

CITY OF DETROIT

Office of the Chief Financial Officer

Financial Report for the 7 Months ended January 31, 2016

March 28, 2016



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Executive summary

- The City went live on Oracle Cloud ERP on March 9th. System users have access to online training and post go-live training is underway. The City is reviewing RFP responses for post go-live support services that may, based on need, include functional support, training support, and technical support.
- Responses to the City's RFP for pension and actuarial-related services were due March 25th. The City is reviewing the proposal responses and making a selection shortly.
- The Office of the CFO has had overwhelming interest in new positions as part of its restructuring. As of March 23rd, 300 offers have been accepted by middle management, professional, and paraprofessional candidates and over 280 individuals have started. On March 28th, unselected employees were assigned to Right Management where they will be paid to work full-time for up to three weeks to job search for either internal or external positions.
- January YTD actuals continue to indicate that FY 2016 results are expected to be favorable to budget and that the liquidity situation is stable.
 - The primary tax revenues are based on the February 2016 Consensus Revenue Estimating Conference results.
 - Payroll and benefits related expenditures are projected to be below budget as a result of lower headcount, partially offset by a higher number of contract staff and expected wage increases to public safety employees.
 - Reinvestment related expenditures are moving forward consistent with the timing of project implementation as well as the amount of Exit financing proceeds available.



Revised FY 2016 projection continues to result in a General Fund surplus

\$ in millions

General Fund	Notes	FY 2016 Projection			FY 2016 EM's	Difference
		Dec 2015	Adjustments	Jan 2016	Budget	
General Fund Property taxes		\$ 117.0	\$ -	\$ 117.0	\$ 100.8	\$ 16.2
Net Income taxes		264.0	-	264.0	268.4	(4.4)
Utility taxes	(1)	37.0	-	37.0	15.9	21.1
Gaming taxes		173.5	-	173.5	169.0	4.5
Distributable State aid		194.9	-	194.9	197.4	(2.5)
Other	(2)	262.1	-	262.1	284.9	(22.8)
Other operating revenues	(3)	-	-	-	35.1	(35.1)
Total Revenues	(4)	1,048.5	-	1,048.5	1,071.5	(23.0)
Payroll, taxes, & deductions	(5)	(314.0)	-	(314.0)	(329.8)	15.8
Benefits	(5)	(107.9)	-	(107.9)	(119.6)	11.8
Pension contributions	(6)	(26.1)	-	(26.1)	(28.6)	2.5
Subsidy payments		(81.2)	-	(81.2)	(81.6)	0.4
Materials, contracts & other operating expenditures	(7)	(406.4)	-	(406.4)	(428.4)	22.0
Total Expenditures		(935.5)	-	(935.5)	(988.0)	52.5
Operating Surplus		113.0	-	113.0	83.5	29.5
Debt service	(8)	(78.9)	-	(78.9)	(83.5)	4.6
Surplus / (Deficit)		\$ 34.1	\$ -	\$ 34.1	\$ 0.0	\$ 34.1

Notes:

- (1) EM's Budget includes \$12.5m transfer to the Public Lighting Authority (PLA). FY 2016 Projection reflects transfer under expenditures.
- (2) FY 2016 Projection reflects lower reinvestment initiative revenues based on YTD results and anticipated project implementation.
- (3) EM's Budget includes Public Lighting Dept. (PLD) revenues from internal charges and reimbursements from DTE (\$26m) and grant receipts for blight (\$9m), which will not flow through the General Fund.
- (4) FY 2016 Projection reflects February 2016 Consensus Revenue Estimating Conference results.
- (5) Lower projected expenditures due to vacant positions, partially offset by projected public safety wage increases.
- (6) Lower projected contributions due to lower YTD and projected payroll.
- (7) EM's Budget includes PLD operating expenditures (\$26m) and payments related to blight (\$9m), which will not be incurred by the General Fund. FY 2016 Projection includes \$12.5m transfer to PLA.
- (8) Lower interest payment on Exit financing due to principal repayment.



The City's YTD net cash flows continue to be ahead of budget

\$ in millions

General Fund	Actual	Prior Year		Budget (1)	
	7 months	7 months	Difference	7 months	Variance
General Fund Property taxes	\$ 103.4	\$ 96.1	\$ 7.3	\$ 95.5	\$ 7.9
Net Income taxes	141.5	147.6	(6.1) (2)	145.9	(4.4)
Utility taxes	9.5	10.3	(0.9)	7.9	1.5
Gaming taxes	102.6	101.3	1.3	98.9	3.8
Distributable State aid	129.9	129.7	0.3	132.1	(2.2)
Other	115.3	199.0	(83.7) (3)	109.1	6.1 (4)
Total Receipts	602.2	683.9	(81.7)	589.4	12.8
Payroll, taxes, & deductions	(210.8)	(207.6)	(3.2)	(221.8)	11.1
Benefits	(32.1)	(53.9)	21.7 (5)	(39.9)	7.8
Pension contributions	-	-	-	-	-
Subsidy payments	(12.2)	(20.1)	7.9	(17.7)	5.6
Materials, contracts & other operating expenditures	(159.6)	(317.6)	158.0 (3)	(153.8)	(5.8) (4)
Total Disbursements	(414.7)	(599.2)	184.5	(433.3)	18.6
Operating Surplus (before Reinvestment)	187.5	84.8	102.7	156.1	31.4
Financing Adjustments	(77.0)	(138.5)	61.5	(47.0)	(30.0) (6)
Non-Financing Adjustments	(55.3)	70.7	(126.0)	(76.9)	21.6 (7)
Total Adjustments to arrive at Net Cash Flow	(132.3)	(67.8)	(64.5)	(123.8)	(8.4)
Net Cash Flow (8)	\$ 55.2	\$ 17.0	\$ 38.3	\$ 32.3	\$ 22.9

Memo:

Beginning cash balance (net of dist. owed) (9)	\$ 207.8	\$ 156.8
Net Cash Flow (8)	55.2	17.0
Lockbox reserves	(0.2)	(0.0)
Ending cash balance (net of dist. owed) (9)	\$ 262.9	\$ 173.7

Notes:

- (1) Budget has been spread based on historical cash activity.
- (2) \$8m of income tax refunds were issued in FY'16 related to prior periods compared to \$3m issued in FY'15 related to prior periods YTD.
- (3) Negative trend in other receipts is offset by positive trend in materials, contracts & other operating expenditures and is primarily attributable to the segregation of DPW, BSEED, and Grants proceeds.
- (4) Variance primarily due to cash actuals including non-Fund 1000 activity.
- (5) Difference primarily due to retiree healthcare payments made in the prior year, which will not occur post-bankruptcy.
- (6) Actuals include \$30m principal repayment on Exit Financing made in August 2015.
- (7) Actuals include the segregation of \$56m related to the Major and Local Street funds. Budget includes \$76.9m of reinvestment payments in excess of Exit proceeds.
- (8) Net Cash Flow was determined based on General Fund cash activity adjusted for known deposits in transit, prior period adjustments and classification differences.
- (9) The main operating account contains cash balances of the Risk Management Fund, Construction Fund, Street Funds, Solid Waste Fund, General Grants, and Motor Vehicle Fund.



Differences between cash and general ledger YTD are mostly due to the period in which activity was recorded

\$ in millions

General Fund	Cash Activity			General Ledger			Difference
	Actuals	Adjustments	Adjusted	Posted	To Be Posted	Total	
General Fund Property taxes	\$ 103.4	\$ -	\$ 103.4	\$ 104.9	\$ -	\$ 104.9	\$ 1.5
Net Income taxes	141.5	(14.0)	127.5 (1)	125.3	2.4	127.7	0.2
Utility taxes	9.5	-	9.5	5.4	4.0	9.4	(0.0)
Gaming taxes	102.6	(0.8)	101.9 (1)	101.9	-	101.9	(0.0)
Distributable State aid	129.9	(64.2)	65.8 (1)	65.8	-	65.8	0.0
Other	115.3	(40.0)	75.3 (2)	62.4	5.0	67.4	(7.9)
Total Receipts	602.2	(118.9)	483.3	465.7	11.4	477.1	(6.2)
Payroll, taxes, & deductions	(210.8)	17.8	(193.0) (3)	(193.0)	-	(193.0)	(0.0)
Benefits	(32.1)	-	(32.1) (4)	(36.8)	-	(36.8)	(4.7) (4)
Pension contributions	-	-	-	-	-	-	-
Subsidy payments	(12.2)	-	(12.2) (5)	(5.7)	(0.8)	(6.4)	5.7 (5)
Materials, contracts & other operating expenditures	(159.6)	71.8	(87.8) (6)	(86.6)	-	(86.6)	1.2
Total Disbursements	(414.7)	89.6	(325.1)	(322.2)	(0.8)	(322.9)	2.2
Operating Surplus (before Reinvestment)	187.5	(29.3)	158.2	143.5	10.6	154.1	(4.0)
Financing Adjustments	(77.0)	38.3	(38.7) (7)	(39.3)	-	(39.3)	(0.6)
Non-Financing Adjustments	(55.3)	55.3	- (8)	-	-	-	-
Subtotal Adjustments	(132.3)	93.6	(38.7)	(39.3)	-	(39.3)	(0.6)
Net Surplus/(Deficit)	\$ 55.2	\$ 64.3	\$ 119.5	\$ 104.3	\$ 10.6	\$ 114.9	\$ (4.6)

Notes:

- (1) \$14m of Income Tax, \$0.8m of Gaming Tax, and \$64m of DSA revenues were collected in FY 2016 related to activity in FY 2015.
- (2) \$23m of revenues were collected in FY 2016 related to activity in FY 2015. \$4m of collections are cash specific transactions and \$13m are non-Fund 1000.
- (3) Approximately \$8m of the difference is due to the timing and accrual of payroll. Approximately \$10m of disbursements are non-Fund 1000.
- (4) Cash disbursements were lower than posted expenditures due to excess cash balance in the Benefits Fund account at the beginning of the fiscal year.
- (5) General ledger includes reversal of \$6m of estimated accrued expenses carried over from FY 2015 related to DDOT.
- (6) Approximately \$47m of disbursements were paid in FY 2016 related to invoices from FY 2015 or prior. \$17m of disbursements are cash specific transactions and \$8m are non-Fund 1000.
- (7) Cash actuals include \$30m Exit financing principal repayment as well as \$2m of Exit financing interest payments and \$6m Note C principal and interest payments being captured by the trustee.
- (8) Cash actuals include the segregation of \$56m related to the Major and Local Street funds.



The collection rate for City property taxes YTD is higher than in the prior year

\$ in millions

	FY 2016			FY 2015		
	Adjusted tax roll	Collections YTD (1)	Collection rate	Adjusted tax roll	Collections YTD (1)	Collection rate
General City	\$ 131.8	\$ 101.2	76.8%	\$ 132.6	\$ 92.3	69.6%
Debt Service	69.6	50.9	73.2%	73.8	52.1	70.6%
Solid Waste	59.6	29.5	49.5%	57.0	26.5	46.4%
Total City (2)	\$ 260.9	\$ 181.6	69.6%	\$ 263.3	\$ 170.9	64.9%

Note:

(1) Amounts do not include collections from Wayne County settlement checks as a result of foreclosure activity.

(2) Amounts are net of property taxes collected by the City on behalf of DPS, State Education Trust, Wayne County and other non-City taxing authorities.

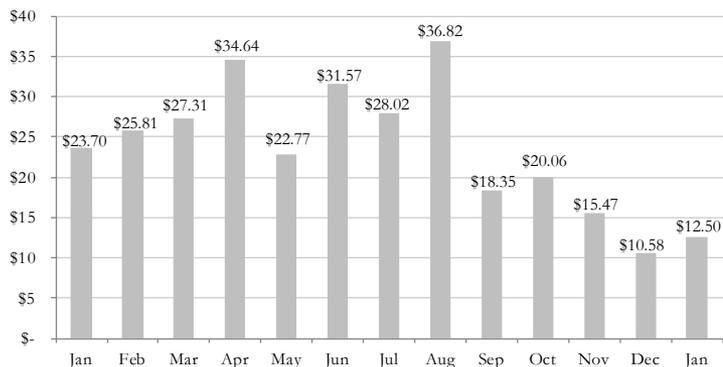


The City is paying invoices timely. Invoices on hold or bankruptcy related may take longer to pay

\$ in millions

Accounts Payable (AP) as of 1/29/16	
Total AP	\$ 50.33
Less: Bankruptcy related (1)	(7.60)
Less: Retainage holdbacks (2)	(2.33)
Less: Invoices not due (3)	(3.90)
Net AP	\$ 36.50
Less: Police invoices on hold	\$ (8.17)
Less: DWSD invoices on hold	(6.28)
Less: Other departments on hold	(9.56)
Net AP not on hold (4)	\$ 12.50

Historical Net AP not on hold
Excludes Bankruptcy related and invoices on hold (2)



Notes:

- (1) Bankruptcy related invoices are excluded as they will not be paid in the ordinary course, but instead will be resolved as part of the bankruptcy process.
- (2) Retainage holdbacks are portions of an invoice held back and paid once milestones are achieved or completion of a project, which could take more than 60 days for a vendor to accomplish. Retainage amounts are excluded from historical net accounts payable not on hold balances beginning October.
- (3) Invoices not due reflect invoices entered in AP for recurring goods/services that will be provided in the future. These goods/services are being provided on a monthly basis at the same quantity and cost each month.
- (4) Invoices typically placed on a system hold are pending validation.
- (5) There was approximately \$4m of invoices not entered into the AP system due to transition to the new financial management system.

