Citizens Research Council of Michigan

CRC

Detroit City Government Revenues

April 2013

Report 382

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CITIZENS RESEARCH COUNCIL OF MICHIGAN

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Detroit City Government Revenues

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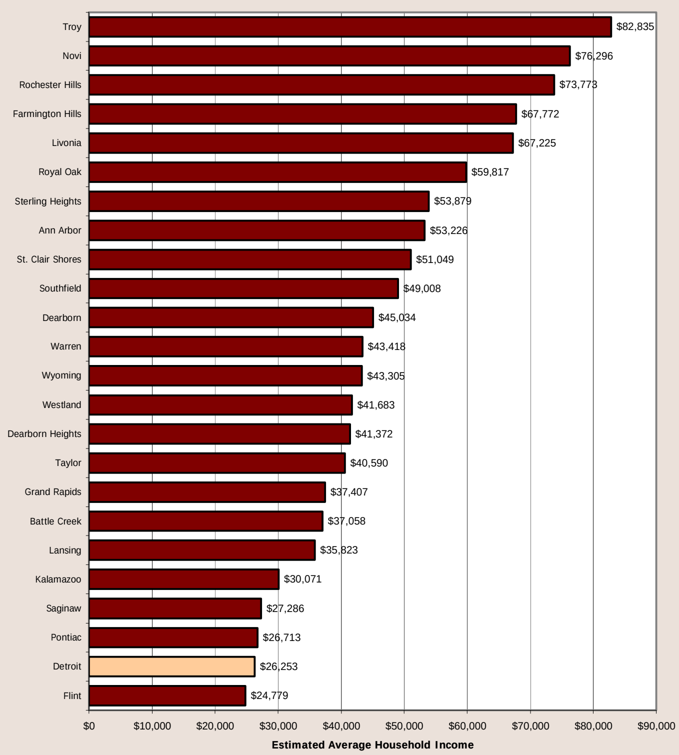
Summary

This report on Detroit city government analyzes the tax and other revenues available to the city to provide essential public services and to address the many serious financial challenges facing the government. This report is part of a series focused on the City of Detroit municipal government, and prompted by the state and city governments responses to the city's repeated narrowly averted cash crises and by the growth of the city's accumulated general fund deficit from $196.6 million at June 30, 2011 to $326.6 million at June 30, 2012.

Municipal revenues are based primarily on taxing property value and economic activity, on charging for services and goods, on borrowing, and on receiving money from the state and federal governments. As the economic base of the city has dwindled, the city government's ability to raise revenues has been reduced, and the city's finances have become more precarious.

The Detroit city government uses revenue from local taxes, state shared taxes, operations, grants, borrowing, and other sources to support a variety of direct and indirect services to residents. In general, as revenues increase, the municipal government is able to provide additional services; as revenues decrease, services must be cut back. In the case of Detroit, which used to be a much larger city with many more municipal employees, legacy costs associated with former employees (there are more than twice as many retirees as active employees) and already earned by active employees, as well as debt service on money borrowed in the past to pay for operating costs, must be paid regardless of the city's shrinking income. Some revenues are "dedicated," and may be used only for specific purposes, while other revenues may be used for any city government activity that is approved in the budget.

Chart A
Average Household Income for Michigan Cities over 50,000 Population, 2009-2011



Source: US Census Bureau, American Community Survey

In assessing the causes of, and solutions to Detroit's fiscal problems, it is important to closely examine the city government's revenue structure. This report provides a comprehensive look at the sources of the city's revenues, how these revenues have changed over time, and how Detroit's revenues and tax burden compare to other large cities in Michigan.

High Service Needs

Detroit is in many ways unique in Michigan. Detroit is a geographically large city, covering 139 square miles. It is by far the most populous city in the state, with a 2010 population of 713,777. Detroit has experienced significant population loss (from 1.8 million residents in 1950), concentrating its legacy costs on an ever decreasing number of taxpayers. Many Detroit residents have low incomes, and residents may be looking to the city to provide enhanced services such as public transportation or human services, while there may be less demand for these services in more affluent areas. Detroit has the second lowest average household income of the 24 Michigan cities of over 50,000 in population. While the extent to which having low income residents leads to fiscal stress is unclear, it is worth noting that both Flint and Pontiac, which bracket Detroit in **Chart A**, are under the administration of state appointed receivers.

Municipal Tax Revenues

Property Taxes

Detroit levies an ad valorem property tax, as do most local governments in Michigan. The city levies property taxes to fund general operations (19.9520 mills) and to support unlimited tax debt (9.6136 mills). Detroit residents also pay property taxes to a number of additional entities including the Detroit Public Library, Detroit Public Schools, Wayne County, Wayne County Community College, a number of special authorities, and the State of Michigan. The total tax rate on homeowners in Detroit is 67.5159 mills, while the rate on non-homestead (business) property is 85.3467 mills. Detroit residents face the highest property tax rate of any city in Michigan with a population over 50,000, but much of the property tax paid by Detroit residents does not support city services, and instead supports the other entities listed above.

While Detroit's property tax rate of 19.9520 mills for general operations is close to the statutory maximum of 20 mills, Detroit has the third lowest per capita taxable value of Michigan's largest cities. As a result, Detroit's property tax revenue per capita tends to be modest compared to other large cities in Michigan, ranking 18th highest of the 24 largest cities. The general operating levy on the ad valorem tax roll is $156.1 million in FY2013. The levy for debt service is $80.8 million (See **Chart B**).

Taxable value in Detroit declined by $1.6 billion from 2008 to 2012. Although the 15.8 percent decline in Detroit's taxable value between 2008 and 2012 was a smaller percentage than the reduction in taxable value in 18 of the 24 largest cities in Michigan, collection rates declined from 92.64 percent in 2008 to 83.68 percent in 2012.

Income Taxes

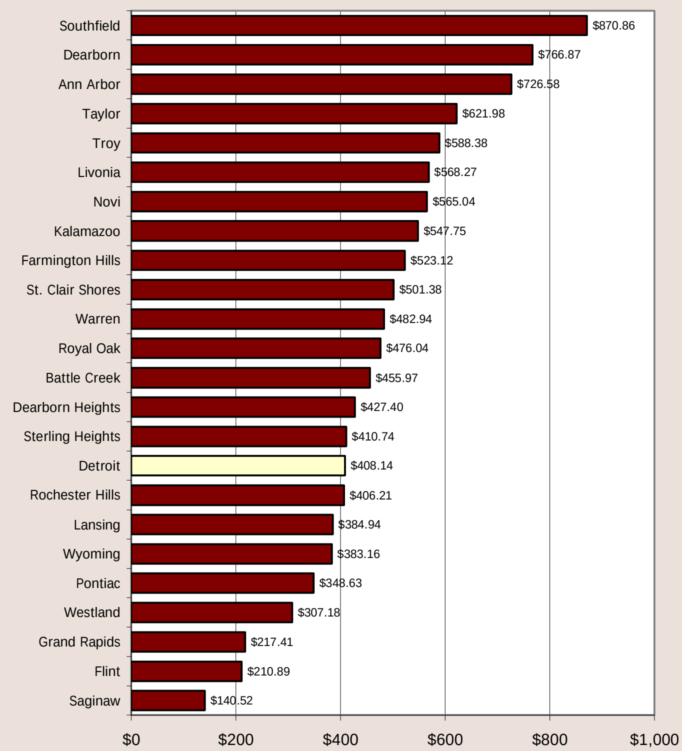
Detroit is one of 22 Michigan cities that levy an income tax. Detroit's city income tax rate is the highest among Michigan cities at 2.4 percent for residents and 1.2 percent for nonresidents. The corporate rate is 2.0 percent. Detroit city income tax revenues totaled $323 million in FY 2002. Declining employment and rate cuts have reduced the yield of the income tax. Detroit's income tax is projected to be $228 million in FY 2013, a decline of almost 30 percent from FY 2002.

Utility Users Tax and Casino Wagering Tax

Detroit levies two taxes that are unique among Michigan cities. Detroit levies an excise tax of 5 percent on utility users. The utility users' excise tax produced $39.8 million in 2012 and is budgeted at $42.0 million in FY 2013 (this is down from $55.3 million in FY 2003). These revenues had previously been pledged to pay for police officers, but recent legislative changes allow a portion of the revenues to be dedicated to efforts to improve the street lighting system.

Detroit is the home to 3 casinos, the only non-tribal casinos in Michigan. The city levies a tax of 10.9 percent of gross wagering at the casinos. This tax and the associated casino percentage payment generated $181.4 million in 2012 and are projected to raise $171 million in FY 2013. The opening of four new casinos in Ohio may negatively impact the receipts from the casino gaming tax.

Chart 12
City Property Tax Revenues per Capita Levied in Michigan Cities over 50,000 Population, 2011



Revised April 8, 2013

* Excludes 6-mill State Education Tax

Source: Michigan Department of Treasury, 2011 Ad Valorem Property Tax Report; CRC Calculations

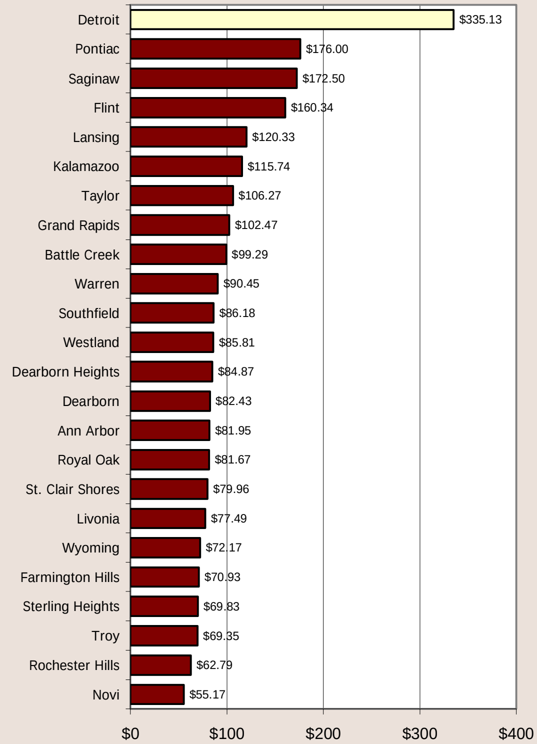
Revenue Sharing

Detroit receives unrestricted aid from the state consisting of a portion of sales tax revenues constitutionally dedicated for per capita payments and another portion statutorily dedicated for economic vitality incentive payments (EVIP). The state's revenue sharing program has been reduced significantly in recent years. Constitutional revenue sharing has grown from $643 million in FY 2001 to $707.5 million in FY 2012. The amount of statutory revenue sharing that the state has appropriated has fallen from $912.7 million in FY 2001 to $209.7 million in FY 2012.

The amount of revenue sharing received by Detroit in total from both components of this program has declined from $333.8 million in FY 2002 to a $172.7 million in FY 2012. Thus, in FY 2012, the city received $161.1 million less in revenues for general operations from this source than it did a decade ago.

Detroit has always received a large share of statutory revenue sharing payments and thus was significantly impacted when this program was cut. While Detroit receives 7.2 percent of constitutional revenue sharing, the city currently receives 58 percent of the EIVP payments. For constitutional and statutory payments in total, Detroit receives the highest share by far on a per capita basis. In FY2010, the combined revenue sharing payment to Detroit of $353 on a per capita basis was double the payment received by Pontiac ($176) on a per capita basis (See **Chart C**).

Chart C
Per Capita State Revenue Sharing Payments to Michigan Cities over 50,000 Population, State Fiscal Year 2010



Source: Michigan Department of Treasury

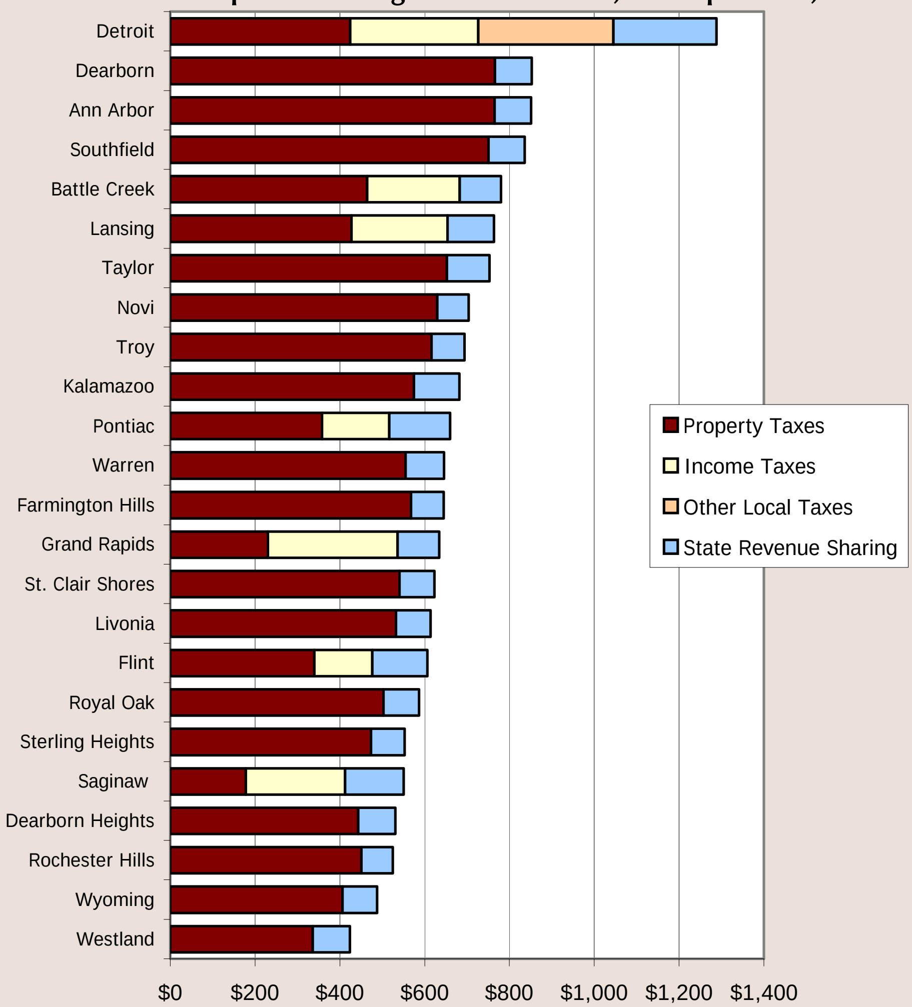
Total Revenues

Detroit's revenues from taxes and state shared revenues, are much higher than those of any other large Michigan city on a per capita basis. In FY2010, Detroit raised $1,289 per capita from its property tax, income tax, utility users' tax, casino wagering tax, and state shared revenues. This ranked first among the largest cities in Michigan, and was 50 percent higher than Dearborn, which ranked second (See **Chart D**).

While Detroit does raise more on a per capita basis than other large Michigan cities, Detroit's revenues have been declining. In FY2012, total revenues from Detroit's major taxes, state shared revenues, and other sources totaled $1,523.6 million. This total was down from $1,947.5 million in FY2002, a decline of over $400 million (22 percent).

