributions from the State. The UTGO Debt Service Fund represents the City's debt millage, which raises property tax revenue sufficient to pay debt service on voter-approved bonds. The Solid Waste Management Fund includes the annual solid waste fee seen on the summer property tax bill, which supports residential curbside garbage collection. This fee will increase by \$10 each year over the next three years, totaling \$270 by tax year 2026. The Transportation enterprise fund is for the Detroit Department of Transportation (DDOT). It includes bus fares, State formula aid for bus operations, and transit capital grants.

Budget Reserve:

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

- Measures to assure adequate reserves for mandated and other essential programs and activities in the event of an overestimation of revenue, an underestimation of expenditures, or both.
- Include a general reserve fund for each fiscal year to cover potential reductions in projected revenues or increases in projected expenditures equal to no less than 5% of the projected expenditures for the fiscal year.

Budget Reserve (“Rainy Day Fund”)



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

Revenue Forecast Risk:

A risk to the City's forecast is uncertainty in tax collection through the State. Since beginning the State partnership to collect owed income tax revenue, the City has seen significant revenue capture. In FY 2023, \$42.6 million was captured in compliance/offset sources. The inventory of past tax debt remains constant and growing, and so we expect that will continue as a substantial capture into the future. However, over the long run, this pattern could change where revenues are captured below the current level. Additionally, less than expected employment activity in the City could result in lower than estimated income tax revenue.

Another downside risk exists with state revenue sharing. Revenue sharing allocations from the State will be determined after the City has approved a budget for FY 2025. The City has assumed a 2% increase for FY 2025 and through the end of the forecast period to balance the recent increases in payments to localities with the long-term expectation that there will be no increase at all. A State FY 2025 budget that does not provide an increase of at least 2% can negatively impact current predictions. However, if the Governor's proposal to increase statutory revenue sharing by 5% on an ongoing basis holds, we will instead see an upside to the forecast.

The City's income tax forecast makes assumptions about interest rates decreasing in the future. If that decrease is slower than expected, that exposes the forecast to some downside risk also. This can lead to a slower recovery in some of the City's key employment sectors, notably financial services, resulting in lower-than-expected income tax revenue.

To the upside, there continues to be large scale development projects in the City. Resulting revenue from these activities has not been counted in the forecast in terms of both potential income tax and property tax gains. Ongoing workforce development activities, whether they be through City-led efforts or otherwise, could potentially unlock additional revenue as we continue to see gains in labor force participation. We hope to continue to see that upside potential in the form of resident income taxes. The City's Treasury division and partners in the State of Michigan continue to drive additional income tax audit and enforcement activities that could unlock additional revenue as well.

Trend changes in internet gaming revenue show potential for an increase in wagering revenue. There currently is not enough evidence to determine whether this potential should be applied in the short-term or long term. Thus, we have decided to maintain a one percent growth rate for internet gaming revenue. Since internet gaming is a new industry to the state, the development of business models could change how risks are weighed in the future.

Lastly, there continues to be upside potential in the form of higher utility consumption either due to weather patterns or to more rate payers locating to

the city. That risk has the potential to be offset by milder weather patterns and ongoing drives for more energy efficiency. As residents take advantage of various programs to better insulate homes, that, in turn, saves them costs on energy. But that then results in lower utility taxes for the city.

Appendix, Exhibit 1 – FY 2024 Non-Recurring Detail

FY 2024 Non-Recurring Detail	
\$ in millions	
<u>Major Revenues</u>	
State revenue sharing one-time payment	3.1
Utility Users Tax accounting adjustment	<u>(0.3)</u>
Major Revenues Subtotal	\$ 2.8
<u>Other Revenue</u>	
Sale of Assets	0.9
Earnings on Investments	18.9
Unrealized Gain/(Loss) on Investments	9.1
Other Revenue	<u>4.9</u>
Other Revenues Subtotal	\$ 33.7
Total Non-Recurring Activity	\$ 36.6