Aging by Agency
(excluding Bankruptcy related AP and invoices on hold)

Agency	Net AP	Current	Days Past Due			
			1-30	31-60	61-90	91+
1 Information Technology Services	\$ 1.70	\$ 1.18	\$ 0.11	\$ 0.29	\$ 0.00	\$ 0.12
2 General Service Dept	1.44	0.56	0.19	0.42	0.24	0.03
3 Department of Transportation	1.22	0.72	0.21	0.19	0.09	0.00
4 Buildings and Safety Department	0.92	0.01	0.75	0.02	0.02	0.13
5 Recreation Department	0.78	0.08	0.07	0.56	0.00	0.07
6 Department of Public Works	0.60	0.01	0.51	0.05	-	0.04
7 Law Department	0.45	0.03	0.24	0.06	0.08	0.03
8 Planning and Development Department	0.36	-	0.06	0.13	0.03	0.15
9 Fire Department	0.32	0.11	0.12	0.09	0.00	0.00
10 General Accounting	0.25	0.20	0.05	-	-	-
11 Police Department	0.24	0.00	0.13	0.09	0.01	0.01
12 Municipal Parking Department	0.23	0.03	0.11	0.05	0.02	0.01
13 36th District Court	0.16	0.07	0.08	0.00	-	0.00
14 Library	0.11	0.00	0.03	0.06	0.00	0.01
15 Health Department	0.11	0.11	-	-	-	-
16 Public Lighting Department	0.09	0.04	0.03	0.02	-	-
17 Treasury	0.07	0.00	0.04	0.01	-	0.03
18 Airport Department	0.05	-	0.01	0.00	-	0.05
19 Commission	0.03	0.00	0.01	0.01	0.00	0.01
20 Department of Administrative Hearings	0.02	0.00	0.00	0.02	-	0.00
Other Agencies (21 agencies)	0.10	0.04	0.02	0.02	0.01	0.01
Subtotal - Non DWSD	\$ 9.25	\$ 3.19	\$ 2.78	\$ 2.08	\$ 0.50	\$ 0.70
	100%	34%	30%	23%	5%	8%
Water Department	2.25	0.57	1.17	0.15	0.29	0.08
Sewerage Department	1.00	0.48	0.16	0.17	0.12	0.07
Subtotal - DWSD (5)	\$ 3.24	\$ 1.05	\$ 1.33	\$ 0.32	\$ 0.40	\$ 0.15
Total	\$ 12.50	\$ 4.24	\$ 4.11	\$ 2.40	\$ 0.90	\$ 0.85
	100%	34%	33%	19%	7%	7%



Exit financing proceeds have been utilized to jump start improving technology, neighborhoods, and public safety

- In the month of January, no additional projects funded by Exit financing had been approved, however, approximately \$15m of additional expenses had been incurred from the prior month.

\$ in millions

	Number of Projects	Amount Approved	Expense Incurred
Available Exit financing proceeds		\$ 233.2	
Project Allocation:			
Dept. of Innovation and Technology	5	\$ (34.2)	\$ (34.2)
Blight	7	(29.7)	(23.6)
Police	6	(29.0)	(17.0)
Fire	9	(22.0)	(12.8)
General Services	13	(20.3)	(18.3)
OCFO	7	(15.8)	(12.5)
BSEED	1	(4.4)	(1.6)
Law	1	(2.2)	(0.5)
DDOT	1	(1.8)	(1.8)
Recreation	1	(1.2)	(1.2)
Human Resources	2	(0.8)	(0.7)
Other	3	(0.3)	(0.1)
Total	56	\$ (161.6)	\$ (124.5)
Interest/Fees		(2.8)	(2.8)
Amount reserved for projects under review		\$ 68.8	



General City headcount is increasing gradually and remains under budget

	Actual Jan'15	Actual Jan'16 (1)	Budget FY 2016 (2)	Variance	% Variance
Public safety					
Police	2,665	2,813	2,932	119	4%
Fire (3)	1,252	1,204	1,329	125	9%
Total Uniform	3,917	4,017	4,261	244	6%
Non-public safety					
Budget	9	0	0	0	
Finance	184	0	0	0	
Office of the Chief Financial Officer	0	304	477	173	
Dept. of Public Works	334	339	345	6	
Health & Wellness	7	10	8	(2)	
Human Resources	77	84	51	(33)	
Housing & Revitalization/Planning & Development	90	91	130	39	
Dept. of Innovation and Technology	34	34	47	13	
Law	88	96	100	4	
Mayor	55	59	62	3	
Public Lighting Dept.	7	5	13	8	
Recreation (4)	170	169	115	(54)	
General Services	272	275	448	173	
Legislative (5)	110	159	97	(62)	
36th District Court	353	353	353	0	
Other (6)	47	49	74	25	
Total Civilian	1,837	2,027	2,320	293	13%
Total General City	5,754	6,044	6,581	537	8%
Enterprise					
Airport	4	3	4	1	
BSEED	172	177	205	28	
Transportation	900	1,015	917	(98)	
Parking	84	81	94	13	
Water/Sewerage (7)	1,436	524	425	(99)	
Library	317	291	334	43	
Total Enterprise	2,913	2,091	1,979	(112)	-6%
Total City	8,667	8,135	8,560	425	5%

Notes:

- (1) Actual positions for OCFO reflects reclassifying positions from Finance and Budget to OCFO and new OCFO hires as part of the restructuring. Actual positions for non-OCFO departments have not been reclassified and remain in the departments.
- (2) Includes positions for reinvestment projects that have been approved for funding. Budgeted positions for OCFO reflects FTE at the time of the OCFO budget amendment approved by the FRC.
- (3) Budget reflects 1,189 FTE per Four Year Financial Plan and 150 funded by SAFER grants.
- (4) Budget reflects FTE, however, actuals are reported by headcount including part-time workers.
- (5) Includes: Auditor General, Zoning, City Council, Ombudsperson, City Clerk, and Elections. In January there were approximately 56 employees hired by the Elections Department.
- (6) Includes: Human Rights, Administrative Hearings, Homeland Security, and Non-departmental.
- (7) FY'16 actuals exclude GLWA employees. Actuals include employees who no longer work at DWSD, but are still on DWSD's payroll.



The City is leveraging funding from external sources

- Total amount awarded increased approximately \$7m from the prior month due to the recent award of two private donations (\$6m) and three Police grants (\$1m).

\$ in millions

Department	Amount Awarded	Number of Grants
Housing & Revitalization	\$ 241.7	19
Transportation	163.9	39
Fire	55.9	9
Public Works	31.4	22
Health & Wellness Promotion	15.1	2
Police	15.5	26
Recreation	4.8	21
General Services	1.5	1
Other (1)	2.3	13
Active Federal/State grants (2)	\$ 532.0	152
Active private grants	24.7	24
Active private donations	26.2	38
Total active grants and donations	\$ 582.8	214

Notes:

- Other includes Homeland Security, BSEED, and Airport.
- Total does not include Hardest Hit Fund grants, which are reflected in the Land Bank Authority.



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**Commentary for
February 2016 Revenue Estimating Conference
Thursday February 18, 2016
2:10 p.m. – 3:26 p.m.
(CORRECTED)**

John W. Hill, Chief Financial Officer, City of Detroit, called the conference to order in compliance with PA 182 of 2014 and introduced the City of Detroit Revenue Estimating Conference participants as follows:

- **Jay Wortley, Chief Economist and Director, Office of Revenue and Tax Analysis, State of Michigan Department of Treasury**
- **George Fulton, PhD, Director, Research Seminar in Quantitative Economics, University of Michigan; Research Professor, Institute for Research on Labor, Employment, and the Economy, University of Michigan; Director, Center for Labor Market Research, University of Michigan**
- **John W. Hill, Chief Financial Officer, City of Detroit and Revenue Estimating Conference Chairperson**

Opening Remarks and Election of Chair:

Mr. Hill opened the conference with a brief overview of the conference requirements pursuant to the City of Detroit Bankruptcy, and subsequent reporting requirements via the provisions of **MI PA 279 of 1909 Chapter 117, Section 4t.c(viii;ix(d)(iii)-g(2)** that mandate conferences be held in February and September of each fiscal year. This is the third conference, and John W. Hill indicated that this would be his last session as officiating Chairperson of the Revenue Estimating Conference, and stated that a new Chairperson must be elected to serve a one-year term.

Mr. Wortley made a motion to nominate George Fulton, PhD as the new Chairperson for the City of Detroit Revenue Estimating Conference. Mr. Hill made a motion to second the nominee. Mr. Fulton was officially recognized as the new Chair of the 2016 Revenue Estimating Conference.

Mr. Fulton reviewed the agenda, and introduced Tanya Stoudemire, Deputy CFO- Budget Director, Office of Budget, City of Detroit. Ms. Stoudemire introduced City of Detroit representatives as follows:

- **Tanya Stoudemire, J.D., Deputy CFO- Budget Director, Office of Budget**
- **Irvin Corley, Executive Policy Manager, City Council Legislative Policy Division**
- **Mark Lockridge, Auditor General, Office of the Auditor General**

Context for the Economic and Revenue Forecasts and Remarks:

Mr. Wortley provided a brief summary of MI economic revenue and tax analytical findings, and a brief overview of the *“Consensus Revenue Agreement Executive Summary, January 14, 2016 – Economic and Revenue Forecasts for Fiscal Years 2016, 2017 and 2018”*.

Mr. Fulton indicated that the new U.S. Economic Outlook (FY 2016 – 2017) forecast would be released in a couple of weeks.

Mr. Fulton indicated that the State was a little more optimistic with their projections and that the City of Detroit financial forecasts especially for revenues should remain conservative. In fact, a Consumer Price Index (CPI) of 1.6% is forecast for FY 16, but rebounds to 2.3% during FY 17, which reflects an upward

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(CORRECTED)**

trend of short-term interest rates over the next three years, and lower inflation rates during FY 2015. Mr. Hill had no comments. Mr. Fulton also stated that overall, revenue forecasts tilted towards the “conservative” side of outcomes, a positive, and that the discussion related to the economic trends was well done and up-to-date.

Presentation & Discussion of the City’s Revenue Conference Estimates:

Mr. Fulton introduced Tanya Stoudemire to present the City’s revenue estimates, which were developed through a collaborative effort between the Office of Budget, Auditor General’s Office and the Legislative Policy Division, Detroit City Council.

Ms. Stoudemire provided an overview of the process used by the revenue estimating consensus participants to discuss City revenue collections for the current fiscal year, and estimate collections for the next four fiscal years (FY 2017 – FY 2020). Discussions included a forecast of economic conditions that impact the City of Detroit revenues prepared by Dr. Eric Scorsone, of Michigan State University.

A summary of “The Economic Environment for City Revenues (National Context, State and Local)” was presented by Dr. Carol O’Cleireacain, City of Detroit Deputy Mayor for Economic Policy, Planning and Strategy. Dr. O’Cleireacain indicated a broad agreement amongst forecasters, and the general consensus is that the job market has improved. Detroit’s unemployment rate is 6.2%, down from 7.7% a year ago. The housing market continues to improve, layoffs remain low, and consumer confidence rose in January 2016.

John W. Hill commented on the context of how the estimates were calculated in a very conservative position. Stating that even if there is growth, the City will not show those figures until we see actual receipts coming in to the City. Expenditure estimates going forward with future budget development and related projections are based on conservative revenue estimates. As City revenue collections improve, the City will recognize surpluses which will be used for restructuring and reinvestment initiatives per the Plan of Adjustment. Until then, projections will remain on the conservative side, and not speak to our anticipation of surpluses.

Ms. Stoudemire continued with an overview of revenue estimating conference results indicating that the February consensus estimate for General Fund revenues for FY 2016 is \$1,048.5 million, a \$23 million decrease from the adopted budget of \$1,071.5 million. Revenues are estimated to increase 2.7% over unaudited FY 2015 collections after adjustments for one-time activity. A description of the five major categories of City revenues was also provided.

Income Tax Collections:

With regard to Municipal Income Tax collections, Mr. Wortley indicated that the State has begun to receive and process City of Detroit income tax returns, and that progress was being made regarding this activity.

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Mr. Fulton indicated that refunds are net, but requested more information on refunds. Ms. Stoudemire informed Mr. Fulton that refunds usually total approximately \$20 million, however, they were down last year due to the new system, and staff shortages which caused delays in the process.

The City anticipates reinvestment initiatives will increase collections. There is also a contract in place to collect from non-filers and delinquent tax payers.

Property Reassessment Project Status:

Alvin Horhn, Deputy CFO – Assessor, provided the status of the city-wide reassessment project. Mr. Horhn indicated that the evaluation process for residential property has begun and stated that there was still an uncomfortable number of foreclosure/bank sales and all sales would be tempered by the number of foreclosures. The reassessment of all City properties will be completed in 2017. The last assessment was completed in 1963. State laws require a complete assessment every five years.

David Szymanski, the City's Deputy CFO- Treasurer was introduced.

Mr. Wortley stated that the one-time property auction resulted in an increase in revenues. Ms. Stoudemire added that increased revenues from this activity were not anticipated every year.

Following an overview of the utility users tax revenues, Mr. Wortley indicated that the projections were reasonable.

Irvin Corley, Legislative Policy Division – City Council, commented on wagering taxes (casino revenues) and the process used to calculate projections.

Mr. Wortley indicated that the State uses the same basis in calculating projections as the City, and the projections included in the report were in-line with the State's projections through FY 2020. Mr. Hill added that the City's projections were a little below the State projections.

Ms. Stoudemire continued with a brief overview of State Revenue Sharing, All Other General Fund Revenues, and the Department Revenue Analysis. Ms. Stoudemire indicated that constitutional payments were based on sales taxes, and that a 1.3% decline was anticipated in the FY 2015/16 Budget amount due to the continued drop in gas prices. An increase in consumer spending of savings recognized by the drop in fuel costs is hopeful. Mr. Wortley agreed with Ms. Stoudemire's estimates. Mr. Fulton also expects fuel prices could drop more, and is watching this area closely stating that the gas prices could fall further before they begin to rise.

Mr. Hill echoed Mr. Fulton's concerns. Mr. Hill also indicated that the financial distress with Detroit Public Schools and other local units of government may pull resources from Revenue Sharing payments to municipalities. State revenue sharing is Mr. Hill's largest concern.

Mr. Corley stated that the advent of Agency CFO's was a real "value added" initiative, and had a very positive impact related to the review of department revenues. Mr. Wortley expressed appreciation for the report layout of "Other General Fund Revenue" and felt it was an excellent presentation. Mr. Fulton

**Commentary for
February 2016 Revenue Estimating Conference
Thursday February 18, 2016
2:10 p.m. – 3:26 p.m.
(CORRECTED)**

commended the layout, and added that the revenue conference participants asked for a revised format at the September 2015 conference.

Mr. Hill thanked Mr. Corley for positive acknowledgement of Agency CFO's, and indicated that the Office of Financial Planning & Analysis is and will continue to review other projects that were part of the POA.

Mr. Fulton requested an explanation for a draw down from the Budget Reserves and Mr. Hill clarified that the City didn't draw down from the fund and that the process was a function of how the POA was designed. Mr. Hill added that there is also another \$10 million contingency at the City's disposal that could be used before utilizing the Budget Reserve.

Mr. Fulton identified a few risks which included lower inflation rates, lower gas prices and sales tax. However, an upside will result from the ongoing improvement of collections and related processes. Mr. Fulton also asked if there was an update on "untimely postings". Mr. Hill stated the City is paying closer attention to this activity and that the new ERP solution will help reconcile accounts much faster.

Mr. Hill indicated that the Potential Upward Adjustments to the Forecast should include increases in revenues due to economic development activities that were not factored into the city's revenue estimates and projections.