While the decline in Detroit's revenues creates profound budget challenges for the city, Detroit is currently levying all of its taxes at the statutory maximum.[1] There are potentially opportunities to increase city revenues through better collection of delinquent property taxes and the increased collection of income taxes owed by nonresidents. Detroit does face far more substantial problems than many other Michigan cities, including population loss, legacy costs, and the decline of the economic base. However, it must also be recognized that Detroit generates significantly more revenue on a per capita basis than any other large city in Michigan. Detroit's tax rates are high compared to other cities in Michigan and other cities across the U.S. The combination of these factors means that the ability of the city to generate additional revenues as a means of resolving its current budget crisis will be extremely limited.

Chart D
Major Revenues Per Capita in Michigan Cities over 50,000 Population, 2010



Sources: U.S. Census Bureau, Michigan Department of Treasury; CRC Calculations

[1] Detroit's property tax rate is currently slightly below the statutory maximum of 20 mills due to the effects of Headlee rollbacks.

Detroit City Government Revenues

Introduction

This report on Detroit city government analyzes the tax and other revenues available to the city to provide essential public services and to address the many serious financial challenges facing the government. This report is part of a series focused on the City of Detroit municipal government, and prompted by the state and city governments' responses to the city's repeated narrowly averted cash crises and by the growth of the city's accumulated general fund deficit from $196.6 million at June 30, 2011 to $326.6 million at June 30, 2012. As the state and city governments continue their efforts to find effective solutions to intractable city problems,[1] this analysis of the revenues that support Detroit city government may be helpful. Other reports in this series describe legacy costs and indebtedness of the city, the accounting and operational structure of the city government, and city government expenditures.

This report finds the following with respect to the revenues of Detroit city government:

1. Detroit's revenues from taxes and state shared revenues are much higher than those of any other large Michigan city on a per capita basis. In FY 2010, Detroit raised $1,289 per capita from its property tax, income tax, utility users' tax, casino wagering tax, and state shared revenues. This ranked first among the largest cities in Michigan, and was 50 percent higher than Dearborn, which ranked second.

2. While Detroit does raise more on a per capita basis than other large Michigan cities, Detroit's revenues have been declining. In FY 2012, total revenues from Detroit's major taxes, state shared revenues, and other sources totaled $1,523.6 million. This total was down from $1,947.5 million in FY 2002, a decline of over $400 million (22 percent).

3. Detroit is in many ways unique in Michigan. Detroit is a geographically large city, covering 139 square miles. It is by far the most populous city in the state, with a 2010 population of 713,777. Detroit has experienced significant population loss (from 1.8 million residents in 1950), concentrating its legacy costs on an ever decreasing number of taxpayers.

4. Many Detroit residents have low incomes, and residents may be looking to the city to provide enhanced services such as public transportation, human services, or policing while there may be less demand for these services in more affluent areas. Detroit has the second lowest average household income of the 24 Michigan cities of over 50,000 population. While the extent to which having low income residents leads to fiscal stress is unclear, it is worth noting that both Flint and Pontiac, which bracket Detroit in terms of cities with the lowest income, are under the administration of state-appointed receivers.

A discussion of Detroit, or of any city, generally focuses on only one aspect of the city; reports by public policy organizations such as CRC nearly always focus on the finances or organization of the governmental unit. But Detroit is more than just its municipal government. It is 700,000 residents (seven percent of the state population), thousands of businesses, and hundreds of thousands of nonresident visitors. It is thousands of formal organizations and informal groups. It is homes and commercial, industrial, cultural, sports, and other structures, roads and public infrastructure that comprise the built environment. It includes the land, air and water within the city's 139 square miles. All of these aspects of the city are interconnected, but some are struggling while others are flourishing.

5. The amount of state revenue sharing received by Detroit has declined from $333.8 million in FY 2002 to a $172.7 million in FY 2012. Thus, in FY 2012, the city received $161.1 million less in revenues for general operations from this source than it did a decade ago. However, while Detroit's revenue sharing payments have declined sharply, on a per capita basis, Detroit's revenue sharing payments are far higher than any other large city in Michigan.

6. Finally, Detroit does face far more substantial problems than many other Michigan cities, including population loss, legacy costs, and the decline of the economic base. However, it must also be recognized that Detroit generates significantly more revenue on a per capita basis than any other large city in Michigan. Detroit's tax rates are high compared to other cities in Michigan and other cities across the U.S. The combination of these factors means that the ability of the city to generate additional revenues as a means of resolving its current budget crisis will be extremely limited.

The state's initial intervention in the city's financial management under the now repealed Public Act 4 of 2011 resulted in the adoption of a consent agreement (the "financial stability agreement") with poorly defined performance criteria. On March 1, 2013, Governor Rick Snyder announced that a second review team had determined that a financial emergency existed in Detroit city government. On March 14, 2013, after confirming his determination of a financial emergency, the Governor announced the appointment of Kevyn Orr as the Emergency Financial Manager, with extraordinary powers to manage the city's finances and operations. That Emergency Financial Manager obtained expanded powers when PA 436 of 2012 took effect on March 28, 2012.

Municipal revenues are based primarily on taxing property value and economic activity, on charging for services and goods, on borrowing, and on receiving money from the state and federal governments. As the economic base of the city has dwindled, the city government's ability to raise revenues has been reduced, and the city's finances have become more precarious.

The Detroit city government uses revenue from local taxes, state shared taxes, operations, grants, borrowing, and other sources to support a variety of direct and indirect services to residents. In general, as revenues increase, the municipal government is able to provide additional services; as revenues decrease, services must be cut back. In the case of Detroit, which used to be a much larger city with many more municipal employees, legacy costs associated with former employees (there are more than twice as many retirees as active employees) and already earned by active employees, as well as debt service on money borrowed in the past to pay for operating costs, must be paid regardless of the city's shrinking income. Some revenues are "dedicated," and may be used only for specific purposes, while other revenues may be used for any city government activity that is approved in the budget.

Local governments may impose only those taxes that are allowed in the state constitution and in state statute. Article VII, Section 21 of the Michigan Constitution states that:

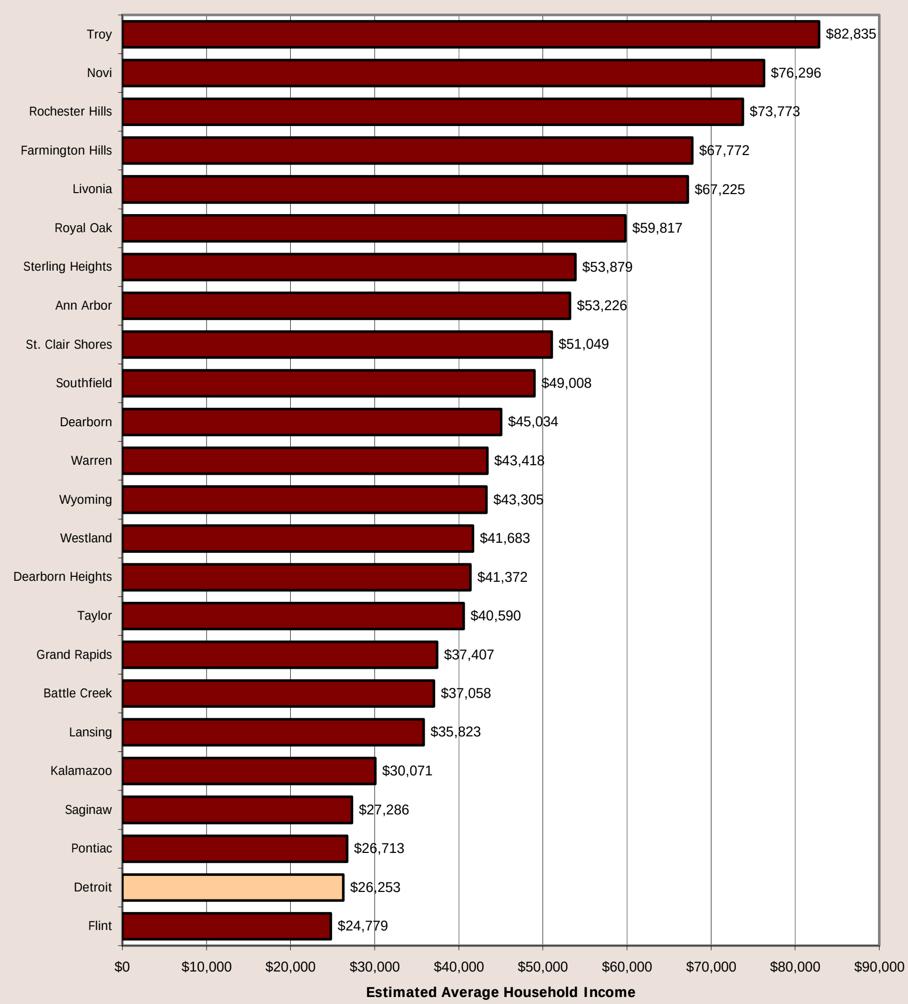
> The legislature shall provide by general laws for the incorporation of cities and villages. Such laws shall limit their rate of ad valorem property taxation for municipal purposes, and restrict the powers of cities and villages to borrow money and contract debts. Each city and village is granted power to levy other taxes for public purposes, subject to limitations and prohibitions provided by this constitution or by law.

High Service Needs

Detroit officials have for decades argued that the city needs more revenues than other Michigan cities to provide services needed by residents. Detroit is a geographically large city, covering 139 square miles. It is by far the most populous city in the state, though its population declined from 1.8 million in 1950 to 713,777 in 2010. Many Detroit residents have low incomes, and residents may be looking to the city to provide enhanced services such as public transportation or human services, while there may be less demand for these services in more affluent areas. Detroit has the second lowest average household income of the 24 Michigan cities of over 50,000 population. While the extent to which having low income residents leads to fiscal stress is unclear, it is worth noting that both Flint and Pontiac, which bracket Detroit in **Chart 1**, are under the administration of state-appointed receivers.

In addition to being a geographically large city with a shrinking and increasingly poor population, Detroit has retained city government's control of a number of functions that are provided by regional authorities in most other metropolitan areas. These include the general fund-subsidized bus system and the self-supporting, regional water and sewerage system. The city has also provided services that are typically provided by county government (public health) or nonprofit organizations (workforce development, various human services) and which historically have been wholly or primarily grant funded; the Fiscal Year 2012-13 (FY2013) budget includes the transfer of these functions to specially created authorities and other entities as the city government seeks to right size, focus on core activities, and reduce costs.

Chart 1
Average Household Income for Michigan Cities over 50,000 Population, 2009-2011



Source: US Census Bureau, American Community Survey

Diversified Tax Structure

Detroit officials have been successful in obtaining state legislation allowing the city to impose more taxes, and higher rates of taxes, than other cities in the state. As Detroit's property tax base failed to grow sufficiently to support desired city services and the city government experienced periodic fiscal crises, additional taxes were imposed: municipal income tax in 1962; utility users' excise tax in 1970; casino wagering in 1996. All general purpose local governments in Michigan are authorized to impose a property tax. Only cities may impose a municipal income tax, and 22 have adopted this revenue source, though none at a rate as high as Detroit's. Only Detroit is authorized to impose a utility users' excise tax and a casino wagering tax. Thus, Detroit has both a more diversified tax structure and a larger tax burden on its predominantly low income residents than any other location in the state. Other than a very small "Headlee rollback"[2] in the property tax rate, Detroit is imposing all of the taxes, at the highest rates, allowed by law. There is no state authority for the city to increase tax rates (other than restoring the 20 mill operating levy by a Headlee override, which requires a vote of the people) or to impose new taxes: recent proposals to submit to the city's voters an increase in the property tax rate to support public safety are not supported by enabling legislation and any such tax would be illegal. While an Emergency Manager may place a tax proposal on the ballot, there must be state authorization for that tax. Other than a Headlee override, any new taxes, increased tax rates, or expansion of the tax base would require new state enabling legislation as well as approval of Detroit voters.

The Detroit city government also earns money through various activities: issuing licenses and permits; inspection charges; imposing fines, forfeits, and penalties; use of assets; charges for services; sales of assets; and other means. An Emergency Manager does have the authority to increase fees and charges for service. He is also authorized to sell assets, provided that the sale of the asset does not endanger the health, safety, or welfare of residents or unconstitutionally impair a bond, note, security, or uncontested legal obligation of the city.

Detroit receives constitutionally mandated state revenue sharing on a per capita basis and a traditionally disproportionately large share of statutory state revenue sharing (now converted to the Economic Vitality Incentive Program). The city government also receives other grants from the state and federal governments for specific purposes.

The city has borrowed money for a variety of purposes, including deficit reduction and certain other operating purposes, as well as major maintenance and construction of infrastructure. An Emergency Manager is empowered to authorize and approve or disapprove borrowing.

Municipal Tax Revenues

Property Tax

Nearly all local governments[3] in Michigan levy a property tax. Property taxes are measured in mills (one thousandth of a dollar), which are applied to the property tax base, called "taxable value" in Michigan. The number of mills multiplied by the taxable value equals the tax levy. Article IX, Section 3 of the Michigan Constitution limits annual growth in taxable value per parcel to the lesser of five percent or the rate of inflation. "State equalized value" (SEV) or assessed value is no more than 50 percent of market value; when ownership is transferred, the taxable value is reset to state equalized value.

Property taxes in Detroit may be used to support General City operations such as police, fire, courts, public lighting, recreation, staff departments, departments headed by elected officials, and legislative departments, and may be used for debt service on limited tax general obligation debt. Separate property tax levies are assessed for voter approved, unlimited tax debt service and for the operation of the Detroit Public Library.

Detroit's property tax base consists of residential, commercial, industrial, and personal property. An analysis of the property tax base is illustrative of many issues facing the city government.

Detroit's 139 square miles includes a number of distinct neighborhoods. While the economic prospects of Downtown, Midtown, and a few selected areas benefit from corporate, foundation, and individuals' interest and investment, many of the city's residential neighborhoods and commercial corridors are struggling.

Michigan constitutional provisions (Proposal A and Headlee), designed to protect property taxpayers, ensure that even if the value of real and personal property recovers at rates that exceed the lesser of five percent or the rate of inflation, property tax revenues will recover more slowly.

Residential Property

Declining population resulted in excess housing units, and because Detroit is primarily a city of single family, detached houses, the blighting effect of vacancies has been very obvious in residential neighborhoods. As city property values declined relative to suburban property values, investors purchased cheap houses to rent to poor families (the homeownership rate in the 2006 to 2010 period was 54.5 percent, compared to 74.2 percent for the state). Poor families moved into previously middle class neighborhoods; poorer sections of the city became more sparsely populated. As a result of tax foreclosures, the city government owns tens of thousands of parcels scattered throughout the city (the county and state also own tax foreclosed properties in Detroit: there are about 66,000 publicly owned parcels in the city).[4]

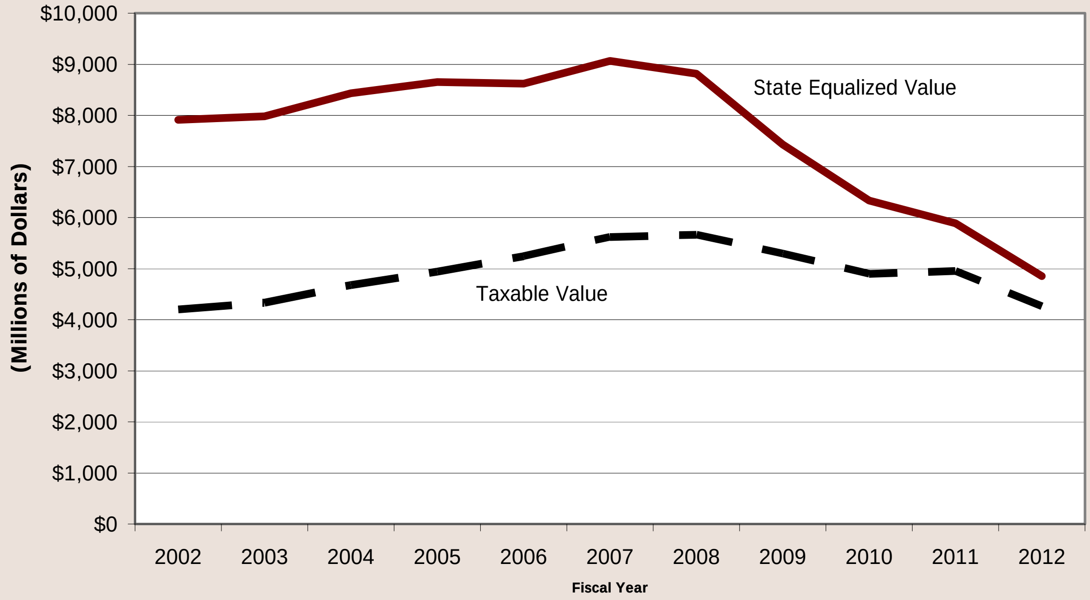
Ironically given Detroit's chronic housing shortages in the early 20th Century and the blight that developed later, the surplus of housing may actually have slowed the population decline after 1960 by providing relatively cheap housing for an increasingly poor population. But the factors that can contribute to people being poor – educational, health, behavioral, and other problems; racism and discrimination – can also contribute to increasing social distress, greater demands on municipal government, and further neighborhood decline.

The assessed value of residential property on the ad valorem tax roll peaked at $9.1 billion in FY2007, just prior to the national collapse of the housing market. Between FY2007 and FY2012, the assessed value of residential property declined by $4.2 billion or 46.5 percent (assessed value is 50 percent of market value, so the loss of market value was $8.4 billion). The loss of taxable residential value was $1.4 billion, or 24.6 percent between FY2008 and FY2012. (See **Chart 2**.)

Residential Vacancies

The 2000 census reported that 38,668 (10.3 percent) of the 375,096 housing units in the city were

Chart 2
Assessed and Taxable Value of Residential Property in Detroit (in Thousands)



Source: FY2011 and FY2012 CAFRs

vacant. The foreclosure crisis accelerated the loss of households: the 2010 census reported that 79,725 (22.8 percent) of 349,170 housing units were vacant. The October 8, 2012 discussion document prepared by the city administration for the financial advisory board includes an estimate of 78,000 vacant structures, of which 38,779 are classified as dangerous (page 59). This report defines a vacant structure as an unoccupied unit classified by the U.S. Postal Service as not having mail collection for 90 days or longer. That report noted that, of the 10,000 dangerous structures the administration had promised to demolish by December, 2013, 5,200 had been demolished, and that the average cost to demolish a residential structure was $8,535.

In spite of the huge net population loss and widespread vacancies, there were permits issued for 551 new residential units in 2010 and 488 new units in 2011. Those moving into new units may not have moved into the city, or stayed in the city, unless that new housing was available. Indeed, there have been reports of shortages of available high quality housing units in targeted areas such as Downtown and Midtown.

Demolition

While some major buildings have been converted to new uses including apartments and lofts or restored to their original use, demolition of vacant buildings became an increasingly important city responsibility during the 20 years that Coleman Young was mayor (1974-1993), and remains an important goal of the current city administration. Mayor Dave Bing promised that 10,000 dangerous buildings would be demolished during his first term of office (the goal for the summer of 2012 was 1,600), but there are an estimated 34,000 to 38,000 buildings that have been designated as requiring demolition or are in some stage of demolition. The financial stability agreement between the city and state includes "demolition of structures" as a part of the city's operational reform program (Annex B) and "streamline, coordinate and accelerate demolition activities in the city" as supportive activities of the Treasury Department and state (Annex E).

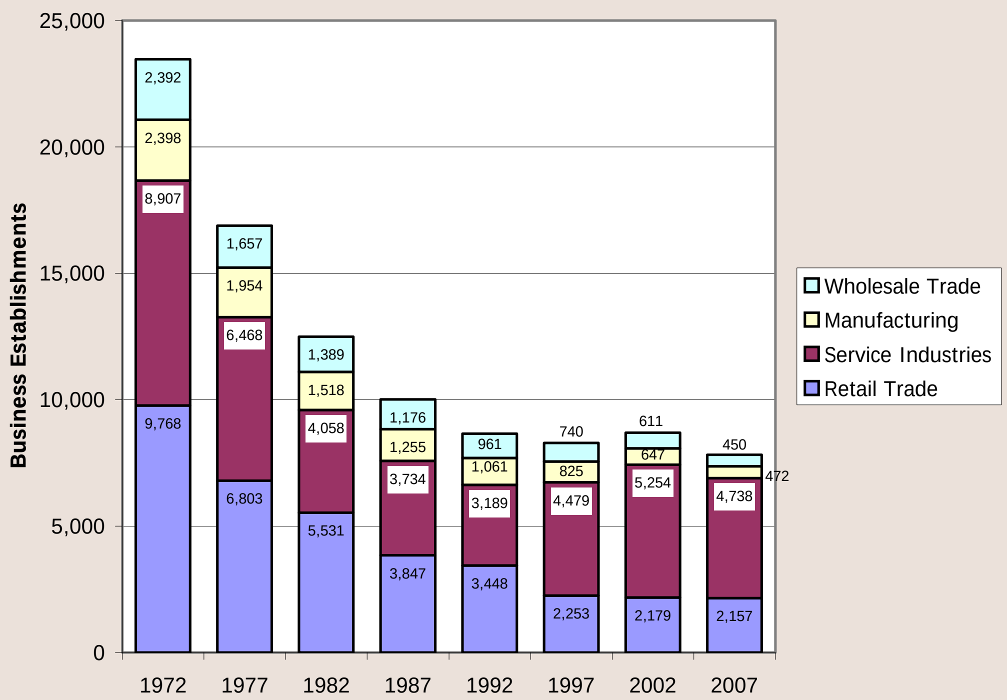
Congress passed the Housing and Economic Recovery Act of 2008 as a response to the national subprime lending and foreclosure crisis. Funding under the act was intended to address the impact of foreclosures, foster market recovery, and stabilize neighborhoods. In its application for Neighborhood Stabilization Program funds, the City of Detroit noted that there were over 67,000 foreclosed properties in the city (based on 2006 and 2007 data), 65 percent of which remained vacant (not all vacant housing units are tax or bank foreclosed). The city government and the Michigan Land Bank together received nearly $43 million from the 2010 federal program for demolition and neighborhood redevelopment in Detroit. The Detroit Planning and Development Department's plan for the use of the grant funds states that "It is important to note the strong focus on demolition activity in the plan, which accounts for approximately 30% of the total award amount. Due to the number of vacant properties, duration of vacancy and the market conditions, eliminating blighted structures in the target neighborhoods for future development or alternative land uses will have a tremendous stabilizing effect. Priorities for demolition will include structures adjacent to development projects nearing completion, and concentrations of blighted, vacant properties." Unfortunately, the city government struggled to actually spend those funds and the federal government warned that money that remained unspent after February, 2013 would have to be returned.

Commercial and Industrial Property

At the same time that housing units were emptying, the loss of businesses created vacancies in commercial, office, and industrial spaces ranging from small storefronts to massive factories. The Census of Economic Activity records the decline in the number of business establishments in Detroit at five-year intervals (See **Chart 3**).

The Michigan Welfare Rights Organization in Detroit has provided welfare recipients with lists of addresses of bank-foreclosed houses and advised individuals facing homelessness to move into one of those bank-owned houses. Banks are forced to pursue lawsuits to remove squatters.

Chart 3
Business Establishments in Detroit



Source: U.S. Census Bureau; reported as "City of Detroit-History of Economic Activity," 2010 DPOA Act 312 Arbitration

Table 1 shows the ten largest property taxpayers in Detroit in 2012 accounted for just over 20 percent of the $8.4 billion of taxable value in the city.

Some neighborhoods are seeing an increase in retail establishments, but empty commercial and industrial property can be found throughout the city. There are an estimated 50 vacant office buildings in downtown alone. Many of the structures have been vacant for years, and prices are far cheaper than new construction.

In FY2012, the assessed value of commercial property was half that of residential property; the assessed value of industrial property was about 12 percent of residential property.

From FY2008 to FY2012, the assessed value of commercial real property declined by $348.8 million, or 12.6 percent, while the taxable value declined from FY2008 through FY2010, then reached a high point in

Table 1
Taxable Value of the Ten Largest Property Taxpayers in Detroit in 2012 (Dollars in Millions)

Taxpayer	Taxable Value	Percentage of Total City Taxable Value
Marathon Oil Company	$329.3	3.90%
Detroit Edison Company	294.6	3.49
Vanguard Health Systems - Hospitals	252.6	2.99
Chrysler Group LLC	222.9	2.64
MGM Grand Detroit LLC	212.0	2.51
Riverfront Holdings Inc.	112.2	1.33
Michigan Consolidated Gas Co.	87.1	1.03
Greektown Casino LLC	74.8	0.89
Detroit Entertainment LLC	64.8	0.77
General Motors LLC	54.8	0.65

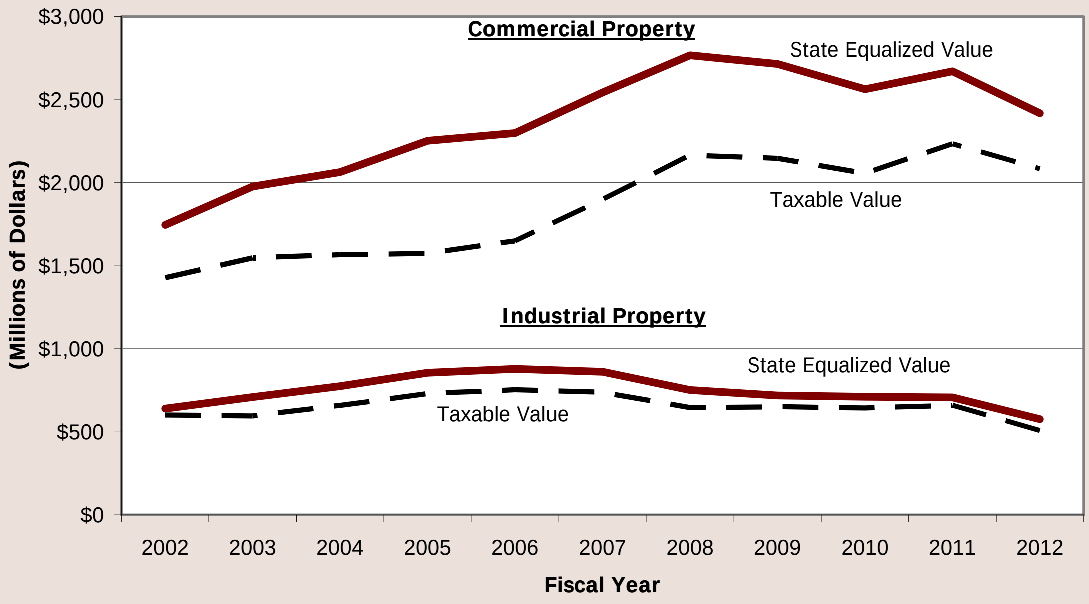
Source: FY2012 CAFR, page 200

FY2011. The assessed value of industrial real property declined by $300.9 million or 34.3 percent from FY2006 to FY2012; the taxable value declined by $247.3 million or 32.8 percent. (See **Chart 4**.)

Vacant and underused commercial buildings in the downtown and midtown areas present a major business opportunity. Entrepreneur Dan Gilbert has acquired and is in various stages of rehabilitating 17 major buildings in downtown Detroit. In addition to moving nearly 5,000 Quicken Loans employees from the suburbs to downtown, his companies are luring prospective tenants, from new tech start-ups to Chrysler Group LLC, to fill the rehabilitated buildings. In March 2013, advertising agency Campbell Ewald announced it would move it's 700 employees to an office building attached to downtown Detroit's Ford Field.

In another example of the possibilities offered by vacant buildings, the Michigan Department of Natural Resources (DNR) has announced that it will invest up to $12.8 million for land acquisition and construction to renovate and convert the 60,000 square foot, long vacant Globe Building near the William Milliken State Park on the Detroit riverfront into a unique nature experience. The proposed Outdoor Adventure and Discovery Center will offer simulations of a number of outdoor activities, such as catching a fish, kayaking on a river, or firing a bow and arrow. It is hoped that these simulated experiences will interest Detroit youth in outdoor activities.

Chart 4
Assessed and Taxable Value of Real Commercial and Industrial Property



Source: FY2011 and FY2012 CAFRs

Special Tax Rolls

The city uses state property tax incentive programs to encourage economic development. These programs transfer property from the ad valorem tax roll to other rolls with different tax rates or different treatment of the tax base. The value of property in Detroit that is subject to these special taxes is as follows:

Industrial Facilities Tax	$173.9 million
Commercial Facilities Tax	0.3
Neighbor Enterprise Zone	335.5
Obsolete Property Rehabilitation	43.5

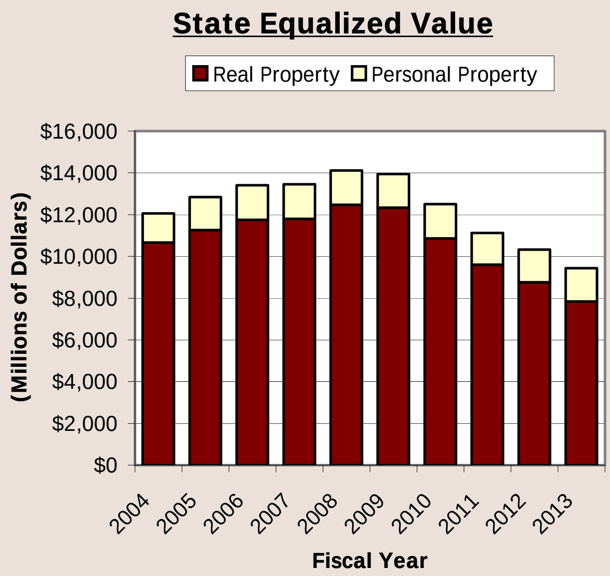
Source: Detroit FY2013 Budget

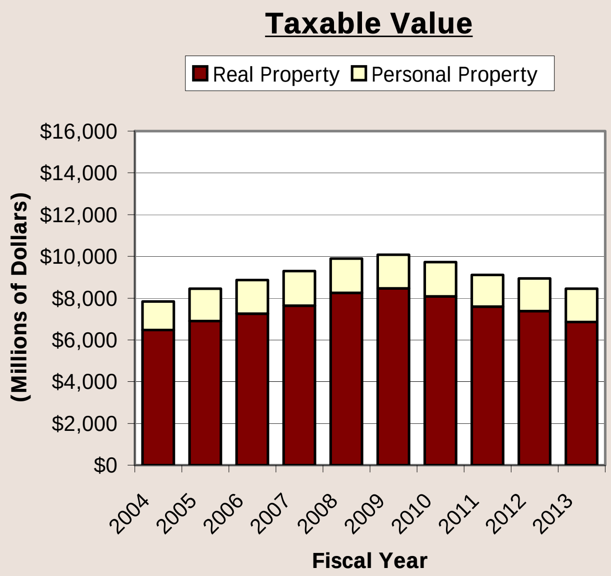
Personal Property

Taxable value has historically included both real and personal property. Real property consists of land and buildings. Personal property is generally defined as movable private property. (See **Charts 5 and 6**)

The taxation of personal property is considered a deterrent to business attraction and growth, but generates significant revenues to Detroit and some other local governments. In 2012, a package of public acts began to phase out the taxation of personal property and provide for partial replacement of affected local revenues.