Mr. Corley added that with the revenues set via the Revenue Estimating Conference activities, City Council can focus on expenditures and reinvestment (RRI) project funds.

Mr. Lockridge, Auditor General, stated that the revenue estimating conference process provides a level of comfort regarding revenue projections and that it forces the City to be conservative. He added that the process has improved the revenue estimates and projections.

Public Comment:

Mr. Fulton opened the conference to "Public Comment". There was none.

Consideration & Vote on the Economic and Revenue Forecasts:

Action to vote on the revenues was motioned by Mr. Fulton. Mr. Wortley approved and Mr. Hill seconded the motion.

Conclusion:

Mr. Wortley stated that the team did an excellent job on data layout in the report, and indicated that this also revealed how well the agencies were working together.

Mr. Hill acknowledged the Office of Budget, and Ms. Stoudemire's staff regarding their efforts related to FY 17 budget development, and other revenue estimating conference participants. Mr. Fulton thanked all for a very thorough and well-prepared report and ended the conference at 3:26 p.m.

REVENUES

The budget reflects revenue consistent with the Plan of Adjustment and the Revenue Estimating Conference. Below is the draft report from the FY 2016 Revenue Estimating Conference which outlines assumptions, forecast and estimates used to determine General Fund revenues.

The Directors of the City of Detroit Office of Budget, Office of the Auditor General and City Council Legislative Policy Division met in January and February 2016 to discuss the City's revenue collections for the current fiscal year and estimate collections for the next four fiscal years. The participants reviewed and recommended revenue estimates for the current Fiscal Year 2016 and projected revenues for FY 2017 through FY 2020. Discussions included a forecast of economic conditions that impact the City of Detroit revenues presented by Dr. Eric Scorsone, of Michigan State University.

The following economic report was provided by Dr. Carol O'Cleireacain, City of Detroit Deputy Mayor for Economic Policy, Planning and Strategy.

The Economic Environment for City Revenues

National Context

The volatile manner in which asset markets have begun this year should cause any forecaster to include a large dose of humility—and a wide range of forecast errors – into her work for 2016 and 2017. On the other hand, recent data show that the housing market is [continuing to improve](#), layoffs [remain low](#) and [consumer confidence rose in January](#).

The relative strong state of the national economy is one output expanding at a solid, if not spectacular pace; the longest stretch of private sector job growth in history – employers added an average of 200,000 jobs per month over the past five years. Unemployment has fallen to 4.9 percent and home prices have rebounded up 25 percent since late 2011.

If we measure the strength of the economy by the job market – and after the Great Recession many do – the past two years are tough to follow. Almost 6 million new jobs in 24 months represent the strongest job gains since the boom of the late 1990s. This has driven the unemployment rate down to 4.9 percent, from 6.7 percent at the end of 2013. The ratio of the population working is 60 percent, the highest since May 2009. And, labor force participation increased by almost half a million people in December 2015.¹ With the labor market tightening, wage growth has finally picked up and the January 2016 BLS data registered wage growth of 2.5 for the past year.²

¹ Neil Irwin, "In Terms of the Creation of Jobs, 2016 Has a Tough Act to Follow," *NY Times* Jan. 9, 2016.

² <http://www.bls.gov/news.release/empsit.nr0.htm> accessed Feb. 8, 2016

According to the NBER Business Cycle Dating Committee, the US economy has been growing since June 2009---an expansion approaching its sixth year and already exceeding the 58 month average of postwar expansions. GDP growth in 2015, at 2.4%, matched the 2014 growth rate. As NY Federal Reserve President William Dudley noted recently, “Even so, recession risk did not play a major factor in my thinking. Economic expansions don’t simply die of old age. They primarily end either because monetary policy is kept too loose for too long, thereby necessitating a subsequent sharp tightening in monetary policy to prevent a significant inflation overshoot, or because some large adverse shock hits the economy that the central bank cannot easily offset.”³ Yes, expansions inevitably end and, just as inevitably, the turning point is only recognized after the fact.

There is broad agreement among major forecasters on the outlook for 2016 and 2017, although 2016 growth forecasts continue to be revised downwards as more data become available.

- The February 2016 Blue Chip Indicators consensus forecast puts *real* economic growth in 2016 at 2.1% and 2.4% in 2017, with almost all forecasters *shaving their 2016 y/y estimates sharply to the downside in recent months*. However, the consensus saw a less than 20% probability of a 2016 recession.
- In January, the Congressional Budget Office economic forecasts expected the US economy to grow more rapidly in the next two years, compared with the 2% *real* GDP growth rate of 2015, forecasting 2016 and 2017 *real* GDP growth of 2.7% and 2.5% (*slight revisions downwards* from the August 2015 projections). CBO projects unemployment rates of 4.5% in each year.⁴
- These estimates are not materially different from those of the participants in the Federal Reserve’s Open Market Committee meeting of December 2015 in which the median estimate of GDP growth for 2016 was 2.4%, a slight upward revision of their September 2015 estimate partly attributed to the fiscal stimulus contained in the Bipartisan Budget Act of October 2015.⁵
- Meanwhile, the IMF’s updated January 2016 World Economic Outlook sees “risks to the global outlook tilted to the downside” and forecasts global *real* growth of 3.4% and 3.6% in 2016 and 2017, with US *real* growth of 2.6% each year (*downward revision* of 0.2% since its October 2015 projections).⁶
- Also tilting slightly to the downside is the latest Financial Times survey of 51 economists which raised the probability of a U.S. recession in the next two years to 20% from the December 2015 estimate of 10%.⁷

State and Local

The U-M forecast extends Michigan's economic growth through at least 2017 with 61,100 jobs in 2016 and 64,800 in 2017 in what is characterized as a “fairly stable economic environment.” By 2018, Michigan will recover about 73 percent of the jobs lost during the last decade. The auto industry has been running at close to capacity for a while now, so there has been little new firing associated with the record-breaking output. Looking ahead, manufacturing contributes only about 1 in 12 new jobs in the next two years and auto-related manufacturing jobs ultimately decline by about 2,000 from 2017 to 2018. Business and

³ <https://www.newyorkfed.org/newsevents/speeches/2016/dud160115> accessed Jan. 19, 2016

⁴ https://www.cbo.gov/publication/51129?utm_source=feedblitz&utm_medium=FeedBlitzEmail&utm_content=812526&utm_campaign=Express_2016-01-19_11%3a30 accessed Jan. 19, 2016

⁵ Federal Reserve Board, “Minutes of the Federal Open Market Committee December 15-16, 2015.

⁶ <http://www.imf.org/external/pubs/ft/weo/2016/update/01/pdf/0116.pdf> accessed Jan. 19, 2016

⁷ Eric Platt, “Experts less upbeat on US outlook” Financial Times Feb. 1 2016.

professional services are expected to account for a quarter of the new jobs, with nearly 60 percent of them in the professional, scientific and technical classification. Local inflation – the Detroit CPI – is forecast to be 1.6 percent in 2016 and rise to 2.4 percent in 2017, after a negative 1.4 percent in 2015. Personal income growth rises from 4.1 percent in 2015 to 4.4 percent in 2016 and ticks down to 4.3 percent in 2017.

The record auto/light vehicle sales registered in 2015 occurred during a period when the slow economic growth was combined with exceptionally low interest rates, a need to replace aging vehicles and a lengthening of auto loan maturities. Forecasts are for the record breaking sales to stabilize up at around 18 million units annually during 2016-2018. The Detroit Three's share approaches 45 percent or 8 million units.⁸

Detroit is tied more closely than many other American cities to the global economy. The region's concentration of transportation-related manufacturing places it among the nation's top metro areas for exports with a strong specialization in highly-traded advanced industries and tech-based employment. Many of the risks to the economy in the near future appear to emanate from abroad with slowing Chinese growth, poor performance in many emerging markets and resource-based economies suffering from falls in commodity prices. At least the drag that fiscal policy has been in recent years has been abated; monetary policy is becoming regularized. But, uncertainties abound, including domestic and international political events, which might dampen growth and foster volatility.

The national unemployment rate, at 4.9 percent, is at its lowest level in seven years (since April 2008). Michigan's seasonally adjusted December 2015 unemployment rate, at 5.1%, represents a drop of 1.3 percentage points from December 2014 and included job gains of just under 80,000 or almost 2%.⁹

In the Detroit area, the decline in unemployment has been slightly more pronounced than the national decline. Detroit is part of the six-county metro statistical area –Detroit-Warren-Dearborn MSA (DWD) – and also of the smaller, Wayne County metro division of Detroit-Dearborn-Livonia area (DDL). DWD had a *seasonally adjusted* unemployment rate of 6.2% in December 2015, down from 7.7% a year earlier.¹⁰ The *provisional unadjusted* December 2015 rates for both the DWD and DDL areas also show considerable improvement from a year earlier. The DWD unemployment rate, at 5.4%, was down from 6.5% in December 2014, while DDL's rate of 6.4% improved on the 7.6% rate of a year earlier.¹¹ Regional unemployment is still above the U.S. average. And, on these *provisional unadjusted* December 2015 numbers, DWD's unemployment rate ranks close to the highest for metros greater than 1 million people (45th out of 51).¹²

These declines in unemployment have been accompanied by job growth. The (unadjusted) data for employees on non-farm payrolls grew 2.1% in DWD but only 1.2% in DDL from December 2014 to December 2015.¹³

⁸ RSQE Outlook for 2016-2018, presented at the Consensus Revenue estimating Conference, Lansing. January 14, 2016.

⁹ http://www.bls.gov/news.release/archives/laus_01262016.pdf accessed Jan 29, 2016

¹⁰ http://www.bls.gov/news.release/archives/laus_01262016.pdf accessed Jan 29, 2016.

¹¹ Table 2, BLS press release Feb. 3, 2016. <http://www.bls.gov/news.release/pdf/metro.pdf> accessed Feb 3, 2016

¹² <http://www.bls.gov/web/metro/laulrgma.htm> accessed Feb. 3, 2016.

¹³ Table 4, BLS press release Feb. 3, 2016. <http://www.bls.gov/news.release/pdf/metro.pdf> accessed Feb 3, 2016

The national recovery has been slow and uneven across metro and city economies. As the most recent Metro Monitor notes, while “most metropolitan areas achieved robust growth during the economic recovery, [it] was not enough to assure better outcomes for all groups...”¹⁴ Brookings provides broad performance measures aimed at three aspects of economic well-being: growth; prosperity; inclusion. *Economic performance* is measured by levels and growth of production and employment. *Prosperity* is meant to assess the quality of the economic growth from the standpoint of workers or residents, measured by changes in income and wealth produced on a per-capita or per-worker basis. *Inclusion by race/ethnicity* attempts to measure distributional concerns through changes in the median wage; the relative income poverty rate and the employment rate between groups.

From 2009 – 2014, among the 100 largest metros, the DWD area’s economic *growth* performance has been solidly in the second quartile. It ranks 22nd, with employment growth of 9.1% (rank 26), gross real product growth of 18.1% (rank 9) – reflecting the large manufacturing sector, and aggregate employment growth of 11% (rank 32).

As to *prosperity*, DWD metro performance ranks 4th among the 100 metros: productivity growth of 8.3% (rank 8); average annual wage growth of 1.7% (rank 57); 18.5% improvement in the standard of living (gross product per capita) (rank 2). Unfortunately, DWD *inclusion* measures are ambiguous. Like other Great Lake regional metros, DWD experienced divergent outcomes between whites and people of color; the increase in the median wages for whites was statistically significant but the decrease for people of color was not statistically significant.¹⁵

Yet, worsening income inequality is a metro and city problem.¹⁶ In general, in 2014 (the latest year) both large metro areas and their big cities were more unequal places than the nation as a whole. The difference between household incomes near the top and those closer to the bottom of the distribution – the 95/20 ratio – was 9.3 for the nation, 9.7 for the 100 largest metros, and 11.8 for the big cities in those metros.¹⁷ In general, cities with higher income inequality are in metros with higher inequality, and that is the case of Detroit, too. The City of Detroit ranked 33rd out of the 100 largest metro cities; the 95/20 ratio was 10.9 (20th percentile household income was \$9,519; the 95th percentile was \$103,597). The DWD metro area ranked 24th out of 100 metros on this inequality measure; the 95/20 ratio was 9.1 (20th percentile household income was \$21,132; the 95th percentile was \$192,634).

As is well known, the City’s resident population exhibits significant labor market problems. Black unemployment rates -- regardless of age, education/skill, and gender – are higher and more volatile than whites everywhere; even in the best of times there was a 4.1 percentage point gap.¹⁸ The national unemployment rate of 5 percent breaks down (Dec. 2015, SA):¹⁹

¹⁴ The “recovery” is 2009 – 2014. See MetroMonitor 2016. Brookings.

<http://www.brookings.edu/~media/research/files/interactives/2016/metro-monitor/metromonitor.pdf>

¹⁵ See note 28 *supra*.

¹⁶ <http://www.brookings.edu/research/papers/2016/01/14-income-inequality-cities-update-berube-holmes>

¹⁷ The 95/20 ratio is the difference between those making more than 95 percent of all households and those earning more than only 20 percent of all other households (bottom).