Charts 5 and 6
City of Detroit Ad Valorem* Tax Roll





* Including Renaissance Zones

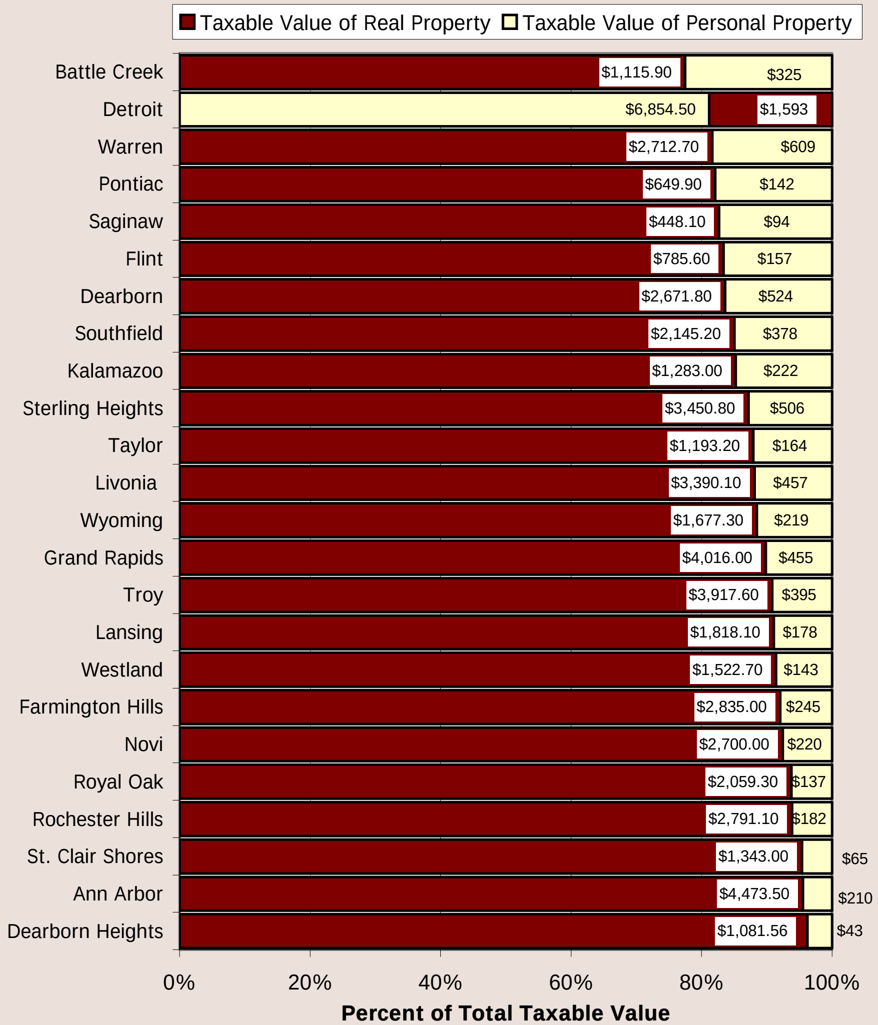
Source: FY2013 City of Detroit Budget

The proportions of real and personal property vary significantly among the largest cities in the state. Personal property was 18.9 percent of Detroit's 2012 taxable property tax base: this was the second highest percentage among the state's 24 largest cities (See **Chart 7**).

Taxable Value Comparisons

The taxable value of property on Detroit's ad valorem tax roll declined from a high of $10.0 billion in FY2009[5] to $9.1 billion in FY2011, to $8.4 billion in FY2013. From FY2009 to FY2013, the loss of taxable value was $1.6 billion, or 15.8 percent.

Chart 7
Taxable Personal Property as a Percentage of Taxable Value in Michigan Cities over 50,000 Population, 2012

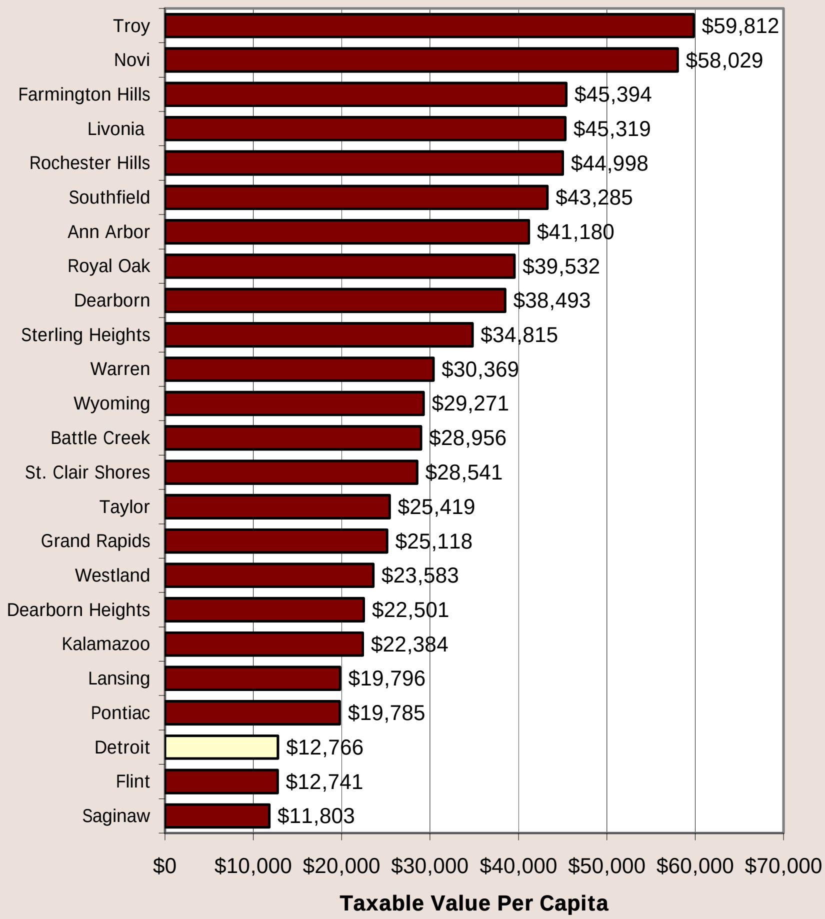


Sources: Michigan State Tax Commission Taxable Valuation, 2012; CRC Calculations

In 2010, 24 Michigan cities had more than 50,000 residents, and the taxable value of real and personal property in these cities varied from $59,812 per capita in Troy to $11,803 per capita in Saginaw (See **Chart 8**). Of the 24 largest cities, Detroit had the highest total value of taxable property, but had the third lowest taxable value per capita.

Detroit was not alone in losing taxable value over the past few years, as the value of real estate reflected the financial crisis of 2009. The total taxable value of real and personal property in Michigan peaked in 2008 at $363.2 billion. By 2012, total taxable value of real and personal property in the state had declined by $47.4 billion (13.1 percent) to

Chart 8
Taxable Value per Capita in Michigan Cities over 50,000 Population, 2010*



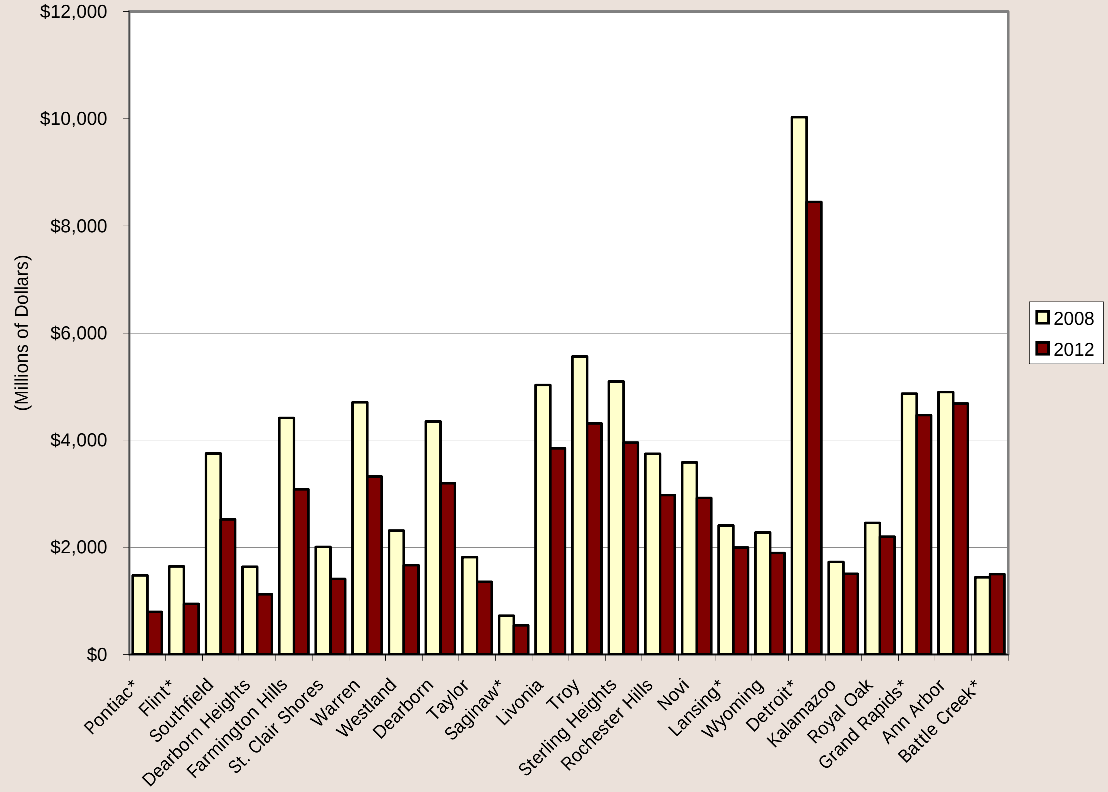
* 2010 allows the use of the decennial census count, rather than the intra-decennial population estimates.

Sources: Michigan State Tax Commission Taxable Valuation, 2010, U.S. Census, CRC Calculations

$315.8 billion. Not all cities lost taxable value at the same rate, however, and those that lost this tax base at a faster rate were challenged to reduce expenses at a faster rate (See **Chart 9**).

Of the 24 cities over 50,000 population in Michigan, Detroit lost the largest amount of property tax base between 2008 and 2012: the $1.5 billion lost was greater than the 2012 taxable values of eight of the most populous cities in the state. As a percentage of its 2012 taxable value, however, Detroit's loss was relatively modest compared to that of most of the largest cities in the state. It should be noted, however, that there are allegations that assessments in Detroit are seriously inflated.[6]

Chart 9
Changes in Taxable Value in Michigan Cities over 50,000 Population, 2008 to 2012



*Cities that also impose a municipal income tax.

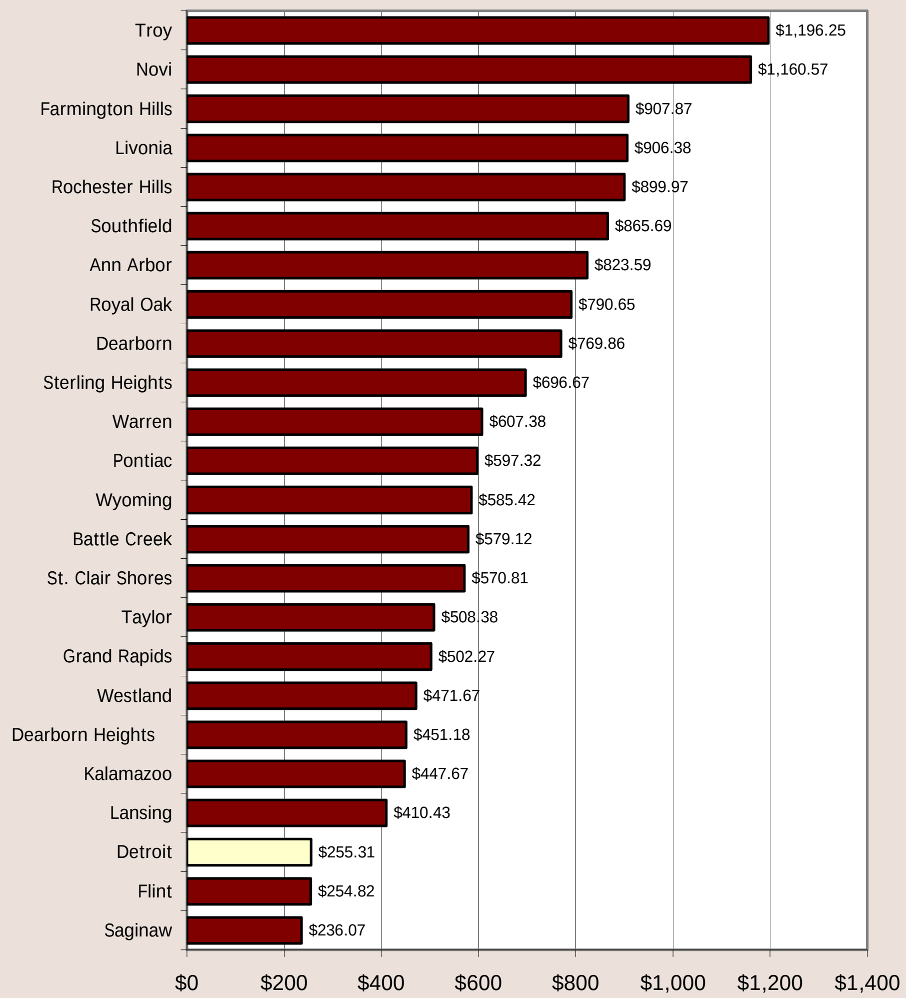
Sources: Michigan State Tax Commission Taxable Valuations, 2008 and 2012; CRC Calculations

Potential Property Tax Yield

In addition to comparing the taxable value per capita, the property tax base may be analyzed by comparing the yield that base produces at a set rate, such as the maximum 20 mills allowed in state law for general operations.

Detroit's potential yield from the highest permissible operating rate is not nearly as high as cities with stronger tax bases, but few cities actually impose as high a property tax rate as Detroit does (See **Chart 10**).

Chart 10
Property Tax Levy per Capita at 20 Mill Maximum Operating Levy in Cities over 50,000 Population



Source: US Census; Michigan Department of Treasury, 2010 Ad Valorem Property Tax Report; CRC Calculations

Property Tax Rate

As noted, the property tax levy (the amount billed) is the result of the tax rate, which is measured in mills, applied to the tax base (taxable value), and state law limits the operating rate for general operations in cities to 20 mills. City charters may limit the general operating property tax rate to less than 20 mills. Detroit's charter allows the maximum 20 mills for operations; in FY2007, a constitutionally required "Headlee rollback" reduced Detroit's general operating rate to 19.9520 mills.

In addition to mills levied to fund general operations, cities also rely on property taxes to pay debt service on voter approved, unlimited tax general obligation bonds. The annual rate for unlimited tax bonded debt is set at the millage rate required to retire the principal and interest due that year. In Detroit, the Detroit Public Library has a separate, voter-approved millage rate. (See **Table 2**.)

The FY2013 General City operating levy is $156.1 million, which is $8.9 million less than the $165.0 million General City operating levy in FY2012, even though the 19.9520 mill tax rate is the same. The reduction in the levy reflects the reduction in the taxable value. The reduction in taxable value also increases the millage rate required to retire unlimited tax general obligation debt (which is described in more detail later). In FY2013, the debt service rate is 9.6136 mills, which is equal to about half of the city's operating rate. The debt service levy is $88.8 million (the base for the debt service levy includes property in Renaissance Zones).

Table 2
City of Detroit Property Tax Rates, in Mills

Fiscal Year	Basic General City Rate	Debt Service	Library	Total City and Library
2013	19.9520	9.6136	4.6307	34.1963
2012	19.9520	9.5558	4.6307	34.1385
2011	19.9520	8.9157	4.6307	33.4984
2010	19.9520	8.9157	4.6307	33.4984
2009	19.9520	7.4779	4.6307	32.0606
2008	19.9520	8.0683	4.6307	32.6510
2007	22.9448*	8.3951	4.6307	35.9706
2006	22.9448*	7.0753	4.6307	34.6508
2005	22.9563*	7.4796	3.6331	34.0690
2004	22.9563*	7.9245	3.6331	34.5139
2003	22.9563*	7.9217	3.6331	34.5111

* Includes a 3 mill garbage disposal levy, which in 2008 was replaced by solid waste fees ($240 per single family home, senior rate is $120; budgeted at $47.9 million in FY2012 and $39.1 million in FY2013).

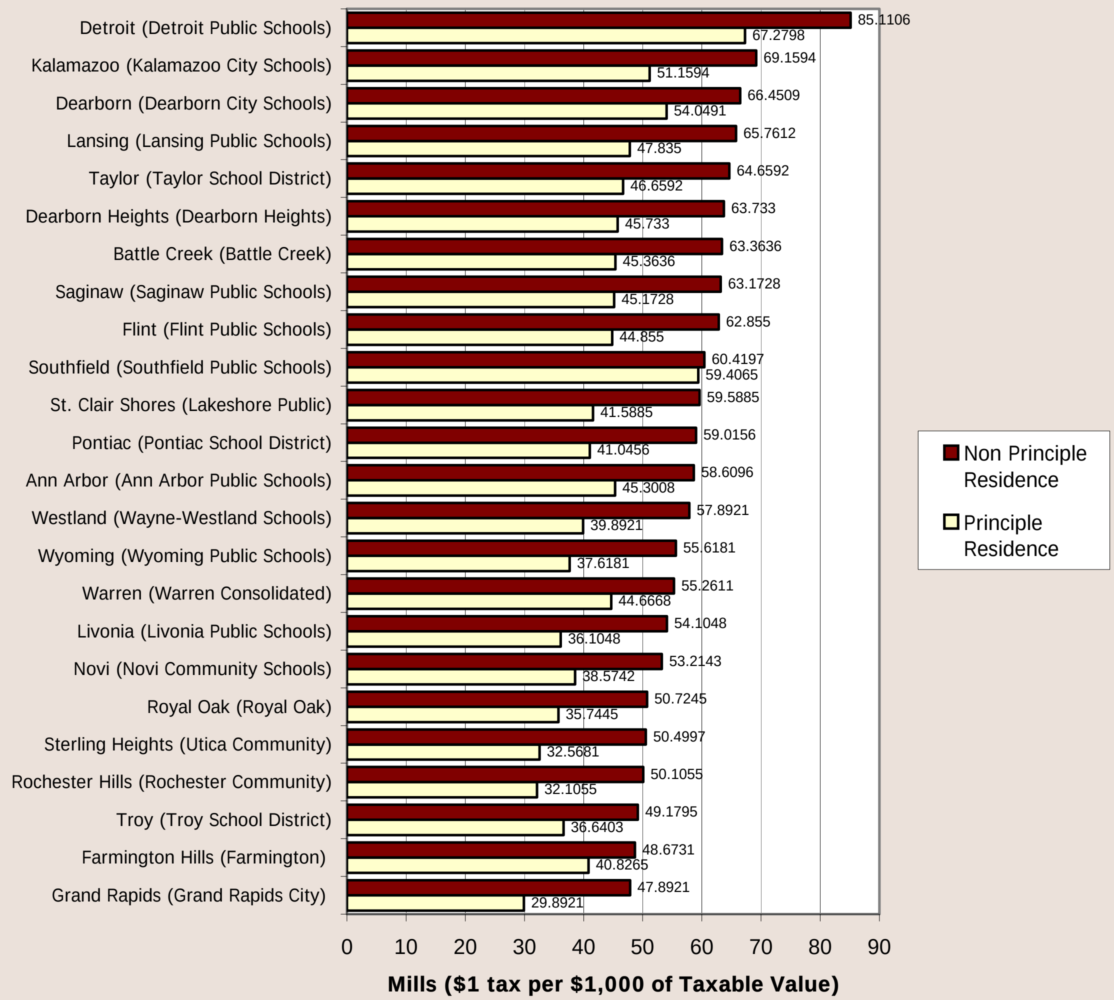
Source: FY2011 and FY2012 CAFRs, FY2013 City of Detroit Budget

The Property Tax Burden

As noted, the tax levy approved as part of the city budget by the Detroit City Council includes a separate levy for the Detroit Public Library ($36.2 million in FY2013). Detroit property owners also pay Wayne County taxes of about 14 mills, homestead taxes of about 13 mills or non homestead taxes of about 31 mills for Detroit Public Schools, and the State Education Tax of 6 mills.

For taxpayers, the total property tax burden may be perceived as more important than the individual levies of separate units of government. Total property taxes include those paid not just for cities, but also for schools, county government, special taxing authorities, and special assessments. Detroit's is not the highest property tax burden in the state[7], but it is very high and is the highest of the largest cities in the state, as reported in **Chart 11**.

Chart 11
2011 Total Property Tax Rates in Michigan Cities over 50,000 Population (Including Special Assessment Millage)



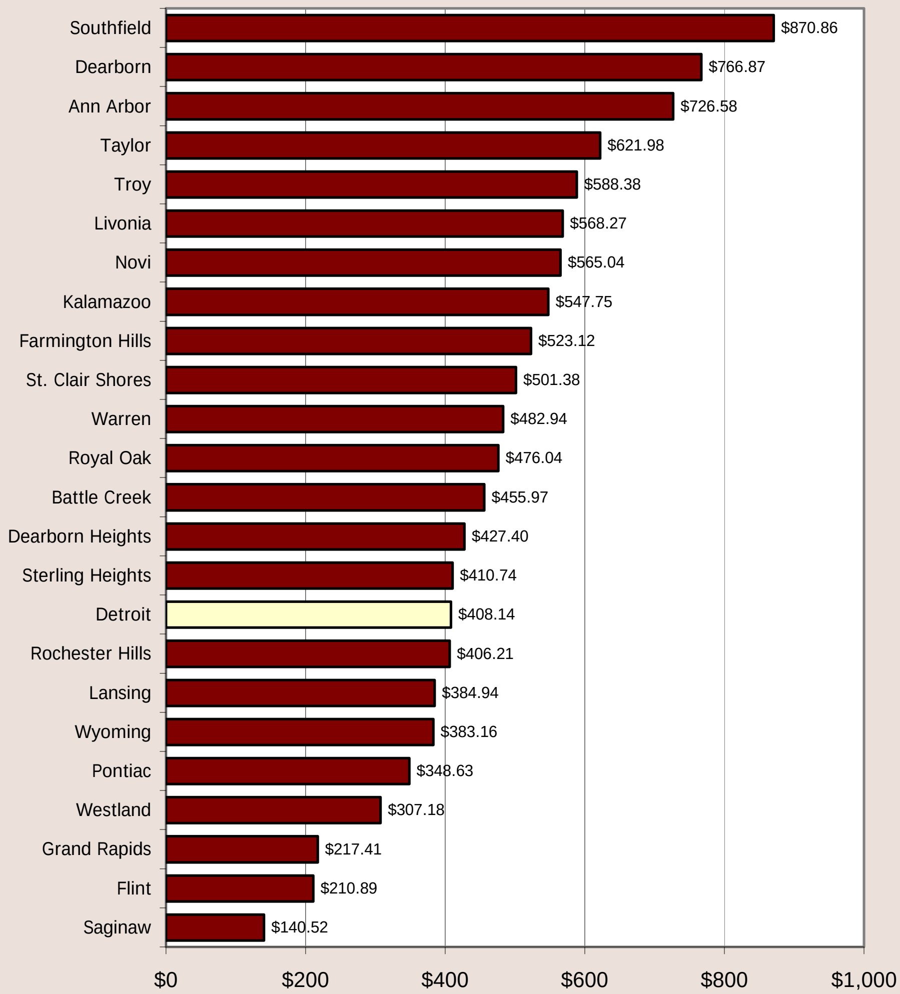
*The primary school district serving each is used for this comparison (in parenthesis).
Sources: Michigan Department of Treasury, 2011 Total Property Tax Rates in Michigan

Because of the interaction of taxable value and tax rates, a large tax base does not necessarily produce a higher tax levy, but Detroit's high total property tax rates do generate large levies (See **Chart 12**).

Delinquencies

Not all of the property tax levy is actually collected. Delinquencies have been increasing as the city loses population, unemployment remains at high levels, properties lose value, and home and business owners fail to pay taxes. In FY2012, 83.7 percent of city taxes levied were collected, an improvement from FY2011, when less than 80 percent of taxes levied that year were

Chart 12
City Property Tax Revenues per Capita Levied in Michigan Cities over 50,000 Population, 2011



Revised April 8, 2013

* Excludes 6-mill State Education Tax

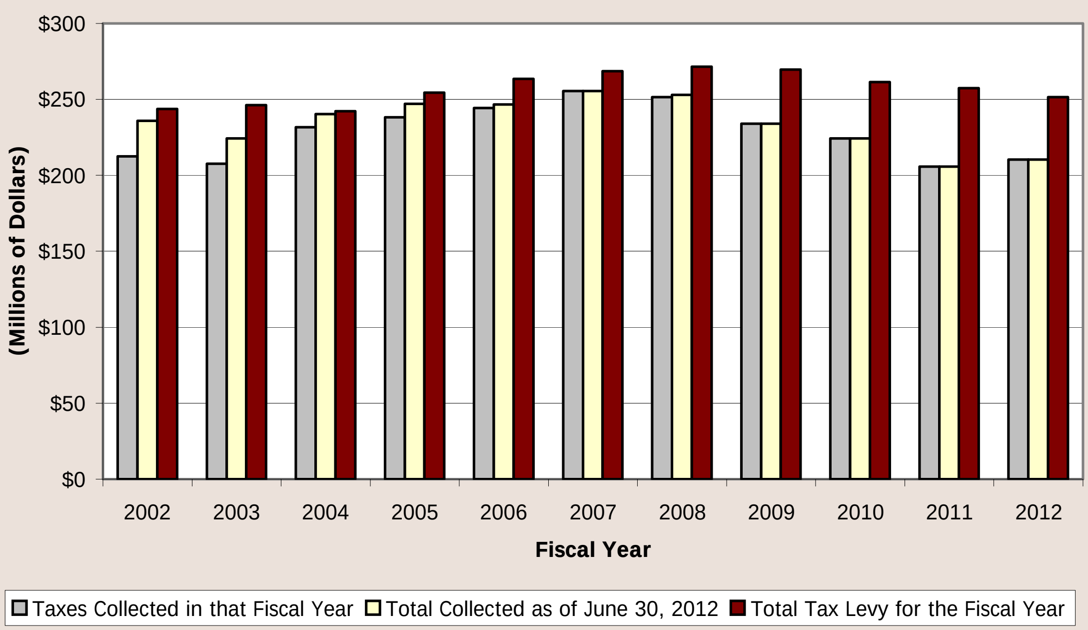
Source: Michigan Department of Treasury, 2011 Ad Valorem Property Tax Report; CRC Calculations collected (in FY2007, 95.1 percent of that years levy was collected). (See **Chart 13**.)

In FY2012 the city budgeted $204.8 million as the net collection from the General City and debt service levy; in FY2013 the city budgeted $192.3 million as the net collection.

Since 2004, the city has "sold" its delinquent property tax rolls to Wayne County (this is the standard procedure in Michigan). The county conducts two tax sales in an effort to recover taxes or, at the second offering, sell the parcel for a minimum of $500. The county "charges back" prior year taxes that the county determines to be uncollectible. In FY2011, the charge back was $88.4 million; in FY2012, the city recorded $84.0 million in liabilities for chargebacks. According to a February, 2013 Detroit News investigation, 47 percent of the city's taxable parcels are delinquent on their 2011 property taxes. That report also noted that Wayne County treasury officials refused to foreclose on about 40,000 Detroit parcels that should have been seized last year and expect to bypass another 36,000 parcels this year.[8]

There are about 66,000 publicly owned parcels of land in Detroit. Most of these are tax reverted parcels in the city's own inventory, but the county and state also own tax reverted parcels located in Detroit. Most of the tax reverted parcels are vacant lots (there are about 88,000 vacant parcels in the city, some of which are privately owned). Over the years, efforts to return parcels to productive use, sell side lots to adjoining owners, pursue owners for non-payment, redevelop designated areas, give parcels to nonprofits, and other strategies, have had mixed results. Rapid population loss ensures that increasing numbers of housing units are vacated, with little hope of reoccupancy. Empty housing units that are not maintained contribute to further blight. In 2012, Wayne County announced a plan to offer 1,500 unsold Detroit tax reverted homes to occupants – whether the former owner, renter, or squatter – for $500 each. The county's strategy of offering tax reverted homes to legal and illegal occupants is an effort to keep homes occupied and retard further blight.

Chart 13
Detroit General City and Debt Service Property Tax Levies and Collections



Source: FY2011 and FY2012 CAFRs

Municipal Income Tax

Municipal income tax yields depend on the number of residents who have jobs and the number of non-residents who work in the city, the wages they earn, the number of businesses in the city and the income they report, and the rate of the tax.

Employment in Detroit

While some other manufacturing cities also had finance, commerce, health care, and tourism as economic anchors, Detroit's (and Michigan's) economy was historically disproportionately dependent on manufacturing, specifically vehicle manufacturing. Detroit auto factories started to automate assembly lines and to outsource parts production as early as the 1950s. Foreign auto manufacturers that opened plants in the U.S. tended to locate in Southern states with cheaper land, lower taxes, state subsidies, and non-unionized labor; they operated at a lower cost and set a new standard. At the same time, continuing advances in technology further reduced the need for less-skilled labor in factories. The loss of the automotive manufacturing base was exacerbated when, in an effort to reduce costs and remain competitive, some domestic brand auto manufacturing was also moved to plants built in the South, then to plants in other countries with even lower costs. In 2007, there were 80 percent fewer manufacturing establishments in Detroit than there had been in 1972. As industry moved out, it left empty factories, contaminated land, and unemployment.

The overall loss of 15,648 business establishments from 1972 until 2007 does not capture the effects of the severe 2008 recession, or the bankruptcies and subsequent recovery of General Motors and Chrysler and the restructuring of the automotive supplier network, on the number of businesses in the city (census of business data collected in 2012 will be available in 2013). The loss of business establishments further reduced the attractiveness of neighborhoods and the number of jobs available to Detroit residents, many of whom did not have cars to transport them to employment opportunities in the suburbs.