¹⁸ <http://www.epi.org/files/2015/the-impact-of-full-employment-on-african-american-employment-and-wages.pdf> accessed Jan. 20, 2016

¹⁹ <http://www.bls.gov/news.release/empsit.t02.htm> accessed Jan, 20, 2016

	White	Black
Total	4.5%	8.3%
Men	4.2%	8.7%
Women	3.9%	6.9%
Youth (16-19 yrs.)	14.9%	23.7%

Black unemployment in Detroit-Warren-Livonia averaged 15.1 percent in 2014.²⁰

	All	White	Black
Total	8.3%	6.6%	15.1%
Men	8.5%	7.0%	16.2%
Women	8.2%	6.0%	14.2%
Youth (16-19 yrs.)	23.0%	20.8%	≈ 25+% (inferred)

OVERVIEW OF CONFERENCE RESULTS

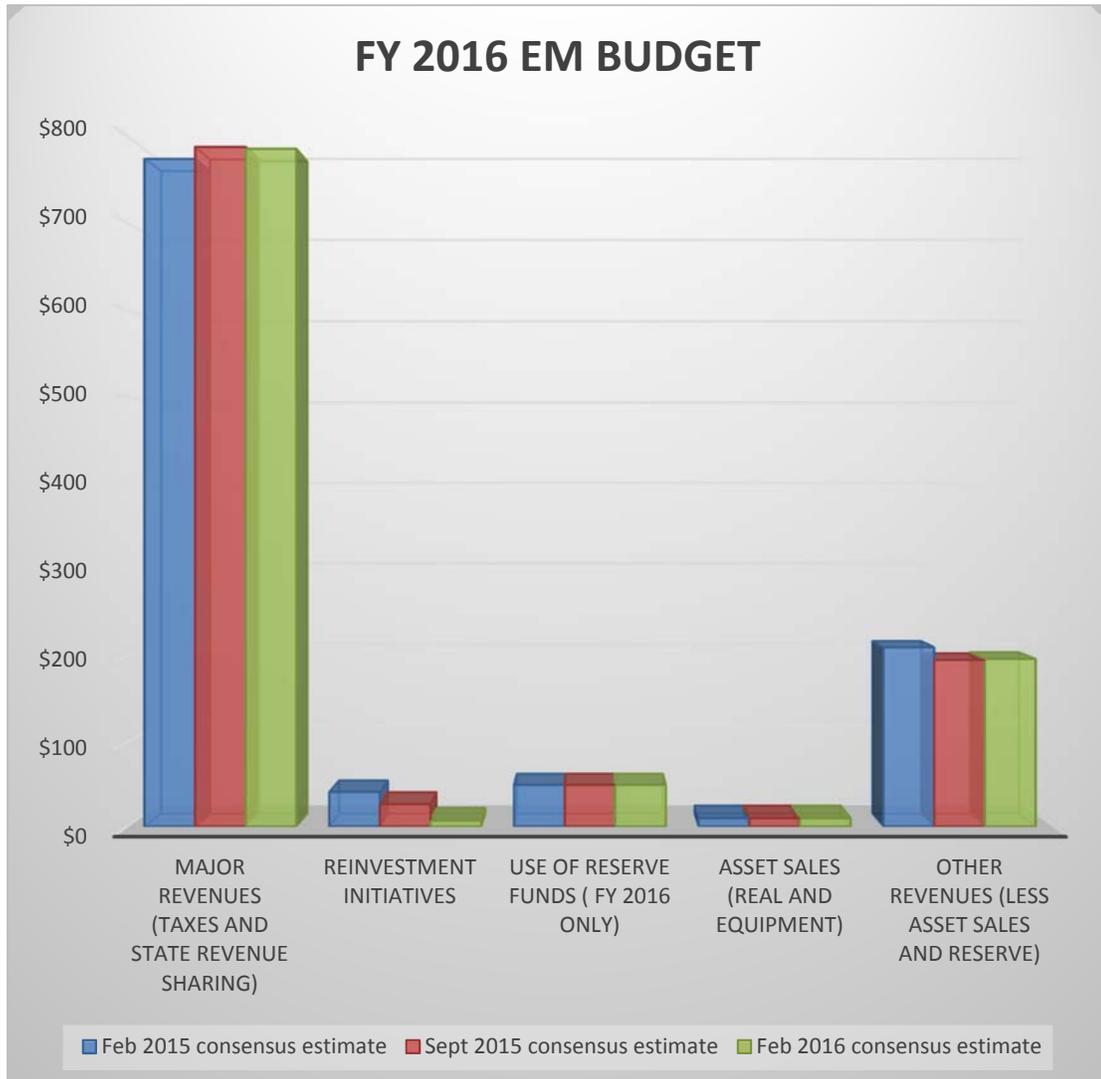
The February consensus estimate for General Fund revenues for FY 2016 is \$1,048.5 million, a \$23 million decrease from the adopted budget of \$1,071.5 million. Revenues are estimated to increase 2.7% over unaudited FY 2015 collections after adjustments for one-time activity (excludes the budget reserve of \$49 million in FY 2016 and bond sales in both FY 2015 and 2016 of \$154.9 million and \$245.0 million, respectively).

FY 2016 EM BUDGET

<i>General Fund (in millions)</i>	FY 2016 Baseline Budget	One Time/ Reinvestment Initiatives	FY 2016 Total Budget	2015 February Consensus Estimate	2015 September Consensus Estimate	2016 February Consensus Estimate
<i>Major Revenues (Taxes and State Revenue Sharing)</i>	\$ 751.5		\$ 751.5	\$ 774.7	\$ 788.5	\$ 786.4
<i>Reinvestment Initiatives</i>		40.7	40.7	40.7	26.3	7.2
<i>Use of reserve funds (2016 only)</i>		49.0	49.0	49.0	49.0	49.0
<i>Asset Sales (real and equipment)</i>	9.9		9.9	9.9	9.9	9.9
<i>Other revenues (less asset sales and reserve)</i>	220.4		220.4	209.4	194.8	196.0
<i>Total (adjusted for bond sales)</i>	\$ 981.8	\$ 89.7	\$ 1,071.5	\$ 1,083.7	\$ 1,068.5	\$ 1,048.5

²⁰ http://www.bls.gov/opub/gp/pdf/gp14_27.pdf. Annual average 2015 expected to be available July 1, 2016.

The FY 2016 Adopted Budget to February 2016 estimate variance of \$23 million is due to an increase in the major revenues (\$34.9 million), offset by a decrease in the reinvestment initiatives of \$33.5 million with a decline in the city’s core revenues of \$24.4 million.



The February 2016 consensus estimate for FY 2016 reflects anticipated increased collections in Income Taxes, State Revenue Sharing and Wagering Taxes over 2015 fiscal year-end results. Property Taxes and Utility Users Taxes estimates decline. Other General Fund revenues, after adjustments, are expected to increase from FY 2015 year-end actual collections. Other General Fund revenues are generated from city departments and miscellaneous sources. 2015 Year-end results for revenues are subject to further adjustments until the city’s audit is completed.

FEBRUARY 2016 REVENUE CONSENSUS ESTIMATES COMPARISON

\$ in millions	FY 2015				FY 2016			
	EM2-Year Budget	Actuals-Unaudited	Variance	February 2015 Revised Consensus Estimate	EM2-Year Budget	September 2015 Revised Consensus Estimate	February 2016 Consensus Estimate	February 2016 to September 2015 Consensus Variance
Income Tax	\$ 264.8	\$ 263.4	\$ (1.4)	\$ 254.0	\$ 268.4	\$ 264.0	\$ 264.0	\$ -
Property Tax	102.6	124.7	22.1	114.3	100.8	117.0	117.0	-
Utility Users' Tax*	17.0	37.9	20.9	37.5	15.9	40.0	37.0	(3.0)
Wagering Tax	168.2	172.8	4.6	168.2	169.0	172.3	173.5	1.2
State Rev. Sharing*	195.3	194.8	(0.5)	195.3	197.4	195.2	194.9	(0.3)
Other Revenues*	609.0	334.7	(274.3)	622.0	320.0	280.0	262.1	(17.9)
Total General Fund	\$ 1,356.9	\$ 1,228.4	\$ (228.5)	\$ 1,391.3	\$ 1,071.5	\$ 1,068.5	\$ 1,048.5	\$ (20.0)

	Income Tax	Property Tax	Utility Users	Wagering Tax	State Rev Sharing	Other Revenues	Total General Fund Revenues
FY 2017							
Sept 2015 Consensus	\$ 266.6	\$ 117.0	\$ 40.2	\$ 173.2	\$ 197.1	\$ 235.0	\$ 1,029.1
Feb 2016 Consensus	266.6	117.0	37.0	175.2	195.9	218.1	1,009.8
Variance (Feb over Sept)	\$ -	\$ -	\$ (3.2)	\$ 2.0	\$ (1.2)	\$ (16.9)	\$ (19.3)
Long Term Trend							
FY 2018	\$ 269.3	\$ 117.6	\$ 37.0	\$ 177.0	\$ 196.9	\$ 220.9	\$ 1,018.7
	1.0%	0.5%	0.0%	1.0%	0.5%	1.3%	0.9%
FY 2019	\$ 272.0	\$ 118.2	\$ 37.0	\$ 178.8	\$ 197.9	\$ 222.6	\$ 1,026.4
	1.0%	0.5%	0.0%	1.0%	0.5%	0.8%	0.8%
FY 2020	\$ 274.7	\$ 118.8	\$ 37.0	\$ 180.5	\$ 198.9	\$ 224.4	\$ 1,034.3
	1.0%	0.5%	0.0%	1.0%	0.5%	0.8%	0.8%

- **Utility Users Tax Budget*** is shown net of \$12.5 million due to Public Lighting Authority in the EM Two Year Budget- FY 2015 and FY 2016. FY 2015 Actuals-unaudited are shown at gross amount.
- The FY 2016 and FY 2017 Consensus estimates for **State Revenue Sharing*** were revised downward by the Revenue Conference Principals after receiving new information from the MI Department of Treasury.
- **Other Revenues FY 2015 Un-audited Actuals*** do not include Prior Years Surplus amount of \$151.3 million (CAFR adjustment). Additional year-end adjustments include: Federal Grant- Hardest Hit Funds (\$43.3 million) was paid directly to the Detroit Land Bank; and Fire Escrow funds allocated to Blight remediation will not post to the General Fund, but pass directly to the Detroit Land Bank. Public Lighting revenues of \$29 million will not be realized by the General Fund; reimbursements by DTE are made directly to the contractor.

REVENUES FOR CONSIDERATION

The City of Detroit has five major revenues that represent over 75% of General Fund revenues per the February 2016 consensus estimate: Income Tax, Property Tax, State Revenue Sharing, Wagering Tax (Casinos) and Utility Users' Tax. This year, the city's internal participants began the process with an in-depth review of department revenues followed by a discussion of the city's major revenues and current economic climate. The task was to estimate General Fund major revenues and department revenues for the current fiscal year 2016, and project revenues for fiscal years 2017 through 2020. Using financial system reports (DRMS), department sub-ledger reports, current operational analysis and local economic data, the participants individually determined their forecasts. Department- "Other revenues" of the General Fund were discussed in terms of baseline- on-going revenues, one-time activity and reinvestment initiatives. Revenues from all city funds were also considered as required by state law.

Municipal Income Tax

As authorized under Public Act 284 of 1964, as amended by PA 56 of 2011 and again in 2012, the City of Detroit levies an Income Tax on income from all sources with minimum exemptions. Income Tax revenue includes withholding- annual and quarterly payments. More than 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.

Public Act 394 of 2012 designated income tax revenues of .2% of resident individual tax collections and .1% of non-resident individual tax collections for Police operations. This public act also fixed income tax rates at 2.4% (residents, 1/2 – non-residents) until the repayment of any debt issued by the Public Lighting Authority.

Beginning January 2016, the State of Michigan started processing the City's resident and non-resident individual income tax returns. Taxpayers will have an opportunity to e-file their city tax returns for the first time. The city will continue to process withholding activity, corporate and partnership returns for this first year of the transition to the state of Michigan. Processing of this activity will subsequently transfer to the state January 1, 2017. Under this arrangement, the city is expected to pre-fund refunds in year 1.

- Income Tax FY 2015 actual collections grew at a rate of 3.7% over the February/May 2015 revised consensus estimate for FY 2015 of \$254.0 million. Unaudited fiscal year 2015 year-end results of \$263.4 million were \$9.4 million over the FY 2015 consensus estimate.
- The February 2016 revised consensus estimate includes some reinvestment initiatives to increase delinquent income tax collections; however, implementation of certain initiatives is still in process. Reinvestment initiatives include external collection efforts, increased staffing and internal process changes.

- The September 2015 and February 2016 revised consensus estimate for FY 2016 holds steady at \$264.0 million with no growth. Anticipated increased refund activity tempers overall collections in FY 2016. Projections for FY2017 through FY 2020 included growth of 1%.
- The February 2016 revised consensus estimate considered improved local economic conditions based upon blue chip economic forecasts as presented by Dr. Eric Scorsone, Michigan State University.

Current Property Taxes

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

- The June 30, 2015 actual collections is \$124.7 million, a 9.9% increase over 2014 collections. The FY 2015 Budget assumed a 10% decline in collections that did not materialize. FY 2015 actual collections benefited from an internal process change to checks received by mail. This activity was previously handled through a lockbox arrangement, but now checks are processed in-house eliminating a 6- 8 week lag in cash receipts. In addition, the city received unanticipated proceeds of \$6 million from the Wayne County auction of foreclosed property. Again, actual collections were enhanced by an internal change in processing that included the summer tax levy in the auction bids.
- The FY 2016 budget assumed a 10% decline in collections that the prior year's actual collections did not support. The February/May 2015 consensus estimate was increased to reflect actual collections activity. The original estimates were based on continued decline in property taxable values due to required citywide reassessments and foreclosure activity. Current collection activity is higher than anticipated due to, among other items, the citywide reappraisal.
- FY 2016 revised consensus estimate of \$117.0 million reflects an upward revision of 2.4% over the February/May consensus estimate due to increased collection results from the previous two fiscal years. Improvement in the city's collection rate from 50% to over 70% is a factor in the increased collections. The September 2015 and the February 2016 consensus estimate holds steady Current Property Tax collections for FY 2016 at \$117.0 million. This represents a 6.2% decline over FY 2015 actual collections. Consensus projections remain flat for property tax revenues for FY 2017 and includes .5% growth for FY 2018 through FY 2020.
- The City Assessor's outlook on the Ad Valorem valuations for fiscal years 2017 indicate a continued decline in assessed values, but at a slower rate than previously estimated. Of note, the city is experiencing growth in property values in certain areas of the city that may eventually lead to increased taxable valuation for the city. The citywide reassessment of residential properties is expected to be completed by December 2016 impacting the FY 2018 Budget.

Utility Users' Tax

The City of Detroit levies a Utility Users' Tax as permitted under Public Act 100 of 1990 and as amended in 2012. The tax is based on consumption of electricity, gas, steam and telephone (land lines) in the City of Detroit. The City currently levies the maximum tax rate of 5%. These revenues are budgeted in the Police Department 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).

- FY 2015 unaudited actual collections is \$37.9 million- gross; this resulted in a \$.4 million increase over the February/May revised consensus estimate.
- The consensus estimate for FY 2016 was revised upward to \$40 million in the September 2015 conference; this was an increase of \$2.5 million over the previous consensus estimate based on current run rates and previous year-end results.
- The February 2016 consensus was revised downward to \$37 million from our previous FY 2016 estimate for Utility Users' Taxes. This downward revision was based on lower natural gas prices and lower utility consumption due to a warmer than expected winter.
- We estimate similar collections for FY 2017 through FY 2020 with no growth for this period.
- Estimates/projections were determined on a gross basis.