As noted, Detroit's decennial population peaked at 1.8 million in 1950. As more upper and middle income people moved from the city to suburbs, retail and service establishments followed their customer base out of the city. In 2007, the city had 78 percent fewer retail establishments than it had in 1972. In 2007, less than $3.3 billion of retail sales occurred in the city, compared to $109.1 billion in the state. Retail sales per capita were $3,567 in Detroit, less than a third of the $10,855 statewide per capita retail sales figure. While there are about 50 major vacant buildings downtown, recent real estate investment in Downtown and Midtown has included development or renovation of first floor retail space, much of which remains vacant.

New Development in Detroit

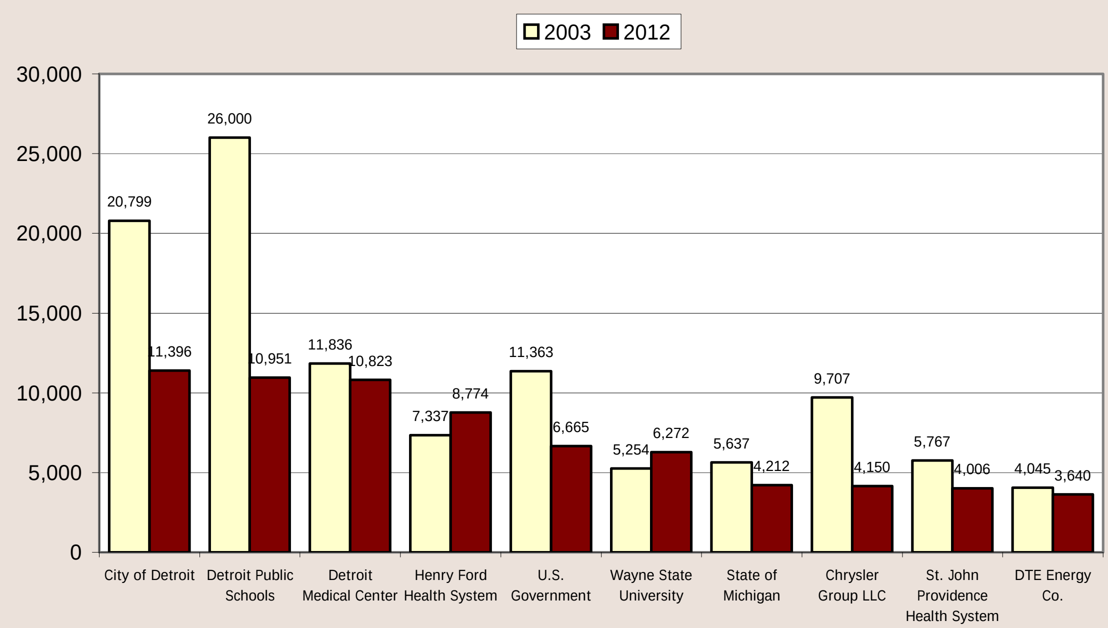
While vacancies are ubiquitous, new retail is being developed: on May 14, 2012, ground was broken for a new, 20,650 square feet, upscale, natural and organic grocery store in Midtown. While two recent, small, upscale grocery stores in this target area were not successful, the larger size and corporate support for this Whole Foods store promises to provide a valued amenity for residents in the immediate area and beyond. The project, which received $4.2 million in state and local tax subsidies, is in an area that includes Wayne State University and the College for Creative Studies, the Cultural District, the expanding Medical Center, and an increasing number of renovated loft and apartment buildings.

Furthermore, on May 17, 2012, ground was broken for the Gateway Marketplace, the first major shopping center to be developed in Detroit in 40 years. The 360,000 square feet development on 36 acres at the former state fairgrounds will provide 900 permanent retail jobs and access to shopping for Detroiters and suburbanites. The center, which will include a Meijer Superstore, K&G Fashion Superstore, Dots, McDonalds' and PNC Bank branch, is scheduled for completion in 2013. It will receive $6 million in Brownfield tax credits, $10 million in other tax incentives, and a $28 million construction loan from Detroit city pension funds.

The loss of manufacturing establishments has made the city less dependent on one industry and more economically diverse. Manufacturing – particularly automobile manufacturing – was the traditional basis of the city's economy, but now Chrysler is the only one of the city's ten largest employers that is auto related, and it provides fewer than half the number of jobs than it did ten years ago. The ten largest employers in Detroit in 2012 also included five governmental units (four of which are shedding jobs), three health systems (two of which are nonprofit), and one utility company. Of the top ten employers, only two – Henry Ford Health System and Wayne State University – provided more jobs in 2012 than in 2003. The city's employment base is now relatively more dependent on government, education, and health care. (See **Chart 14**.)

Job losses in public sector employers have been caused by federal and state expenditure control efforts including the end of federal American Reinvestment and Recovery Act (ARRA) funding, reductions in state funding for K-12 and higher education, and reductions in state revenue sharing payments, as well as local property tax erosion, population loss, and other factors. Concurrently, economic diversification away from manufacturing and downtown revitalization efforts should be helped by private sector efforts to take advantage of very low real estate prices and to consolidate operations. For example, Blue Cross and Blue Shield of Michigan is consolidating its workforce in downtown Detroit and will have 6,000 workers in a renovated urban campus that includes the 500 and 600 towers of the Renaissance Center, the corporate headquarters a few blocks away, and a separate building on Jefferson Avenue across from the Renaissance Center. Campbell Ewald is moving 700 employees from suburban Warren to an office building attached to the downtown Detroit football stadium.

Chart 14
Largest Employers in the City of Detroit



Source: FY2012 CAFR

Income Tax Rates

PA 284 of 1964, as amended, authorized cities to impose a city income tax. Detroit is one of only 22 Michigan cities that have opted to impose a municipal income tax on residents, non-residents who work in the city, and resident corporations, under authority granted by the City Income Tax Act. Eighteen of the 22 cities impose municipal income taxes of one percent on residents, one percent on corporations, and one-half percent on nonresidents who work in the city (1/1/0.5). Four cities impose rates higher than 1/1/0.5, with Detroit's being the highest. (See **Table 3**.)

Cities with higher municipal income tax rates tend to produce higher tax collections per capita. In 2010, only two cities, Walker (a suburb of Grand Rapids that is the headquarters of Meijer) and Grand Rapids (which imposed rates very similar to Detroit's), generated more from their municipal income tax on a per capita basis than did Detroit.

Required Rate Reductions

State law allows Detroit to impose higher rates of income tax than other cities are allowed, but PA 500 of 1998 required that Detroit's income tax rates be reduced from the then-existing rate of 3 percent on residents, 2 percent on corporations, and 1.5 percent on nonresidents who work in the city. Rates on residents and nonresidents were to be reduced by one-tenth of one percentage point per year for ten

Table 3
Municipal Income Tax Rates and Receipts, 2010

City	Year Adopted	Tax Rates: Resident	Tax Rates: Corporation	Tax Rates: Nonresident	2010 Net Collections
Albion	1972	1.0%	1.0%	0.5%	$ 982,460
Battle Creek	1967	1.0	1.0	0.5	11,442,037
Big Rapids	1970	1.0	1.0	0.5	1,848,250
Detroit	1962	2.5	1.0	1.25	215,591,420
Flint	1965	1.0	1.0	0.5	13,986,113
Grand Rapids	1967	1.4	1.4	0.7	57,529,532
Grayling	1972	1.0	1.0	0.5	325,563
Hamtramck	1962	1.0	1.0	0.5	1,813,635
Highland Park	1966	2.0	2.0	1.0	3,162,221
Hudson	1971	1.0	1.0	0.5	265,853
Ionia	1994	1.0	1.0	0.5	1,659,291
Jackson	1970	1.0	1.0	0.5	6,272,898
Lansing	1968	1.0	1.0	0.5	25,820,616
Lapeer	1967	1.0	1.0	0.5	2,328,695
Muskegon	1993	1.0	1.0	0.5	6,459,854
Muskegon Heights	1990	1.0	1.0	0.5	842,401
Pontiac	1968	1.0	1.0	0.5	9,447,641
Port Huron	1969	1.0	1.0	0.5	5,742,500
Portland	1969	1.0	1.0	0.5	640,497
Saginaw	1965	1.5	1.5	0.75	12,043,719
Springfield	1989	1.0	1.0	0.5	695,138
Walker	1988	1.0	1.0	0.5	7,422,277
TOTAL					$386,322,612

Sources: U.S. Census Bureau; CRC, Outline of the Michigan Tax System, March, 2012; CRC Calculations years, unless specified unfavorable financial conditions existed. According to this plan, if the rate reductions were not suspended, Detroit income tax rates would be 2 percent on residents and 1 percent on nonresidents in the city's FY2009. In order for the rate reduction to be suspended for a year, three of the following four conditions had to be met:

1. Funds have to be withdrawn from the city's budget stabilization fund for two or more consecutive fiscal years or there is a balance of zero in the fund.
2. The city's income tax revenue growth is 0.95 percent or less.
3. The local taxable value growth rate is 80 percent or less of the statewide taxable value growth rate.
4. The city's unemployment rate is 10 percent or higher.

Rate reductions occurred in five years, but each year after 2003 the city either met three of the exempting conditions in the state act (in 2004, 2005, 2006, 2007, 2010, and 2011) or obtained statutory authority to not reduce the tax rate (in 2008 and 2009).

Financial data for 2011 revealed that only two of the conditions of the rate freeze had been met (use of income tax receipts reported in the 2011 CAFR revealed that municipal income tax receipts increased from $216.5 million in fiscal 2010 to $228.3 million in fiscal 2011 and the change in the taxable value was the same as the statewide average), and the lower rates of 2.4% and 1.2% went into effect on July 1, 2012.

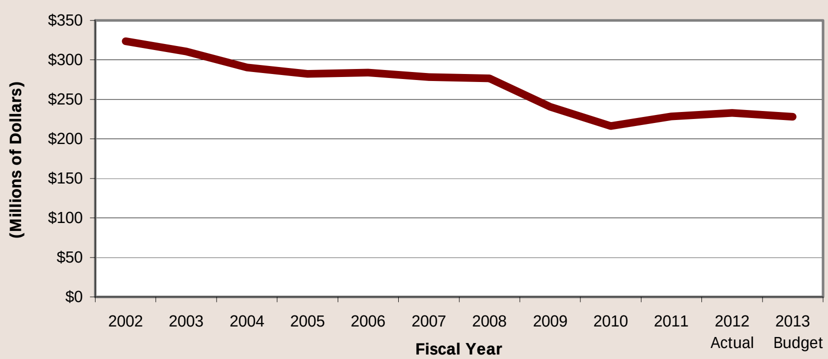
Scheduled city income tax rate reductions were part of a 1998 agreement that guaranteed Detroit a fixed amount of state revenue sharing payments. That part of the agreement was abandoned when state sales tax income that funded the revenue sharing program fell below expectations, but an alleged "debt" of $224 million owed by the state was the basis for the Detroit Corporation Counsel's lawsuit challenging the city's ability to enter into a contract (the financial stability agreement) with an entity (the State of Michigan) that was in default to the city (the Corporation Counsel also alleged additional unpaid debts to the city). The claim was rejected by the courts.

Public Act 394 of 2012 discontinued the required annual rate reduction. The act provides that Detroit may impose a maximum rate of 2 percent on corporations, and fixes the Detroit city income tax rate at 2.4 percent on residents and 1.2 percent on nonresidents as part of a strategy to enable the city to improve the street lighting system. The new lighting authority is authorized to sell bonds that may be retired using revenues from the city's utility users' excise tax. The municipal income tax rate is to be maintained at 2.4 percent on residents and 1.2 percent on nonresidents until the bonded costs for improving the lighting system are paid off, at which time the maximum rates will be 2.2 percent on residents and 1.1 percent on nonresidents who work in the city.

Detroit Income Tax Revenues

The tax rates, the number of resident individuals and businesses, the employment rate, and the number and type of jobs in the city are among the factors that affect the revenue that can be generated

Chart 15
City of Detroit Municipal Income Tax Receipts, 2002-2013



Source: FY2011 and FY2012 CAFRs, FY2013 City of Detroit Budget

by the municipal income tax. Municipal income tax receipts are the largest single revenue source in Detroit's General Fund. Income tax receipts, which fund general city operations, totaled $323.5 million in FY2002, the last year the city had a general fund surplus. Receipts declined each year through FY2010, reflecting both rate reductions and employment conditions. Receipts increased in FY2011 and FY2012, possibly due in part to a number of major employers that have centralization operations from suburban locations to less expensive space downtown (See **Chart 15**).

Non-Filers

One market analysis (McKinsey Report) based on 2009 collections estimated that $6.6 million of municipal income taxes on commuters who work in Detroit, $21.8 million of corporate income taxes, and $155.0 million of income taxes on residents are not collected. Because 54 percent of employed Detroiters work outside of the city, and employers outside the city are not required to withhold city taxes, this analysis estimated that $142.3 million of municipal income taxes on reverse commuters are not collected. Detroit officials have indicated that they will pursue state legislation requiring employers outside of Detroit to withhold city income taxes on Detroit residents and enabling the levy and collection of taxes on non-resident wagering.

Shifting Responsibility for Income Tax Collection

The possibility of having the state collect municipal income tax for the city has been raised a number of times in the past, but estimates were that reimbursable state costs would result in little or no savings on the processing costs for Detroit. However, the proposal has been resurrected in the belief that state processing would increase the collection rate, especially for the majority of residents who work outside of the city limits and whose employers are not required to withhold Detroit taxes. If this were the case, the city would have additional resources to invest in services to citizens.

The consent agreement negotiated between the city and state includes income tax collection as one of the areas in which the state will support Phase I reforms:

> The Treasury Department will assist the City in maximizing revenues collected under the City income tax. This will include technical assistance to modernize processing, enhance enforcement, and improve collections. The Treasury Department will assist the City in preparation of draft legislation to require withholding of City Income Taxes for City residents working outside the City. Additionally, the Treasury Department will explore the possibility of enabling the collection and distribution of the City income tax in conjunction with the collection and distribution of State income tax.[9]

The Economic Vitality Incentive Program that replaced statutory state revenue sharing in 2011 includes incentives for local government to consolidate services, providing another incentive for consideration of state collection of municipal income taxes. The first consolidation grant under the EVIP was awarded to Grand Rapids for an interlocal agreement with Flint and Lansing to combine their municipal income tax processing and payment systems. According to the state Department of Treasury description, any of the 22 Michigan cities that impose an income tax can join this income tax processing partnership, which was expected to be operational in 2012.