Wagering Taxes (Casino Revenues)

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

- Original Wagering Tax estimates recognized downward pressure on revenues resulting from the opening of casinos in Ohio. Although Detroit's casino revenues did not decline to levels previously speculated by some, the city's budget anticipated continued downward pressure on revenues for fiscal year 2015.
- The June 30, 2015 unaudited actual collections is \$172.8 million, a 2.7% increase over the fiscal year 2015 Budget and the February/May revised consensus estimate of \$168.2 million.
- September 2015 consensus estimate revised previous consensus estimates upward due to increased actual collections. The February 2016 consensus estimate further increased the FY

2016 estimate by \$1 million to \$173.5 million, a \$4.5 million or 2.6% increase over the adopted budget. The consensus estimate increased the trend line for fiscal years 2017 through 2020 to include a growth factor of 1%, up from .5% growth factor included in the previous consensus.

State Revenue Sharing

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

- Year-end Revenue Sharing payments for fiscal year 2015 of \$194.8 million was \$.5 million less than the FY 2015 Budget and the February 2015 revised consensus estimate of \$195.3 million.
- For FY 2016, the February 2016 consensus estimate of \$194.9 million is 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 2016 Consensus Revenue Estimates and FY 2016 appropriation. This estimate is .1 million more than the FY 2015 actual payment, but 1.3% less than the Adopted Budget amount of \$197.4 million.
- The February 2016 consensus estimate for FY 2017 through FY 2020 includes a growth rate of .5% based on growth in Constitutional payments from Sales Tax revenues.
- Risks from economic trends forecasting lower National/Local Sales Tax Revenues, in addition to challenges to the state budget due to several crises in local finances may exert downward pressure on this revenue source.

All Other General Fund Revenues

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

1. *Sales and Charges for Services* – Intra-fund revenue generated from maintenance and construction, Casino Municipal Service fees, Cable Franchise fees, solid waste, recreation, utilities, intra-fund reimbursements, Emergency Medical Services billings, and other minor sales and service fees.
2. *Revenue From Use of Assets* - Earnings on investments, various interest earnings, building rentals, marina rentals, concessions, equipment rentals and sales of real property.
3. *Other Taxes, Assessments, and Interest* - Special assessments, Industrial Facilities Taxes, other miscellaneous property taxes and interest paid on delinquent property taxes.

4. *Fines, Forfeits, and Penalties* - Ordinance, court and parking fines, property tax penalties, and various fines, forfeits, and penalties.
5. *Licenses, Permits and Inspection Charges* - Various permits and licenses, safety inspection charges, and business licenses charges.
6. *Contributions, Transfers, and Miscellaneous* – Various revenues and contributions due to/or due from one fund resulting in revenues to one fund and an expenditure for another; other miscellaneous revenues and receipts, and sales of equipment.

Departmental Revenue Analysis

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

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

The varying methodologies were utilized by the participants, which included analysis of historical collection patterns, trend line fitting, moving averages, major revenue category analysis, individual agency revenue account analyses, and the utilization of run rates. All participants considered and accounted for other known items that impact collections. Participants took a more conservative approach in projecting future revenues.

FEBRUARY 2016 CONSENSUS FORECAST					
Other- Departmental General Fund Revenues (in millions)					
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Baseline (on-going) revenues	\$ 205.9	\$ 205.5	\$ 205.5	\$ 205.4	\$ 207.0
One Time Activity	294.0	-	-	-	-
Reinvestment Initiatives	7.2	12.6	15.4	17.2	17.3
Total	\$ 507.1	\$ 218.1	\$ 220.9	\$ 222.6	\$ 224.3

- Other Revenues forecast for FY 2016 include \$205.9 million from on-going sources, \$49 million for use of budget reserve funds, reinvestment initiatives of \$7.2 million and bond sale proceeds of \$245 million (a one-time activity involving the sale of exit financing debt). This represents an increase of \$1.9 million in on-going, baseline revenues and a decrease in reinvestment initiatives of \$20 million from the September 2015 consensus estimate.

- Other Revenues projections for FY 2017 include a slight decrease in on-going, baseline revenues to \$205.5 less than a .2% decrease (\$.4 million). Reinvestment initiatives increase to \$12.6 million. No one-time activity is included in the 2017 projection.
- Projections for on-going, baseline revenues remain flat for FY 2018 and FY 2019, with reinvestment initiatives ranging from \$15.4 to 17.2 million. FY 2020 forecast a .8% increase in baseline revenues.
- Noteworthy changes to Departmental Revenues:
 1. Public Lighting revenues were reduced in the February/May 2015 consensus estimate for fiscal years 2015 through 2017 due to the city's decision to exit the power distribution business beginning March 2014 and the subsequent transfer of the customer base to DTE Energy. The September 2015 consensus estimates further eliminated all but the \$12.5 million pass through revenues to the Public Lighting Authority as it was subsequently determined that no funds would flow through the city's General Fund. The February 2016 consensus adds back reimbursements of certain operating expenses totaling \$2.1 million. In addition, scrap metal revenues are included in FY 2017 through 2020 estimates in Fund 1011 PLD Decommissioning.
 2. From the Non-Departmental agency: Deleted the Hardest Hit Funds (February/May 2015 consensus estimate) and the Fire Escrow Funds (September 2015 consensus) purposed for demolition activity administered by the Detroit Land Bank; funds were paid directly to the Land Bank. The 36 District Court reinvestment initiatives of \$8.2 million were deleted (February 2016 consensus). A Parking Advance revenue and related expense of \$6.6 million recorded in the Non-departmental agency was deleted, required under bond covenant that has subsequently been satisfied. A similar transaction in the Municipal Parking Department fund was also deleted.
 3. Restructuring initiatives were deleted or reduced for the following agencies:
 - Building & Safety- revenues reclassified, generated from the enterprise operations.
 - Fire Department- initiatives related to grants transferred to special revenue funds, certain initiatives reduced, in early stage of implementation.
 - Municipal Parking - certain revenue initiatives still under implementation- reduced by half.
 - Office of the Chief Financial Officer - initiatives still in early implementation stage.
 - Law- initiative deleted, not expected to be realized.
 - Police- certain initiatives reclassified to grant funds; other initiatives in early implementation stage, expect to realize one-half of budgeted amount.

- General Services restructuring initiatives reduced in FY 2016 and FY 2017, not expected to be realized.

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; 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. Each fund pays insurance premiums to the General Fund based on past claims 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 \$49.5 to \$50.9 million for fiscal years 2016 through FY 2020.

This City also has a Budget Reserve Fund and a Public Lighting Department (PLD) Decommissioning Fund recorded in the General Fund Class.

Other City Funds (Non-General Fund)

Public Act 279 of 1909 (The Home Rule City Act) requires the city to forecast anticipated revenues of the city for the current fiscal year and the succeeding two fiscal years. The chart shown below lists all of the city's Special Revenue Funds and Enterprise Funds; funds shown but not forecasted are the Trustee and Fiduciary (Retirement System) Funds. The revenue projections presented for these funds were based on historical data, trend lines and/or current department estimates. Amounts presented for the Detroit Water & Sewerage Department are based on the FY 2016 Financial Review Commission approved budget.

CITY OF DETROIT FUNDS (EXCLUDES GENERAL FUND CLASS)					
FUND NAME	FY 2015 Actuals - Unaudited	FY 2016 Revised Adopted Budget	FY 2016 Revised Consensus Budget	FY 2017 Consensus Projection	FY 2018 Consensus Projection
Community Dev Block Grant Fund	\$ 39.5	\$ 30.7	\$ 40.4	\$ 29.9	\$ 28.4
UDAG and Discretionary Grants	6.10	2.80	6.86	6.86	6.86
Sec 108 Loans - Development	20.19	-	-	-	-
Neighborhood Stabilization Program VIII (Note 1)	13.01	-	-	-	-
Department Grant Funds (Note 2):		-			
- Airport Grants Fund	2.92	-	-	-	-
- Fire Grants Fund	0.08	-	2.00	2.00	14.40
- General Services Dept. Grants Fund	1.24	-			
- Health Grants Fund	10.40	-	23.70	23.70	23.70
- Homeland Security Grants Fund	1.07	-	0.80	0.80	0.80
- Mayor's Office Grants Fund	0.10	-	0.09	0.09	0.09
- Police Grants Fund	1.81	-	6.47	6.47	7.07
- Dept. of Public Works Grants Fund	6.48	-			
- Recreation	0.81	-	0.47	0.47	0.47
- Environmental Affairs Grants	0.25	-			
Construction Code Fund	20.68	19.50	20.60	20.60	20.60
- Fire Recovery Fund (Fire Escrow)	0.09	-	-	-	-
Drug Law Enforcement Fund	3.53	1.00	1.60	1.60	1.60
- Federal Forfeiture Funds	0.27	-	-	-	-
Library Funds	32.69	30.50	33.00	33.20	33.20
Quality of Life - Special Revenue (Note 3)	-	-	-	-	-
Major and Local Streets Fund	91.30	56.60	56.60	67.50	72.00
PA 48 2002 Fund	-	2.50	2.50	2.20	2.20
Solid Waste Management	42.40	40.60	44.00	44.00	44.00
General Grants (Phase out to Dept Grants)	4.00	31.20	0.80	-	-
Sinking Interest & Redemption	26.17	61.80	61.80	68.00	66.70
Special Hsg Rehab programs	11.50	6.63	6.07	4.20	4.20
Airport Funds *	1.20	1.50	1.50	1.50	1.50
Municipal Parking Funds	14.20	17.40	8.20	8.20	8.20
Transportation Funds (DDOT) **	173.16	141.80	140.00	135.20	135.20
Sewage Disposal Funds	508.90	716.00	-	-	-
Water Funds	348.78	570.30	-	-	-
Detroit Water & Sewerage Department- Retail			529.68	529.68	529.68
Retirement Systems	31.82	-	-	-	-
Trust Funds	93.12	-	-	-	-
TOTAL	\$ 1,507.8	\$ 1,730.8	\$ 987.1	\$ 986.2	\$ 1,000.9

Note 1: NSP I and III Federal funding closed; no allocations expected. The city has permission to expend existing allocation.

Note 2: Department Grant Funds represent the reorganization of grants previously recorded in the General Grants Fund 3601; not all departments will receive annual grant awards. Grants are budgeted upon receipt of award.

Note 3: Quality of Life Fund records the proceeds of a one-time sale of bond for reinvestment initiatives in FY 2015.

* Totals include Contributions from the General Fund: Airport FY 2015: \$668,064; FY 2016- \$666,053; and FY 2017 and FY 2018 - \$785,731.

** Totals include Contributions from the General Fund: DDOT: FY 2015- \$63.3 million; FY 2016- \$62.5 million and the same for FY 2017- FY 2018: \$62.5 million.

FUNDS WITH GENERAL FUND IMPACT

Airport

The [Coleman A. Young International Airport](#) is an Enterprise Agency of the City of Detroit. Revenues from landing fees, rentals, fuel concessions and Federal/State grants maintain the operations of the Airport. In addition, the Airport FY 2016 Budget includes a General Fund contribution of \$666,053 which is expected to be paid. Consensus projections for FY 2017 and FY 2018 increases the contribution to \$785,731 recognizing the most likely level of support from the General Fund based on historical trends. Enterprise revenues of \$1.5 million is forecasted for 2016 through FY 2020.

Buildings & Safety

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. General Fund revenues are expected to remain at their current levels (\$2.2 to \$2.3 million) for FY 2016 through FY 2020. Revenues from the enterprise activity are projected at \$20 to \$21 million 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 box, State operating assistance, State and Federal grants, contribution from the General Fund and other miscellaneous revenues. The General Fund contribution for DDOT for FY 2015 was \$63.3 million. The consensus for FY 2016 through FY 2018 estimates the General Fund contribution to remain at \$62.5 million. Without additional restructuring efforts, this level of General Fund support will continue for the foreseeable future. Revenue from State operating assistance declined in FY 2014 due to a shift in the distribution formula. This shift resulted in a \$7 million decline in grant revenues in FY 2014. 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. Enterprise revenues of \$135 million is forecasted for 2016 through 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 the City of Detroit and the processing and

collection of parking violation notices. The Auto Parking and Area System revenues are currently assigned to pay debt service for post-bankruptcy loans. The future of the revenue stream for this division is uncertain as additional bankruptcy settlement items may further dilute revenues. In addition certain parking structures have been transferred or optioned for future purchase under terms of the bankruptcy settlement. Parking Violation Revenues for FY 2016 through FY 2020 is estimated as \$11.4 million from on-going, baseline operations and one-half- \$3.4 million of its budgeted reinvestment initiatives of \$6.8 million. Total agency revenues of \$23.06 million is projected for the FY 2016 through FY 2020 forecast period.

Solid Waste Fund

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

- First-half collections compared to recent history indicate small growth in collections over the revised consensus estimates. A change in processing of delinquent tax bills resulted in improved collections of solid waste fees. The February 2016 consensus projects total revenues of \$44 million and assumes similar collection rates for FY 2017 through FY 2020.
- The City privatized the Solid Waste activity in FY 2014. Contracts were awarded to two companies to service the East and West side of the City on February 21, 2014. The outsourcing of this activity is expected to be revenue/cost neutral. However, service is anticipated to greatly improve under this arrangement.

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 (HOPA) 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, Hardest Hit funds for demolition 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.

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. The DPL serves people of all ages by providing access to critical information, opportunities for learning new skills and enrichment through special programs. 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 consensus projects revenues of \$33 million for this fund for the forecast period.

Major and Local Street Funds

Activity recorded in this fund provides for the construction and maintenance of streets, bridges, traffic signals and non- motorized improvements. This fund accounts for 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. An increase in road funding was enacted with the passage of state legislature amending various public acts in 2014- 2015. The city projects receiving \$10-15 million in additional Gas & Weight Taxes for the forecast period. Revenues from this source are projected to range from \$56 to \$83 million for FY 2016 through FY 2020.

Sinking and Interest Funds

Sinking (bond) and interest redemption provides for the scheduled retirement of principal and interest on long-term City debt. This debt derives from general obligation bond sales. The debt service on Enterprise Funds appears in the Enterprise Agency Sections. The revenues for the Sinking and Interest (Debt Service) Fund are derived from a separate debt service millage on real and personal property located in the City of Detroit. Current debt service schedules require funding totaling \$61.8 to \$68 million for the forecast period.

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.

Under the reorganization, Detroit maintains its own local system. Detroit keeps exclusive control of the local water and sewer system in DWSD – under authority of 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. Detroit 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, in which 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 2015 Budget included a reserve of \$111.3 million, which more than satisfied the State's budget reserve requirement of 5% of expenditures. In FY 2016, \$49 million of the excess Budget Reserve is designated for use in General Fund operations leaving a remaining balance of \$62.3 million in reserves for FY 2016. This represents 5.8% of estimated General Fund appropriations for FY 2016. The Plan of Adjustment allows for surplus funding to be used for reinvestment projects.

RISKS TO FORECAST

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

- Lower inflation rate 0% or negative inflation rate reduces growth in property taxable valuations. State law limits growth to the lower of 5% or the rate of inflation.
- Trigger of a Headlee roll-back in property tax millage assessed due to possible loss in the personal property tax base, in combination with near zero/negative inflation factor.
- Risks to estimated Property Tax collections due to the impact of Wayne County chargebacks netted against the delinquent accounts revolving fund payment.
- Continued property valuation declines; increased foreclosure activity in the near future.

- Possible negative impact in reductions to Personal Property Tax collections due to state legislation.
- Decline in property tax collections due to cleansing of the tax rolls.
- Lower consumer confidence depresses spending and reduces sales tax revenues.
- Rising interest rates resulting in lower consumer spending.
- Further declines in Michigan Sales Tax revenues negatively impacts local government share.
- Lower gas prices impacts MI Sales Tax revenues and negatively impacts local government share.
- Declines in Sales and Charges for Services due to economic factors.
- Implementation risks due to deferred/delayed results from restructuring efforts.
- Reinvestment initiatives resulting in less than expected revenue growth.
- Proposed casino developments in Lansing and Romulus could dampen Detroit casino's long-term revenue projections.

POTENTIAL UPWARD ADJUSTMENTS TO FORECAST

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

Conference Participants

John W. Hill, Chief Financial Officer

Carol O’Cleireacain, Deputy Mayor for Economic Policy, Planning and Strategy

John Naglick, Jr., Chief Deputy Chief Financial Officer / Finance Director

John H. Hageman, Chief of Staff to the Chief Financial Officer

Tanya Stoudemire, Deputy CFO, Budget Director

Irvin Corley, Jr., City Council Legislative Policy Division, Executive Policy Manager

Anne Marie Langan, City Council Legislative Policy Division, Fiscal Analyst

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Jeffrey Vedula, Office of the Auditor General, Deputy Auditor General

Tony Smith, Office of the Auditor General, Sr. Auditor

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Shavi Sarna, Ernst & Young

CITY OF DETROIT

FY2017-2020 Four Year Financial Plan

March 28, 2016



Public Law Requirements

- PA 182 of 2014 amends PA 279, the Home Rule City Act
 - It requires Detroit to adopt a financial plan covering FY17 and the next 3 fiscal years (FY 18, 19, and 20)
- PA 181 of 2014 (“Michigan Financial Review Commission Act”) requires us to submit the 4-year financial plan at least 100 days prior to the commencement of our fiscal year
- Under Public Act 182 of 2014, the Four Year Financial Plan includes:
 - A projection of all revenues and expenditures of the city for each fiscal year, including debt service
 - A projection of cash flow for each fiscal year
 - A schedule of projected capital commitments for each fiscal year
 - Measures to assure that projected employment levels, collective bargaining agreements, and other employee costs are consistent with projected expenditures and available revenue
 - Measures to assure compliance with mandates under state and federal law consistent with projected expenditures and available revenue
 - 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
 - A statement of significant assumptions and methods of estimation used for projections included in the financial plan
 - Any other information the mayor, governing body, or chief financial officer of the city considers appropriate



Overview of Financial Plan

- PA 182 also requires a new revenue estimating conference. The 3rd revenue estimating conference following the City's exit from bankruptcy was held on February 18th
- The Conference participants approved the City's recommended revenues as established by the City's internal participants- the Office of Budget, City Council Legislative Policy Division, and the Office of the Auditor General
- Overall approach to projected revenues is conservative. Reflects our continued conservative approach to the budget and budget process
- The revenues included in the Four Year Financial Plan reflect the approval from that conference
 - Major revenues (Income Tax, Property Tax, Utility Users' Tax, Casino Revenues, and State Revenue Sharing) account for 78% of the General Fund
 - Uptick of major revenues of less than 1% over the previous FY estimated collections
 - Income Tax and Utility Users' Tax decline, offset by increases in Property Tax and Casino Revenues
 - Other revenues are consistent with the Plan of Adjustment and include a reduced amount of reinvestment initiatives
- Total General Fund revenues to increase by less than 1% over the forecast period



Overview of Financial Plan

- \$10M contingency has been included in the last two budgets, which we have not used
- The Four Year Financial Plan includes an additional pension contribution of \$10M in each of the four years to fund future pension obligations. The City anticipates a \$20M - \$30M budget amendment in FY16 to fund future pension obligations using surplus from FY15 and FY16
- 5% budget reserve maintained for each fiscal year
 - FY17 balance is \$62.3; minimum requirement is \$53.8M



CFO Certification

- Public Act 182 of 2014 amended Public Act 279 of 1909 by adding Sections 4s and 4t. Section 4s(2)(c) states the chief financial officer shall certify that the city's annual budget complies with the uniform budgeting and accounting act, 1968 PA 2, MCL 141.421 to 141.440a, and, if applicable, submit that certification to the financial review commission created in the Michigan financial review commission act
- The City's FY2017 budget is in compliance with the requirements defined in Section 141.435 of the uniform budgeting and account act. These include:
 - Expenditure data for the most recently completed fiscal year and estimated expenditures for the current fiscal year.
 - An estimate of the expenditure amounts required to conduct, in the ensuing fiscal year, the government of the local unit, including its budgetary centers.
 - Revenue data for the most recently completed fiscal year and estimated revenues for the current fiscal year.
 - An estimate of the revenues, by source of revenue, to be raised or received by the local unit in the ensuing fiscal year.
 - The amount of surplus or deficit that has accumulated from prior fiscal years, together with an estimate of the amount of surplus or deficit expected in the current fiscal year. The inclusion of the amount of an authorized debt obligation to fund a deficit shall be sufficient to satisfy the requirement of funding the amount of a deficit estimated under this subdivision.
 - An estimate of the amounts needed for deficiency, contingent, or emergency purposes.
 - Other data relating to fiscal conditions that the chief administrative officer considers to be useful in considering the financial needs of the local unit.
 - The total estimated expenditures, including an accrued deficit, in the budget shall not exceed the total estimated revenues, including an available unappropriated surplus and the proceeds from bonds or other obligations issued under the fiscal stabilization act or the balance of the principal of these bonds or other obligations.



Overview of Revenues

	Income Tax	Property Tax	Utility Users Tax	Wagering Tax	State Revenue Sharing	Other Revenues	Total General Fund Revenues
FY 2017							
Sept 2015 Consensus	\$ 266.6	\$ 117.0	\$ 40.2	\$ 173.2	\$ 197.1	\$ 235.0	\$ 1,029.1
Feb 2016 Consensus	266.6	117.0	37.0	175.2	195.9	218.1	1,009.8
Variance (Feb over Sept)	-	-	(3.2)	2.0	(1.2)	(16.9)	(19.3)
Long Term Trend							
FY 2018	\$ 269.3	\$ 117.6	\$ 37.0	\$ 177.0	\$ 196.9	\$ 220.9	\$ 1,018.7
	1.0%	0.5%	0.0%	1.0%	0.5%	1.3%	0.9%
FY 2019	\$ 272.0	\$ 118.2	\$ 37.0	\$ 178.8	\$ 197.9	\$ 222.6	\$ 1,026.4
	1.0%	0.5%	0.0%	1.0%	0.5%	0.8%	0.8%
FY 2020	\$ 274.7	\$ 118.8	\$ 37.0	\$ 180.5	\$ 198.9	\$ 224.4	\$ 1,034.3
	1.0%	0.5%	0.0%	1.0%	0.5%	0.8%	0.8%



City of Detroit						
Budget Reserve Schedule						
	FY 2014-2015	FY 2015-2016	FY 2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020
Beginning Balance	\$ -	\$ 111,264,397	\$ 62,280,192	\$ 62,280,192	\$ 62,280,192	\$ 62,280,192
Transfer In/ (Out)	111,264,397	(48,984,205)	-	-	-	-
Ending Balance	\$ 111,264,397	\$ 62,280,192	\$ 62,280,192	\$ 62,280,192	\$ 62,280,192	\$ 62,280,192
Minimum Balance (5% of appropriations)	\$ 62,280,192	\$ 53,573,311	\$ 53,884,029	\$ 50,900,356	\$ 51,305,830	\$ 51,712,933
Cushion above 5%	\$ 48,984,205	\$ 8,706,881	\$ 8,396,163	\$ 11,379,836	\$ 10,974,362	\$ 10,567,259
PA 182 Sec 4t (1) (c) (vi)						
Include a general reserve fund for each fiscal year to cover potential reductions in projected revenues or increases in projected expenditures equal to not less than 5% of projected expenditures for the fiscal year						



General Fund Summary of Appropriations

CITY OF DETROIT
BUDGET DEVELOPMENT
APPROPRIATIONS AND REVENUES BY MAJOR CLASSIFICATIONS - GENERAL FUND

	2014-15 Actuals	2015-16 Adopted	2016-17 Recommended	2017-18 Forecast	2018-19 Forecast	2019-20 Forecast
EXPENDITURES						
Salaries and Wages	292,780,260	331,194,980	404,489,652	413,025,022	420,993,962	428,939,337
Employee Benefits	112,075,148	146,043,584	186,900,765	190,469,578	193,985,900	177,045,110
Professional and Contractual Services	118,752,378	50,987,038	65,980,862	64,494,944	58,018,193	55,939,412
Operating Supplies	20,300,715	21,305,617	28,309,698	27,602,653	26,404,204	25,344,454
Operating Services	57,407,464	107,861,352	108,729,148	107,218,367	103,995,299	101,584,604
Other Expenses	9,556,220	278,139,663	102,807,156	133,563,363	127,973,098	141,332,237
Capital Equipment	5,818,570	301,047	504,047	504,047	504,047	504,047
Capital Outlays	3,026,005	3,133,504	36,702,901	5,726,725	5,724,828	5,724,311
Fixed Charges	149,801,721	83,515,224	75,404,541	75,402,415	88,517,064	97,845,150
Total Expenditures	769,518,480	1,022,482,009	1,009,828,770	1,018,007,114	1,026,116,595	1,034,258,662
REVENUES						
Grants, Shared Taxes, and Revenues	195,625,901	198,509,132	196,618,700	197,619,410	198,619,465	199,619,413
Revenues from Use of Assets	(10,011,982)	1,187,519	1,345,043	1,348,858	1,348,858	1,348,858
Sales of Assets and Compensation for Losses	36,518,728	11,565,003	14,442,300	14,491,245	14,499,010	14,499,010
Miscellaneous	164,193,805	56,238,585	10,565,230	11,998,508	12,863,755	12,523,726
Sales and Charges for Services	92,781,170	115,189,017	123,385,075	123,790,265	124,625,388	126,630,795
Fines, Forfeits and Penalties	22,252,859	25,248,124	22,212,235	22,402,487	22,402,487	22,402,487
Licenses, Permits, and Inspection Charges	11,040,851	9,204,374	11,203,192	11,077,397	11,406,155	11,571,161
Taxes, Assessments, and Interest	604,058,909	564,637,671	604,863,041	610,178,961	615,457,040	620,757,300
Contributions and Transfers	27,519,909	40,702,584	25,193,954	25,099,983	24,894,437	24,905,912
Total Revenues	1,143,980,151	1,022,482,009	1,009,828,770	1,018,007,114	1,026,116,595	1,034,258,662
EXPENDITURES - Surplus Funded						
Blight Reduction	-	46,000,000	40,000,000	-	-	-
Capital Projects	-	2,984,205	27,851,803	-	-	-
Surplus Funded Expenditures	-	48,984,205	67,851,803	-	-	-
REVENUES - Prior Year Surplus						
Contributions and Transfers	-	48,984,205	67,851,803	-	-	-
Prior Year Surplus	-	48,984,205	67,851,803	-	-	-



General Fund Budget

FY16	FY17	VAR	FY18	VAR	FY19	VAR	FY20	VAR
\$1,071M	\$1,077M	0.6%	\$1,018M	-5.9%	\$1,026M	0.8%	\$1,034M	0.8%

- OCFO, DoIT, HR, HRD and PDD restructurings are reflected
- Restructuring operating projects have been transferred from Fund 1002 to agencies' operating accounts
- Restructuring capital projects and blight are included in Non-Departmental. Capital projects and blight are funded from prior years surplus in line with the Plan of Adjustment
- No prior years surplus funding is reflected in FY18, FY19, or FY20. This funding will be identified on an annual basis
- Department of Health and Wellness Promotion reflects \$5M General Fund contribution for FY17 and approximately \$10M for FY18, FY19, FY20
- Wage increases for Police and DDOT are included as negotiated in approved labor contracts
- Approximately \$6M in each year for the State to administer income taxes



Total City Budget

FY16	FY17	VAR	FY18	VAR	FY19	VAR	FY20	VAR
\$2,805M	\$1,910M	-46.9%	\$1,881M	-1.5%	\$1,888M	0.3%	\$1,911M	1.2%

- The Detroit Water and Sewerage Department bifurcated from the Great Lakes Water Authority on January 1, 2016. DWSD-R's budget is included in the Four Year Financial Plan
- Planning and Development and Housing and Revitalization Departments will pursue current economic development projects as well as new projects in the pipeline



Total City Positions

FY16	FY17	VAR	FY18	VAR	FY19	VAR	FY20	VAR
9,536	10,176	640	10,169	-7	10,158	-11	10,155	-3

- Budgeted positions in Fire increased by 143 in FY2017
- Budgeted civilization positions in Police decreased by 76 due to OCFO and DoIT restructuring
- Budgeted positions in General Services Department increased by 108 to provide improved parks and facilities maintenance
- Budgeted positions in Recreation Department increased by 102 to expand various programs including after school programs, day camps, summer outdoor pool operations and summer park programs
- Budgeted positions for OCFO increased by 218 as a result of OCFO restructuring



Conclusions

- Potential Risks
 - Decline in property tax collections due to citywide reappraisal
 - Downward pressures from financial issues in other localities
 - Further declines in MI Sales Tax revenues (for example due to lower gas prices) negatively impacts local government share
- Potential Upsides
 - FY16 surplus is larger than anticipated
 - Revenue from economic development projects is not contemplated in Four Year Financial Plan
 - State of MI processing income tax should result in increased compliance and generate additional revenues
 - Efficiency gains from OCFO restructuring and new financial management system and human resources information system are not contemplated in Four Year Financial Plan
 - Passage of universal withholding should result in increased income tax collections
 - Revenue initiatives that are in the Four Year Financial Plan but not included in revenue estimates may result in additional revenues





CITY OF DETROIT
RAQUEL CASTAÑEDA-LÓPEZ
COUNCIL MEMBER - DISTRICT 6

March 28, 2016

Detroit Financial Review Commission
Cadillac Place, Suite L-150
3062 West Grand Boulevard
Detroit, MI 48202

Dear FRC Members,

Due to the Council committee schedule I am unable to attend the meeting today. I submit these written comments, urging you to approve the 2016-2017 budget with the crucial appropriation amendments made by the Council and approved by the Mayor. These changes reflect the need to restore full time employee status to Council's staff and the City's need to implement and monitor a language accessibility plan.