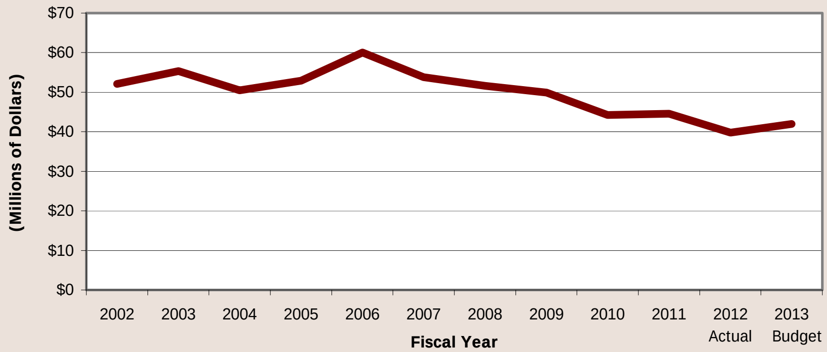
Utility Users' Excise Tax

Detroit is the only city in Michigan allowed to impose a five percent utility users' excise tax under authority granted by PA 100 of 1990. Revenues from this tax on the privilege of consuming telephone, electric, steam, or gas services are affected by energy efficiency measures as well as changes in the number and type of households and businesses in the city. Under the original state authorization, revenues from the utility users' excise tax were required to be used to hire or retain police officers. New legislation, PA 392 of 2012, provides that up to $12.5 million of utility users' excise tax revenues may be used annually to retire debt issued by a public lighting authority. On February 5, 2013, the City Council approved articles of incorporation for such an authority, which can sell bonds to fund overhauling the city's street lighting system. Utility users' excise tax revenues were budgeted at $42 million in both FY2012 and FY2013 (See **Chart 16**).

In 2010, when the census counted 713,777 residents, the $44,190,132 in city utility users' excise tax collections was equal to $61.91 per capita, which added to the disproportionate tax burden on resident individuals and businesses.

Utility companies include the utility users' excise tax in routine bills, and remit the amount collected to the city.

Chart 16
Utility Users' Excise Tax Revenues



Source: FY2011 and FY2012 CAFRs, FY2013 City of Detroit Budget

Casino Wagering Tax

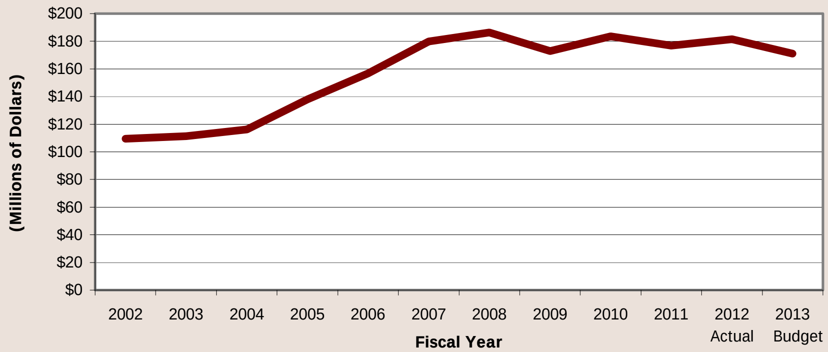
Detroit's local casino wagering tax is a tax on the privilege of operating a casino and the base of the tax is adjusted gross receipts of the casino licensee. Initiated state law 1 of 1996, as amended by PA 306 of 2004, enables Detroit to be the only community in the state with privately owned, non-Indian casinos, and allows the city to impose a 10.9 percent casino wagering tax on those casinos. Taxes are paid by the three casinos directly to the city. This source of municipal income held up remarkably well during the economically challenging period of FY2007 through FY2012. The FY2013 budget includes Casino Wagering Tax revenues of $149.0 million (See **Chart 17**).

For comparison purposes, the collections from the wagering tax in 2010, when the census count was 713,777, was $183,338,299; this represents income to the city of $256.86 per capita. Of course, much of the wagering is done by nonresidents, so city residents bear only a part of the burden of the casino wagering tax. This tax is avoided altogether by those who do not gamble in Detroit casinos.

Future casino revenues could be affected by the opening of new casinos in Toledo, Cleveland, Cincinnati, and Columbus. The total revenue from casino taxes and fees is budgeted at $187.8 million in FY2013, a reduction of $27.1 million from the $214.9 million budgeted in FY2012.

The city also collects additional fees from the casinos. Development agreement percentage payments (a 1 percent assessment on adjusted gross receipts) were estimated at $23.0 million in the FY2012 budget and $22.0 million in the FY2013 budget. Municipal service fees are assessed to compensate the city for public safety services: the FY2013 estimated revenue is $16.8 million (down from $17.1 million in the FY2012 budget).

Chart 17
Casino Wagering Tax Receipts and Casino Percentage Payments



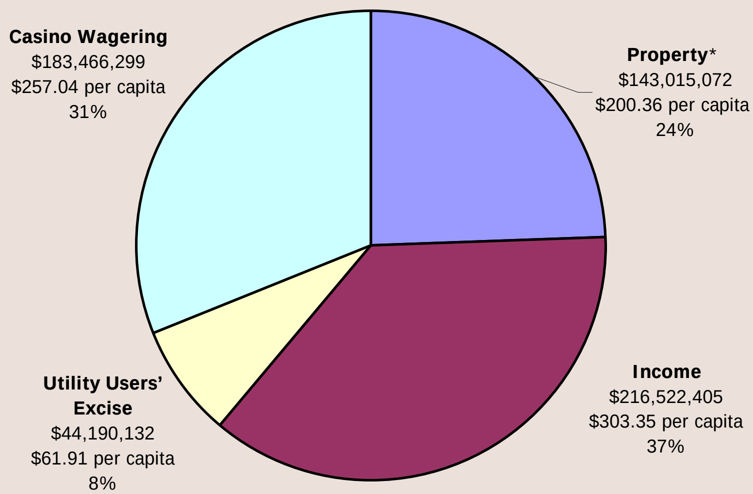
Source: FY2011 and FY2012 CAFRs, FY2013 City of Detroit Budget

FY2010 Tax Burden Comparisons

The Detroit city government is currently imposing all of the taxes, and the highest rates of taxes, allowed by state statute. The property tax base in Detroit is comparatively weak, but the imposition of the highest legal tax rates for property and income, and the imposition of the utility users' excise and casino wagering taxes, result in very high municipal tax receipts per capita, compared to other Michigan cities.

In order to generate $587.2 million in tax revenue for the General Fund from the property tax alone, the city would have had to have a taxable value more than four times greater than it did (assuming a comparable delinquency rate). (See **Chart 18**.)

Chart 18
2010 Detroit General Fund Tax Revenues



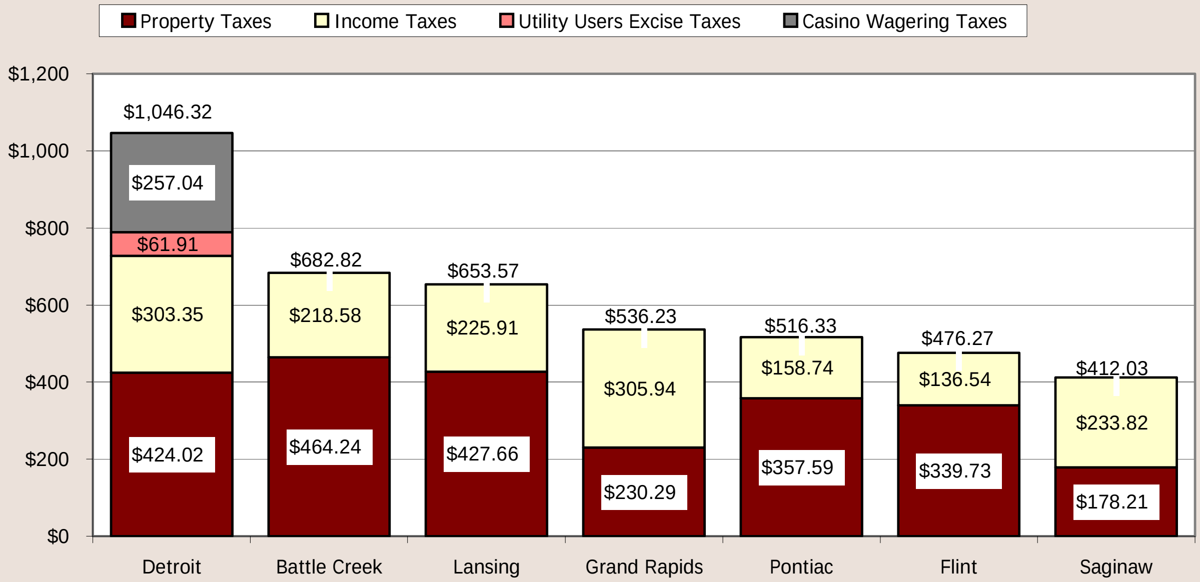
Total = $587,193,908

*General Fund only (19.9520 mills)

Source: FY2010 CAFR

Seven of the 24 Michigan cities of over 50,000 residents impose a municipal income tax. In those seven cities in 2010, the city property tax rate ranged from 9.17 mills in Grand Rapids to 33.22 mills in Detroit, and the municipal income tax rate ranged from 1/1/0.5 in Battle Creek, Flint, Lansing, Pontiac, and Saginaw to 2.5/1/1.25 in Detroit. **Chart 19**, a comparison of total city taxes in 2010 in those cities that imposed an income tax, reveals how much more Detroit raised from local taxes on a per capita basis.

Chart 19
Local Tax Potential per Capita in Cities over 50,000 Population that Impose a City Income Tax, 2010



Source: Michigan Department of Treasury, CRC Calculations

Insurance Rates in Detroit

High insurance rates further raise the cost of living and conducting business in Detroit. Michigan is a relatively expensive state for car insurance (ranked third behind Louisiana and Oklahoma in 2012 by Insure.com) and Detroit is the most expensive place in the state to purchase auto insurance. Carinsurance.com commissioned a study of car insurance rates in every zip code in the U.S. for a 2012 Honda Accord. Rates from six large insurance companies (Allstate, Farmers, GEICO, Nationwide, Progressive, and State Farm) are for a 40 year old man with a clean record and good credit, who drives 12 miles to work each day. The most expensive neighborhoods for car insurance in the state were zip codes in Detroit:

Table 4a
Most Expensive Zip Codes for Auto Insurance in Michigan

Zip Code	City	Range of Quotes
48227	Detroit	$3,059-$8,403
48205	Detroit	$2,360-$7,308
48224	Detroit	$2,108-$7,021
48221	Detroit	$2,923-$7,364

Table 4b
Auto Insurance Costs in Random Suburban Zip Codes

Zip Code	City	Range of Quotes
48084	Troy	$1,381-$3,210
48154	Livonia	$1,485-$2,931
48309	Auburn Hills	$1,354-$2,945
48375	Novi	$1,323-$3,342

Source: CarInsurance.com found at www.carinsurance.com/rate-comparison.aspx?

Both state and city officials have acknowledged the problem of high automobile insurance rates in Detroit. Many Detroiters believe these high rates are unjustified, and have looked to the city or state to develop an alternative program that provides insurance at lower cost.

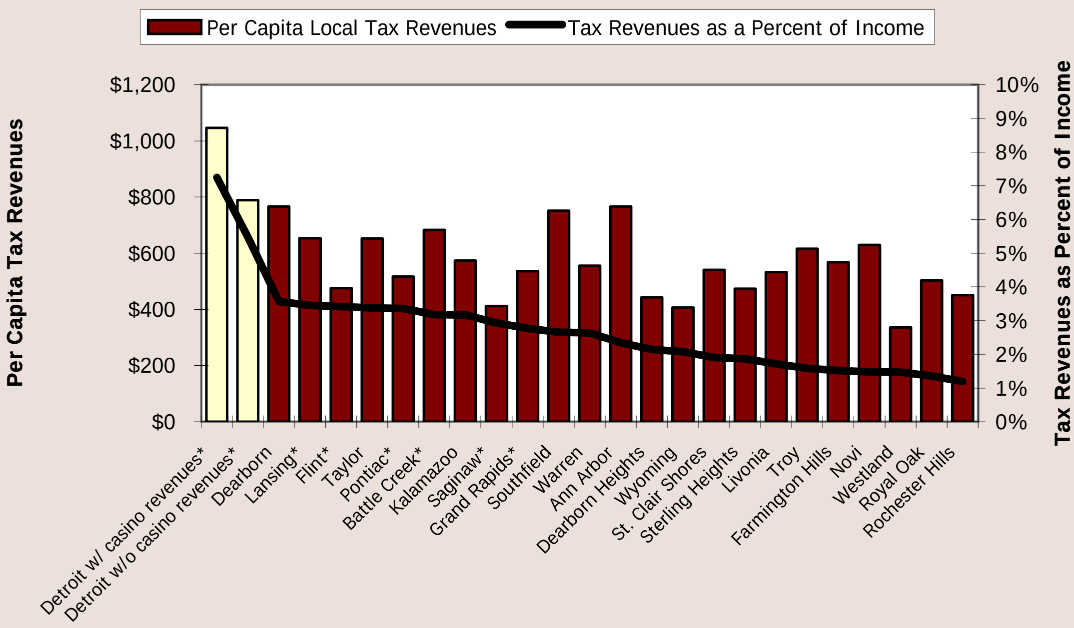
The total of local taxes per capita in Detroit far exceeds the total of local taxes that are collected by other major cities, including those that impose multiple taxes, and the low average per capita income in Detroit results in a far higher tax to income ratio compared to other cities. (See **Chart 20**.)

Cities of over 50,000 population that impose an income tax tend to have lower per capita income and higher per capita tax revenue-to-income ratios. It should be noted again that cities that impose an income tax export part of that tax liability to nonresidents who work in the city. The casino wagering tax also allows Detroit to export a major portion of the origin of that tax to nonresidents. If the casino tax revenues per capita were removed from the total tax revenues per capita in the table above, the ratio of per capita local tax revenues to per capita income would be 5.47 percent, still far higher than other cities.

Increasing Tax Revenues

There are two traditional ways to increase the revenues generated by a tax: increase the rate, or increase the base. The base can be increased through economic growth, such as more people working, or people earning higher wages, or both, in the case of

Chart 20
Local Taxes and Income on a per Capita Basis in Michigan Cities over 50,000 Population, 2010



*Cities that impose an income tax

Source: American Community Survey, Per Capita Income, 3-year Estimates, 2009-2011; Michigan Department of Treasury; CRC Calculations the personal income tax. Expansion of the property tax base results from appreciation in the value of existing real estate, adding newly constructed buildings to the tax rolls, or expanding the things that are included in the base, such as expanding the property tax base to include parcels that are now exempt (churches, public schools and universities, museums, and other nonprofits' facilities). A third way to increase tax revenues is to collect a larger proportion of the taxes imposed.

State enabling legislation is required to increase the maximum allowed municipal tax rates. It would be possible for the state to increase the maximum rates for the general operating property tax, municipal income tax, utility users' excise tax, and/or casino wagering tax. However, Detroit's already high tax rates are widely believed to have contributed to population loss and economic decline. One of the city's primary economic development tools is granting tax abatements for new housing and business support, tacit admission of the potential negative role of disproportionately high municipal taxes.

The "Headlee Amendment" to the 1963 Michigan Constitution requires local voter approval before imposition of any local tax that was not authorized when the amendment was passed in 1978. The Headlee amendment does not supersede statutes that limit the maximum tax rates that local governments may impose. It adds the requirement of voter approval in order to raise existing taxes or to impose new taxes within constraints set in state law. Requests for voter approval of tax increases have generally been successful in Detroit.

Taxes and Economic Development

In a strategy going back at least to the 1960s, Detroit officials have sought state authorization to impose new taxes to increase city government revenues. As a result, Detroit imposes more taxes, and higher rates of taxes, than other Michigan communities. This tax structure has developed over decades, based not on any central organizing theory of the ideal tax structure[10], but rather on recurrent financial pressures on city government.