Funding was allocated to develop, implement and monitor a Language Accessibility Plan for the City, to ensure we are in compliance with Federal law. The plan includes provisions for translation and interpretation services and will improve access to the majority of Detroit's 70,000 plus residents who are visually or hearing impaired or have limited English proficiency. This is historic as it includes long awaited funding for a comprehensive language accessibility plan for the City of Detroit.

In addition, funding was allocated to restore Council staff to FTE status. In July of 2013, due to the bankruptcy, Detroit City Council staff transitioned from FTE status to contractual employment. As the City has transitioned out of bankruptcy, it is crucial that Council employees receive equal treatment and restoration of FTE status.

I support all of the proposed changes made by the Council and I again strongly urge you to adopt the amended 2016-2017 changes. Please contact me if you have any additional questions.

Sincerely,


City Council Member
Detroit-District 6

Coleman A Young Municipal Center || 2 Woodward Avenue || Suite 1340 || Detroit, MI 48226
PH: 313-224-2450 || FAX: 313-224-1189 || councilmemberraquel@detroitmi.gov



City of Detroit
COUNCILMAN ANDRÉ L. SPIVEY

To: City of Detroit Financial Review Commission

From: Councilman Andre L. Spivey

Date: March 28, 2016

RE: Detroit City Council Budget 2016-2017

In the months preceding and during the bankruptcy the Detroit City Council suffered significant reductions in funding. In fact, one of the very first recommendations from outside consultants was to drastically cut the Council's budget and eliminate benefits for all our staff employees. This in fact converted all of our staff from full-time employees to contractual service employees.

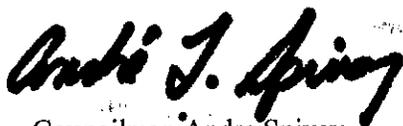
This move caused turmoil not only from the perspective of an employer no longer being able to offer benefits that are common place in most places of business, but even more so from a personal level for those employees who had worked for the City of Detroit for a long period of time looking forward to retirement, as well as those employees who might not have had as much time on the job, but need healthcare benefits for themselves and their families.

Post-bankruptcy, some departments were designated for restructuring and allocated funds to assist in this effort however, Council was not included in this initiative and remained unable to offer our employees the bare essentials necessary to provide for their families.

While many Council Members, including myself, had no choice but to drastically cut staff, some also lost staff to other departments and entities outside of city government. As the legislative branch of City government it is extremely important for us to be able to attract and retain the best and brightest individuals to assist in our efforts to serve the citizens of our great city.

I view this budget increase as a necessary and responsible action under this current budget. In fact, it amounts to a very small percentage of the overall budget. Further, I feel that by including this funding in the 2016-2017 budget to allow individual Council Members to offer some form of healthcare benefits to those employees who might require them, we are taking a necessary step in the direction of moving our City forward.

Thank you


Councilman Andre Spivey



City of Detroit

COUNCILMAN SCOTT R. BENSON

MEMORANDUM

TO: Financial Review Commission

FROM: Scott Benson, City Council District 3 

VIA: Council President Brenda Jones

DATE: 28 March 2016

RE: 2016-2017 DETROIT OPERATING BUDGET

I am pleased to endorse the adopted City of Detroit Operating Budget for Fiscal Year 2016 - 17. City Council has approved its third balanced budget as required by state law. It should also be noted that this budget was the first time Council had the opportunity to make significant changes in the appropriations of City funds and this was done as a collaborative effort between City Council & the Mayor's Office. This type of collaboration is critical in the success of our City's financial health as we continue to move our great city into the 21st century.

As a City Councilman I am proud to approve my third balanced budget that bases revenues and expenditures on conservative supportable estimates. This type of budgeting reflects the core values of Detroit's elected officials;

1. Fiscal responsibility
2. Social responsibility
3. Investing in our city's future.

Please reach out to my office at 313-224-1198 with any questions.

SRB



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

DETROIT FINANCIAL REVIEW COMMISSION

RESOLUTION 2016-3

**CONSENTING TO THE CITY’S TIME EXTENSION FOR ITS ANNUAL
AUDIT REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

WHEREAS, Public Act 181 of 2014, the Michigan Financial Review Commission Act (the “Act”), allows for the creation of the Detroit Financial Review Commission (the “Commission”) within the Michigan Department of Treasury; and

WHEREAS, Section 6(1) of the Act empowers the Commission to provide oversight for the City of Detroit (the “City”) beginning on the Effective Date of the Plan of Adjustment; and

WHEREAS, Section 6(3) of the Act requires the Commission to ensure that the City complies with the requirements of, among other things, MCL 141.427(4); and

WHEREAS, MCL 141.427(4) requires that the City file with the State Treasurer its annual audit report for the fiscal year ended June 30, 2015 no later than December 31, 2015; and

WHEREAS, the City previously requested the State Treasurer to extend the date by which it must file its annual audit report for the fiscal year ended June 30, 2015 from December 31, 2015 to no later than March 31, 2016, and the State Treasurer granted such extension pursuant to MCL 141.427(4); and

WHEREAS, the City has requested the State Treasurer to further extend the date by which it must file its annual audit report for the fiscal year ended June 30, 2015 from March 31, 2016 to no later than May 31, 2016 pursuant to MCL 141.427(4); and

WHEREAS, the City has requested this Commission to similarly extend the date to file its annual audit report to no later than May 31, 2016.

NOW THEREFORE, be it resolved by the Detroit Financial Review Commission as follows:

1. That the Commission hereby consents to the extension of time for the City to complete and file its annual audit report for the fiscal year ended June 30, 2015 with the State Treasurer to no later than May 31, 2016; provided, however, that the State Treasurer grants such extension pursuant to MCL 141.427(4).
2. That the minutes of the Detroit Financial Review Commission meeting at which this Resolution is adopted take notice of the adoption of this Resolution.
3. This Resolution shall have immediate effect.

IN WITNESS WHEREOF, the members of the Commission, or their designees, have signed and adopted this Resolution.

DETROIT FINANCIAL REVIEW COMMISSION

By _____
Darrell Burks, Detroit Financial Review Commission
Member

By _____
Michael Duggan, Detroit Financial Review
Commission Member

By _____
Stacy Fox, Detroit Financial Review Commission
Member

By _____
Lorron James, Detroit Financial Review Commission
Member

By _____
Brenda Jones, Detroit Financial Review Commission
Member

By _____
Nick A. Khouri, State Treasurer and Detroit Financial
Review Commission Member

By _____
William Martin, Detroit Financial Review
Commission Member

By _____
John S. Roberts, Detroit Financial Review
Commission Member

By _____
Tony Saunders, Detroit Financial Review Commission
Member

Date: _____
Detroit, Michigan



CITY OF DETROIT
OFFICE OF THE CHIEF FINANCIAL OFFICER

COLEMAN A. YOUNG MUNICIPAL CENTER
2 WOODWARD AVE., SUITE 1100
DETROIT, MICHIGAN 48226
PHONE: 313-628-2535
FAX: 313-224-2135
WWW.DETROITMI.GOV

March 22, 2016

Mr. Nick Khouri, Treasurer
State of Michigan
Department of Treasury
P.O. Box 30716
Lansing, MI 48909

Dear Treasurer Khouri:

We are aware that the State of Michigan Uniform Budget and Accounting Act requires that an audit report shall be filed within 6 months after the fiscal year end of a local unit. The City of Detroit's most recent fiscal year ended on June 30, 2015. Accordingly, the audit report for the City was required to be filed by December 31, 2015. The Act also provides that the Chief Administrative Officer of a local unit may request an extension of the filing date from the State Treasurer, and the State Treasurer may grant the request for reasonable cause. As you know, we previously requested and you granted, an extension of time to file the audit report until March 31, 2016. While the City's Office of the Chief Financial Officer has made substantial progress in working with its independent auditor, KPMG, to conclude the audit for the fiscal year ended June 30, 2015, a further extension of time is necessary. Those responsible for preparation of City's Water and Sewer Funds and the Public Library have informed us that they are not in a position to finalize their financial statements and related audits. These financial statements are required elements of the City's Comprehensive Annual Financial Report. We previously made you aware of the delay in receiving audited financial statements from the City's General Retirement System and Police and Fire Retirement System. We are pleased to report that these reports were recently transmitted to the City and are being incorporated into the City's CAFR report for fiscal year 2015.

Based primarily upon the open audit reports from the Water and Sewer Funds and Public Library, we request a further extension of time to file the City's audit report until May, 31, 2016. We are closely monitoring the progress of the Great Lakes Water and Sewer Authority for the Water and Sewer Funds and the Detroit Public Library in the completion of the financial statements and related audits for the year ended June 30, 2015 and will make you aware of any further developments in that regard.

Sincerely,

Michael E. Duggan, Mayor
City of Detroit

John Hill, Chief Financial Officer
City of Detroit



Great Lakes Water Authority
Financial Services Group

Date: March 18, 2016

To: John Naglick, Jr., Chief Deputy CFO/Finance Director
City of Detroit

From: Nicolette Bateson, CPA, Chief Financial Officer
Great Lakes Water Authority

Re: Request for Extension - FY 2015 Audited Financial Report for the
City of Detroit Water & Sewerage Department

Request for Extension: The team assigned to the City of Detroit Water & Sewage Department (DWSD) year end close and audit has worked diligently to meet the March 31, 2016 issue date for the year ended June 30, 2015 audited financial report. However with respect to that portion of the report pertaining to the City's Water and Sewerage Department (DWSD), there have been a number of significant, time sensitive, and historic competing priorities occurring concurrently with the audit which have required staff attention¹. Given the current status, communication with the audit team, and prior experience with the process that results in an audited report, a 60 day extension to May 30, 2016 is proposed.

Rationale for the Length of the Extension: The timeline below was developed in preparing this request and can serve as a measure of our progress.

Week of:	3/21	3/28	4/4	4/11	4/18	4/25	5/2	5/9	5/16	5/23
Activity 1	Complete DWSD Only Closing and Audit Workpapers									
Activity 2	Coordination Citywide Year End Closing Matters									
Activity 3	Draft Financial Statements, Coordination with City Report, Revisions, Proofing									
Activity 4	Responding to Auditor Inquiries, Follow-up Analysis, Subsequent Events Review, and Meetings									
Activity 5	Final Report Processing & Printing									

This schedule includes activities within DWSD's control (i.e. staff and contracted resources to complete closing, workpaper, and report preparation activities) as well as items not within our control such as city wide matters (although the open items list is relatively short as it relates to DWSD) and the extent to which the external audit firm deems is appropriate audit testing, inquiry, quality control reviews and other tasks that one would expect an auditor to perform.

Staff and the auditors communicate many times on a daily basis. Should there a circumstance that threatens this timeline, the DWSD is committed to proactively remediating.

ⁱ DWSD concurrent priorities included but are not limited to:

Laying Foundation for the Future State - the Key and Appropriate Competing Priority: The same finance team responsible for the FY 2015 year end close and audit preparation was also key to delivering significant transformational activities and accomplishments over the course of the past nine months. These competing priorities had fixed due dates established by legal and/or contractual commitments. Missing those due dates would have had material financial and/or regional impacts as well as delay the much needed technology and business process changes to mitigate future delays in financial reporting. Those activities include the following.

Citywide Technology Projects – The March 2016 launch of the City of Detroit’s Oracle Cloud was dependent on significant finance staff engagement in design, testing, data cleansing and validation since January 2015. A recent example, with a direct impact on audit preparation, was the Asset Works physical asset inventory. The scope included eight locations and all fleet vehicles. The planning began last summer with the execution and validation phase engaging four finance team members for the better part of January 2016.

Stand-up of Great Lakes Water Authority (GLWA) and the “new DWSD Local System” – The operational launch of the two entities as of January 1, 2016 is a finance-intensive activity. Examples include:

- ✓ Kick-off of GLWA BS&A financial system on 12.21.2015 resulting in General Ledger, Purchasing, and other modules going live in late 2.2016. The first accounts payable check was written in early 3.2016 (critical to timely vendor payments).
- ✓ Kick-off of Ceridian/Dayforce Payroll, Human Resource, and Timekeeping project in August 2015 for GLWA with first pay date on 1.8.2016 for approximately 720 employees. This encompassed deductions for an entirely new benefits program approved by GLWA Board in 9.2015 based on open enrollment systems launched in late 10.2015.
- ✓ Required review and assignment of 400,000 capital assets to either GLWA or DWSD by launch of Oracle Fusion in early 2016. Allocation based upon lease agreements executed in 6.2015.

-
- ✓ Mapping and reassignment of **all** “old DWSD” contracts and purchase orders to either GLWA or DWSD and related accounting controls.
 - ✓ Utilizing an accounting workgroup to actively sort through implementation, accounting, and financial reporting decisions as it relates to the bifurcation of the water and sewer systems’ financial assets and liabilities as of January 1, 2016 in accordance with the lease and related agreements. Members include staff and advisors from City Finance, DWSD, and GLWA.
 - ✓ Concurrent intensive activities to draft DWSD/GLWA shared services agreement (executed in 12.2015), issue 11.2015 bondholder consent solicitation documents, 12.2015 refunding official statements, and numerous other financial and legal tasks to achieve the January 1, 2016 “Effective Date” for GLWA operations. All tasks were successfully completed in a timely manner.
 - ✓ Reallocation of existing financial staff between GLWA and “new DWSD” in late October 2015 to meet the unique needs of each entity. Resulted in immediate recruitment and on-ramping of additional talent from 11.2015 through 1.2016.

Reorganization plus New Technology = Significant Finance Team Change Management Effort –

Both the “old DWSD” optimization activities (emphasizing strong accountability) and new financial systems (improved and lean business processes) rely on a chart of accounts to carry out the business objectives. Within the past ten months, the finance staff has managed, developed, and rolled out four iterations of six sets of general ledger accounting strings.

1. DWSD as it was through 6.30.2015
2. DWSD “optimized” restructuring as of 7.1.2015
3. “New DWSD Local System” *and* GLWA independent standup as of 1.1.2016 (two sets)
4. Citywide Oracle Cloud for “New DWSD Local System” *and* GLWA BS&A launch on 3.7.2016 (two sets)



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

DETROIT FINANCIAL REVIEW COMMISSION

RESOLUTION 2016-4

APPROVING THE CITY’S MARCH 2016 CONTRACT REQUESTS

WHEREAS, Public Act 181 of 2014, the Michigan Financial Review Commission Act (the “Act”), allows for the creation of the Detroit Financial Review Commission (the “Commission”) within the Michigan Department of Treasury; and

WHEREAS, Section 6(1) of the Act empowers the Commission to provide oversight for the City of Detroit (the “City”) beginning on the Effective Date of the Plan of Adjustment; and

WHEREAS, Section 6(6) of the Act provides that during the period of oversight, the Commission review and approve the City’s applicable contracts, as defined by Section 3(a) of the Act, and that an applicable contract does not take effect unless approved by the Commission; and

WHEREAS, at the Commission meeting on March 28, 2016, the City presented applicable contracts, attached as **Exhibit A** to this Resolution, for the Commission’s review and approval.

NOW THEREFORE, be it resolved by the Detroit Financial Review Commission as follows:

1. That the City’s March 2016 contract requests, attached as **Exhibit A** to this Resolution but excluding any contracts a majority of Commission members present has agreed to exclude as noted in the minutes, are hereby approved.

2. The Detroit Financial Review Commission ("DFRC") is aware that the Detroit International Bridge Company ("DIBC"), the City, or others acting by, through or with them, must file one or more applications to obtain approval of an alleged conversion of property currently owned by the City of Detroit and described in a Land Exchange Agreement dated April 29, 2015 ("Agreement"). By considering and approving General Services Contract No. 2919697, the DFRC is not indicating, in any way, that Governor Snyder, the State of Michigan and/or any of its agencies or departments approves or disapproves of any aspect of the transactions contemplated in the Land Exchange Agreement dated April 29, 2015, including but not limited to the validity of the conveyances contemplated or the value of the property at issue. The DFRC considers and approves General Services Contract No. 2919697 subject to its expectation and directive that no party, including the City or DIBC, may rely upon the DFRC's decision to support any position with respect to the transactions contemplated in the Land exchange Agreement dated April 29, 2015. Provided, however, for the avoidance of doubt, nothing in the foregoing resolution shall limit, diminish or impair any rights of the City of Detroit, asserted on its own behalf or those acting by, through, or with it, arising from any source other than a claim based on any acts, omissions, statements or decisions made by the DFRC in connection with General Services Contract No. 2919697.
3. That the minutes of the Detroit Financial Review Commission meeting at which this Resolution is adopted take notice of the adoption of this Resolution.
4. This Resolution shall have immediate effect.

IN WITNESS WHEREOF, the members of the Commission, or their designees, have signed and adopted this Resolution.

DETROIT FINANCIAL REVIEW COMMISSION

By _____
Darrell Burks, Detroit Financial Review Commission
Member

By _____
Michael Duggan, Detroit Financial Review
Commission Member

By _____
Stacy Fox, Detroit Financial Review Commission
Member

By _____
Lorron James, Detroit Financial Review Commission
Member

By _____
Brenda Jones, Detroit Financial Review Commission
Member

By _____
Nick A. Khouri, State Treasurer and Detroit Financial
Review Commission Member

By _____
William Martin, Detroit Financial Review
Commission Member

By _____
John S. Roberts, Detroit Financial Review
Commission Member

By _____
Tony Saunders, Detroit Financial Review Commission
Member

Date: _____
Detroit, Michigan

CITY OF DETROIT CONTRACT SUBMISSION TO FINANCIAL REVIEW COMMISSION
THE FOLLOWING CONTRACTS ARE BEING SENT TO THE FRC FOR REVIEW AND APPROVAL PURSUANT TO
SECTION 6, SUBSECTION 6 OF THE MICHIGAN FINANCIAL REVIEW COMMISSION ACT
For March 28, 2016 Meeting

Prepared By: Boysie Jackson, Chief Procurement Officer - 3/22/2016

City Council and Water Board Approvals Through March 22, 2016

	Department	Contract Number	Description	Contract Request Type	Competitively Bid? If not a New contract, was the original contract competitively bid?	Lowest Bid? If not a New contract, was the original contract the lowest bid?	City Council Approval Date	Office of the Chief Financial Officer Approval Date	Comments
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CONTRACTS GREATER THAN \$750K

1	GENERAL SERVICES	2873972	Contract Amount: \$2,166,475.00 Contract Period: 8/26/13 through 8/26/16 Source: 100% City Funding Purpose: To Provide Security Guard Services at 36th District Court Madison Center Contractor: G4S Secure Solutions USA Inc. Location: 22670 Haggerty Road, St 101 Farmington Hills, MI 48335	Increase of Funds	Yes	Yes	3/1/2016	3/28/2016	This Amendment is to pay for bill settlement agreed upon by Emergency Manager.
2	GENERAL SERVICES	2919697	Contract Amount: \$2,970,000.00 Contract Period: Upon FRC Approval through 6/30/20 Source: 100% City Funding Purpose: Riverside Park Improvement Project Contractor: KEO & Associates, Inc. Location: 18286 Wyoming, Detroit, MI 48221	New	Yes	Yes	3/8/2016	3/28/2016	
3	INNOVATION AND TECHNOLOGY	2920152	Contract Amount: \$1,217,300.00 Contract Period: One Time Purchase Source: 100% City Funding Purpose: To Provide Server Hardware, Disk Storage and Storage Equipment Contractor: The OAS Group, Inc. Location: 22811 Mack Avenue, Suite L2, St. Clair Shores, MI 48080	New	Yes	Yes	3/8/2016	3/28/2016	
4	PUBLIC WORKS	2913640	Contract Amount: \$750,000.00 (Revenue-Reimbursement) Contract Period: Upon FRC Approval through 9/30/16 Source: 80% Federal, 20% Street Funding Purpose: To Provide General Operation, Communications, Equipment Management and System Management for the Traffic Management Center Contractor: Michigan Department of Transportation Location: P.O. Box 30050, Lansing, MI 48909	New	No (Inter-Governmental Agreement)	N/A	3/8/2016	3/28/2016	

CONTRACTS GREATER THAN 2 YEARS

5	Administrative Hearings	2919769	Contract Amount: Amount based on Return of Collections Contract Period: Upon FRC Approval through 6/30/2020 Source: Revenue Contract Purpose: To Provide Collections of Fines and Fees Contractor: Roosen, Varchetti & Olivier, PLLC Location: P.O. Box 2305, Mt. Clemens, MI 48046	New	Yes	Yes	3/22/2016	3/28/2016	Compensation for Services provided shall not exceed thirty-five percent (35%) of gross collections
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	Department	Contract Number	Description	Contract Request Type	Competitively Bid? If not a New contract, was the original contract competitively bid?	Lowest Bid? If not a New contract, was the original contract the lowest bid?	City Council Approval Date	Office of the Chief Financial Officer Approval Date	Comments
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DEPARTMENT OF WATER AND SEWERAGE CONTRACTS

CONTRACTS GREATER THAN \$750,000.00

			No Contracts Submitted for this Category						
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CONTRACTS GREATER THAN 2 YEARS

			No Contracts Submitted for this Category						
--	--	--	--	--	--	--	--	--	--

WITH 1 ENTITY, WITHIN 1 YEAR, GREATER THAN \$750K

			No Contracts Submitted for this Category						
--	--	--	--	--	--	--	--	--	--



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

DATE: March 24, 2016

TO: Financial Review Commission members

FROM: Ronald L. Rose, Executive Director
Steven C. Watson, Senior Analyst
Financial Review Commission

SUBJECT: FRC March 2016 City of Detroit Contracts Review

The City is requesting 5 contract approvals at the March 28, 2016 FRC Meeting. The following is a summary of the requests, which were reviewed by and discussed with the FRC Advisory Subcommittee on Contracts and Procurement. The various contract categories and funding sources are summarized in the tables below:

Contract Request Type	Count	Contract List Item #s	Competitively Bid? If not a New contract, was the original contract competitively bid?	Lowest Bid? If not a New contract, was the original contract the lowest bid?
New Contracts	3	2, 3, 5	Yes	Yes
New Contracts	1	4	No (Inter-Governmental Agreement)	N/A
Funds Increase	1	1	Yes	Yes

Funding Source	Count	Contract List Item #s	Total Dollar Amount
General Fund	2	1, 3	\$3,383,775 cost
Private Grant	1	2	\$2,970,000 cost
Federal Funds via MDOT (reimbursement agreement)	1	4	\$750,000 reimbursement to City for 80% of expenses
Other Revenue	1	5	TBD Contingency Fees based on Collections

Additional details about each contract are discussed below:

New Contracts

- Riverside Park Improvement Project through 6/30/2020 (item #2)
 - Contract supports completion of phases 1, 2, and 3 of the park improvement project (collectively, part 1 of the project)
 - Project costs are funded by private grant contribution
 - Phase 4 (part 2 of the project) is not included at this time as funding and authorization are contingent upon separate actions

- Server, Hardware, Disk Storage, and Storage Equipment (item #3)
 - One-time purchase supports increase in network and storage demand following separate technology upgrades
 - Funding budgeted as part of citywide restructuring projects

- Funding agreement between the City and Michigan Department of Transportation (MDOT) for Traffic Management Center through 9/30/2016 (item #4)
 - MDOT will reimburse the City from federal funds for 80% of the costs incurred for operations of the Traffic Management Center, which is provided under a separate service contract with Motor City Electric through 9/30/2017
 - The remaining 20% of the costs are supported by the City's Street Fund
 - State reimbursement after 9/30/2016 will require a new funding agreement or extension

- Collections Services for Delinquent Blight Violation Fines through 6/30/2020 (item #5)
 - City is contracting with a law firm to handle standard collections, negotiations, and court actions seeking judgments through garnishment, levy or liens
 - Contract is paid on a contingency basis (35% of gross collections from delinquent accounts)

Funds Increases

- Security Guard Services at 36th District Court Madison Center funding increase (item #1)
 - Costs exceeded original contract due to reassignment of police officers to posts outside the court, who were replaced by these security guards in the court, in 2013
 - Contract expires 8/26/2016 and will be re-bid based on the new security services needs
 - Funding sources include General Fund operating and restructuring appropriations

RLR/SCW



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

DETROIT FINANCIAL REVIEW COMMISSION

RESOLUTION 2016-5

**APPROVING THE CITY’S MARCH 2016 FISCAL YEAR 2016 BUDGET
AMENDMENT REQUEST**

WHEREAS, Public Act 181 of 2014, the Michigan Financial Review Commission Act (the “Act”), allows for the creation of the Detroit Financial Review Commission (the “Commission”) within the Michigan Department of Treasury; and

WHEREAS, Section 6(1) of the Act empowers the Commission to provide oversight for the City of Detroit (the “City”) beginning on the Effective Date of the Plan of Adjustment; and

WHEREAS, Section 7(c) of the Act provides that during the period of oversight, the Commission review, modify, and approve the City’s proposed and amended operational budgets and that a proposed budget or budget amendment does not take effect unless approved by the Commission; and

WHEREAS, Section 6(3) of the Act further requires the Commission to ensure that the City complies with the requirements of the Uniform Budgeting and Accounting Act; and

WHEREAS, the Uniform Budgeting and Accounting Act prevents the City from deviating from its original general appropriations act without amending it and requires the City to amend its general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined; and

WHEREAS, at the Commission meeting on March 28, 2016, the City presented a fiscal year 2016 budget amendment request, attached as **Exhibit A** to this Resolution, for the Commission's review and approval.

NOW THEREFORE, be it resolved by the Detroit Financial Review Commission as follows:

1. That the City's March 2016 fiscal year 2016 budget amendment request, attached as **Exhibit A** to this Resolution, is hereby approved.
2. The Detroit Financial Review Commission ("DFRC") is aware that the Detroit International Bridge Company ("DIBC"), the City, or others acting by, through or with them, must file one or more applications to obtain approval of an alleged conversion of property currently owned by the City of Detroit and described in a Land Exchange Agreement dated April 29, 2015 ("Agreement"). By considering and approving the City's March 2016 fiscal year 2016 budget amendment request in connection with General Services Contract No. 2919697, the DFRC is not indicating, in any way, that Governor Snyder, the State of Michigan and/or any of its agencies or departments approves or disapproves of any aspect of the transactions contemplated in the Land Exchange Agreement dated April 29, 2015, including but not limited to the validity of the conveyances contemplated or the value of the property at issue. The DFRC considers and approves the City's March 2016 fiscal year 2016 budget amendment request in connection with General Services Contract No. 2919697 subject to its expectation and directive that no party, including the City or DIBC, may rely upon the DFRC's decision to support any position with respect to the transactions contemplated in the Land

exchange Agreement dated April 29, 2015. Provided, however, for the avoidance of doubt, nothing in the foregoing resolution shall limit, diminish or impair any rights of the City of Detroit, asserted on its own behalf or those acting by, through, or with it, arising from any source other than a claim based on any acts, omissions, statements or decisions made by the DFRC in connection with the City's March 2016 fiscal year 2016 budget amendment request in connection with General Services Contract No. 2919697.

3. That the minutes of the Detroit Financial Review Commission meeting at which this Resolution is adopted take notice of the adoption of this Resolution.
4. This Resolution shall have immediate effect.

IN WITNESS WHEREOF, the members of the Commission, or their designees, have signed and adopted this Resolution.

DETROIT FINANCIAL REVIEW COMMISSION

By _____
Darrell Burks, Detroit Financial Review Commission
Member

By _____
Michael Duggan, Detroit Financial Review
Commission Member

By _____
Stacy Fox, Detroit Financial Review Commission
Member

By _____
Lorron James, Detroit Financial Review Commission
Member

By _____
Brenda Jones, Detroit Financial Review Commission
Member

By _____
Nick A. Khouri, State Treasurer and Detroit Financial
Review Commission Member

By _____
William Martin, Detroit Financial Review
Commission Member

By _____
John S. Roberts, Detroit Financial Review
Commission Member

By _____
Tony Saunders, Detroit Financial Review Commission
Member

Date: _____
Detroit, Michigan

CITY OF DETROIT BUDGET AMENDMENTS					
THE FOLLOWING BUDGET AMENDMENTS ARE BEING SENT TO THE FRC FOR REVIEW AND APPROVAL PURSUANT TO					
THE MICHIGAN FINANCIAL REVIEW COMMISSION ACT					
FOR MARCH 28, 2016 MEETING					
Grant Budget Amendments					
No.	Department	Grantor	Brief Description	Budget Amendment Amount	Appropriation No.
1	Recreation Dept.	Detroit International Bridge Company	To complete renovations at Riverside Park	5,000,000.00	14106