Some believe that the city's high tax rates have contributed to the erosion of the city's tax base. In an effort to reduce the tax burden in Detroit, PA 500 of 1998 required that Detroit's income tax rates be reduced by one-tenth of one percentage point per year for ten years, unless specified unfavorable financial conditions existed. The income tax rate reduction occurred in only six years since 1998, reducing the resident rate to 2.4 percent in FY2013.

The city uses tax revenues to provide essential services including public protection and to service general obligation debt. Defenders of the city's tax structure argue that reductions in tax rates would further diminish the city government's ability to provide services and meet financial obligations. Because service levels are already considered inadequate, the disparity between the high tax rates and those poor city services and the comparison of the city's services with services provided in other communities, adds to incentives to leave the city. Detroit's high legacy costs, governmental inefficiency, and history of corruption contribute to the separation between the value of taxes paid and services provided. In Downtown and Midtown, however, very low property values and tax incentives are driving economic redevelopment.

State and Local Tax Burden Comparison

The state and local tax burden imposed on Detroit residents is also high compared to the tax burden in other large U.S. cities. The Office of Revenue Analysis of the District of Columbia annually publishes an analysis of state and local tax rates and tax burdens in the largest city in each of the 50 states and in Washington DC. The analysis includes state and local taxes to accommodate the various ways that state and local governments divide responsibility for various functions: what could be a state responsibility in one place may be a local responsibility in another.

Separate analyses are presented for a hypothetical family of three at various income levels ($25,000; $50,000: $75,000; $100,000; and $150,000) as well as a combined total. Taxes included in the analysis include individual income, real property, sales, and automobile taxes. According to this analysis of 51 U.S. cities, changes in state and local tax rates in 2011 have reduced the city's tax burden disadvantage somewhat, although Detroit is still a relatively high tax burden city:

Table 5
Detroit Tax Burden Ranking* Compared to the Largest City in Each State and Washington, DC, 2011

	Rank: 1 is the highest tax burden city		
Family Income	2009	2010	2011
$25,000	13	17	18
$50,000	4	4	13
$75,000	4	4	9
$100,000	6	4	8
$150,000	6	6	10
Combined Total	5	4	10

*Estimated tax burden ranking for a hypothetical family of three

Source: Government of the District of Columbia; Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison; publications for 2009, 2010, and 2011

A review of the estimated tax burdens by type of tax reveals that the combined state and local income tax burden is significantly greater in Detroit than the average.

Table 6
Estimated State and Local Tax Burdens in Detroit for a Hypothetical Family Compared with the Average for the Largest City in Each State by Income Class

Tax	Detroit	Average*	Median
$25,000 Income Level			
Income	$644	$266	$7
Property	1,831	1,891	1,831
Sales	578	728	672
Auto	216	274	262
Burden Amount	$3,270	$3,065	2,956
Burden as a % of Income	13.1%	12.3%	11.8%

Table 6 (contineud)

$50,000 Income Level			
Income	$2,446	$1,227	$1,064
Property	2,458	2,686	2,347
Sales	766	981	935
Auto	252	323	303
Burden Amount	$5,922	$4,971	$4,693
Burden as a % of Income	11.8%	9.9%	9.4%
$75,000 Income Level			
Income	$4,541	$2,502	$2,443
Property	2,715	3,092	2,787
Sales	1,019	1,303	1,228
Auto	429	589	556
Burden Amount	$8,704	$7,041	$7,009
Burden as a % of Income	11.6%	9.4%	9.3%
$100,000 Income Level			
Income	$6,296	$3,871	$3,888
Property	2,933	3,405	3,165
Sales	1,107	1,436	1,351
Auto	481	651	616
Burden Amount	$10,817	$8,719	$8,974
Burden as a % of Income	10.8%	8.7%	9.0%
$150,000 Income Level			
Income	$9,721	$6,835	$6,825
Property	3,394	4,067	3,846
Sales	1,714	2,194	2,047
Auto	693	846	775
Burden Amount	$15,522	$12,831	$13,325
Burden as a % of Income	10.3%	8.6%	8.9%
Combined Income Levels			
Income	$23,648	$14,701	$14,362
Property	13,332	15,141	13,993
Sales	5,184	6,641	6,138
Auto	2,070	2,682	2,489
Burden Amount	$44,235	$36,628	$37,221

* For cities levying the tax

Source: Government of the District of Columbia; Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison, 2011

While estimates of the burden of property, sales and auto taxes in Detroit are generally less than the average and median of the 51 cities in the comparison, the high estimated income tax burden results in higher than average overall state and local tax burden at every income level.

Non Tax Revenues

State Revenue Sharing and Other State Source Revenues

SRS and EVIP

In Michigan, unrestricted revenue sharing began in the 1930s with the state sharing a portion of taxes on enterprises licensed to sell alcoholic beverages, evolved into a program in which the state shared revenues from the intangibles, sales, income, and single business taxes, and is now a program in which the state shares revenues from the sales tax, a portion of which is shared on a conditional basis.

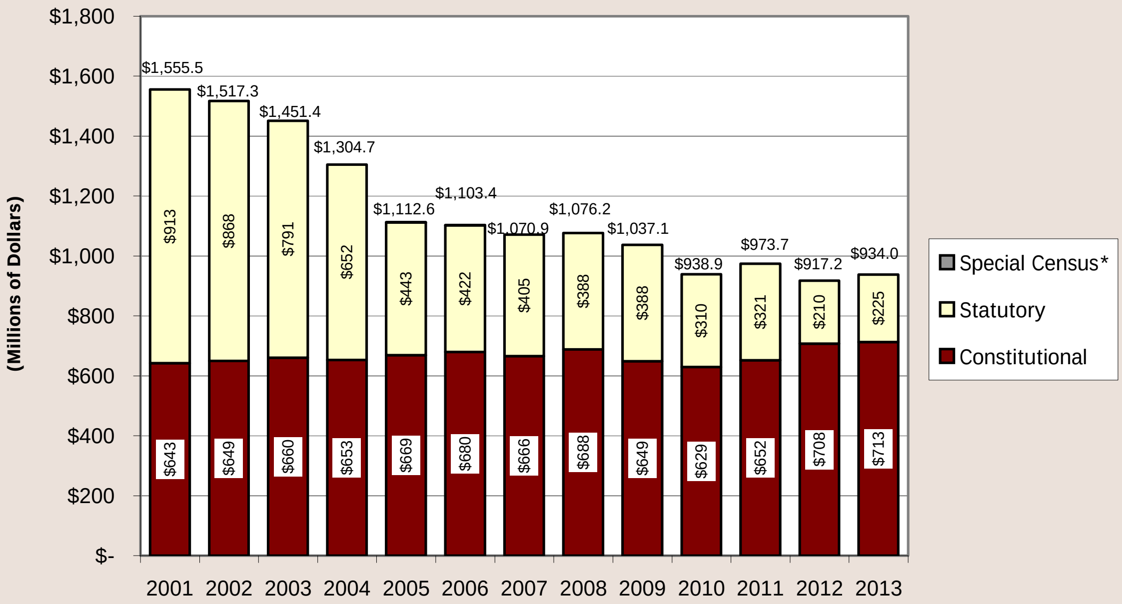
Article IX, Section 10 of the 1963 Michigan Constitution guaranteed that 12 percent of revenues from the pre-1994 rate, 4 percent (the sales tax rate is now 6 percent) sales tax "shall be used exclusively for assistance to townships, cities and villages, on a population basis as provided by law." In 1974, the Constitution was amended to mandate that 15 percent of revenues from the state sales tax be distributed to locals.

Constitutionally required revenue sharing was accompanied by statutory revenue sharing, which after 1972 was based on a "relative tax effort" (RTE) formula. This formula particularly benefited Detroit, which had a low tax base, more kinds of taxes (property, income, and utility taxes were considered in the formula), and higher tax rates than other local governments. Because the statutory portion of revenue sharing was not mandated in the constitution, state budget problems were frequently reflected in reductions in state appropriations for statutory revenue sharing payments. In 1996, the state source of statutory revenue sharing was changed from four tax sources to the slower growing state sales tax, and the distribution formula was also changed, partly in response to the perception that the RTE formula rewarded communities for imposing high tax rates that depressed economic growth. Starting in 1999, statutory revenue sharing was distributed according to four formulae:

- Percent share of FY1998, the phase-out of the old formula.
- Taxable value per capita, a measure of wealth and tax capacity.
- Population unit type, which reflects the service level of the city, village, or township.
- Yield equalization, which offsets variances in taxable property wealth among local units.

The past decade has been a difficult one for Michigan's economy, and state revenues reflected the poor economy. **Chart 21** shows that the annual amount available for revenue sharing payments to local governments declined from $1.5 billion in State Fiscal Year 2001 (SFY2001) to less than $1 billion in SFY2010 and 2011.

Chart 21
State Revenue Sharing Payments

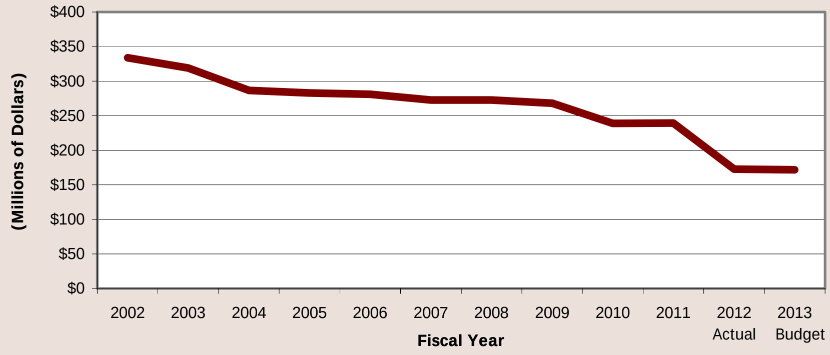


Source: State Revenue Sharing Payments, MI Department of Treasury website

Reductions in amounts appropriated by the state for statutory revenue sharing had very significant effects on local governments.

As the recession that began in December, 2008 worsened and the domestic automotive sector restructured, reducing taxes paid to the state, the state again responded by reducing payments to local governments. Constitutionally required revenue sharing payments to cities, villages, and townships continued, but legislatively appropriated statutory payments were severely cut. Since 2005, Detroit has received about one-quarter of the state revenue sharing payments made to local units of government, and Detroit suffered the largest impact of the cuts. In FY2013, Detroit's General Fund will receive $171.8 million, a loss of $162.0 million or 48.5 percent, from the amount received in FY2002 in state revenue sharing (See **Chart 22**).

Chart 22
State Revenue Sharing Payments to Detroit's General Fund

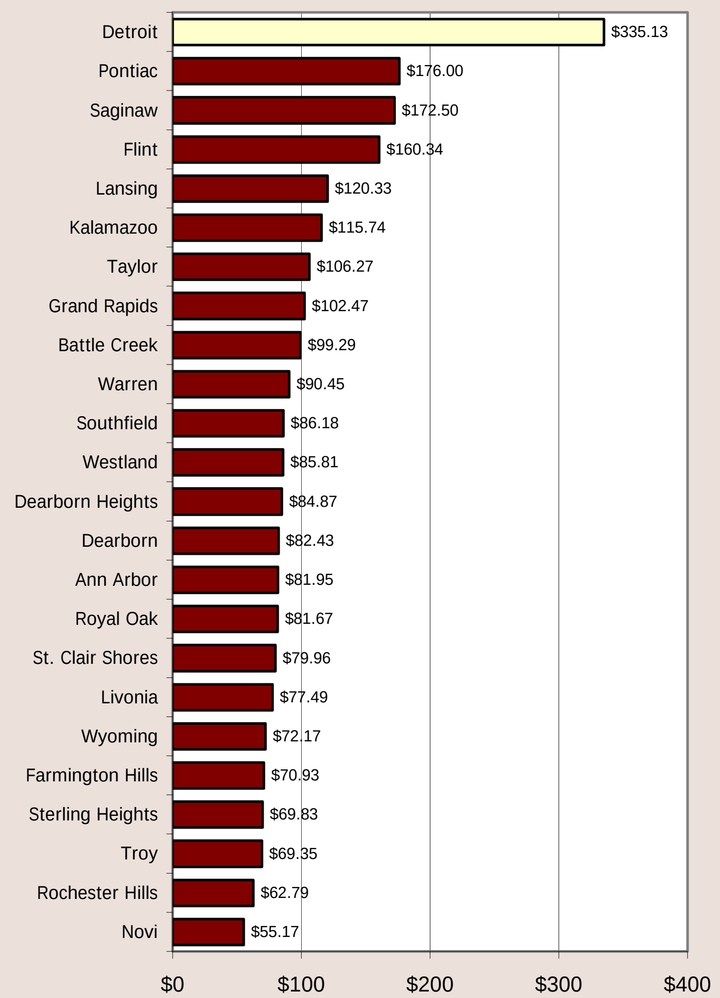


Source: FY2011 and FY2012 CAFRs, FY2013 City of Detroit Budget

If annual state revenue sharing payments to Detroit had remained at $333.8 million, the amount received in FY2002, the city would have received a total of $482 million more to fund general operations in the FY2003 through FY2011 period. If the city were to receive $333.8 million (the amount received in FY2002) in FY2012 and FY2013, revenues would be $168.2 million higher in FY2012 and $162.0 million higher in FY013.

The loss of statutory state revenue sharing has had serious implications not just for Detroit, but for many other local governments in Michigan. Because revenue sharing payments are unrestricted, they are a crucial element in local governments' ability to provide essential services. Nonetheless, state revenue sharing remains a very significant source of operating revenues for cities in Michigan, and Detroit continues to receive far more, both on a dollar basis and on a per capita basis, than other Michigan cities. In SFY2010, the amounts received from constitutional and statutory revenue sharing by the 24 cities in Michigan that had over 50,000 residents varied from $55.17 per capita in Novi to $335.13 in Detroit (See **Chart 23**).

Chart 23
Per Capita State Revenue Sharing Payments to Michigan Cities over 50,000 Population, State Fiscal Year 2010



Source: Michigan Department of Treasury

State revenue sharing payments are made in October, December, February, April, June, and August. Because the state's fiscal year ends September 31 and the city's fiscal year ends June 30, the amounts reflected in state and city fiscal year financial reports vary based on the timing of payments. According to state reports, in SFY2010 Detroit received 9.6 percent of the constitutional payments based on the 2000 population and 57.8 percent of statutory, formula-based payments. In SFY2011, using the revised 2010 population count, Detroit received 7.2 percent of all constitutional payments and 59.8 percent of statutory payments. In SFY2010, Detroit received $149.2 million more in statutory payments than it would have if the distribution were made on a per capita basis. In SFY2011, Detroit received $168.9 million more in statutory payments than it would have if the distribution were made on a per capita basis (See **Table 7**).

Detroit, with seven percent of the state's residents, received nearly 60 percent of statutory revenue sharing in 2011, while none of the villages and smaller townships in the state received any statutory revenue sharing. (See **Table 8**.)

Table 7
State Revenue Sharing
(Dollars in Millions)

	Payment to Detroit	All Revenue Sharing Payments	Detroit as a Percent of Total
2010			
Constitutional	$60.3	$629.2	9.6%
Statutory	178.9	309.7	57.8%
Total	$239.2	$938.9	25.5%
2011			
Constitutional	$47.1	$652.3	7.2%
Statutory	192.1	321.4	59.8%
Total	$239.2	$973.7	24.6%

Source: Michigan Department of Treasury, Office of Revenue and Tax Analysis, FY2011 Revenue Sharing

Table 8
State Revenue Sharing and EVIP Payments
(Dollars in Millions)

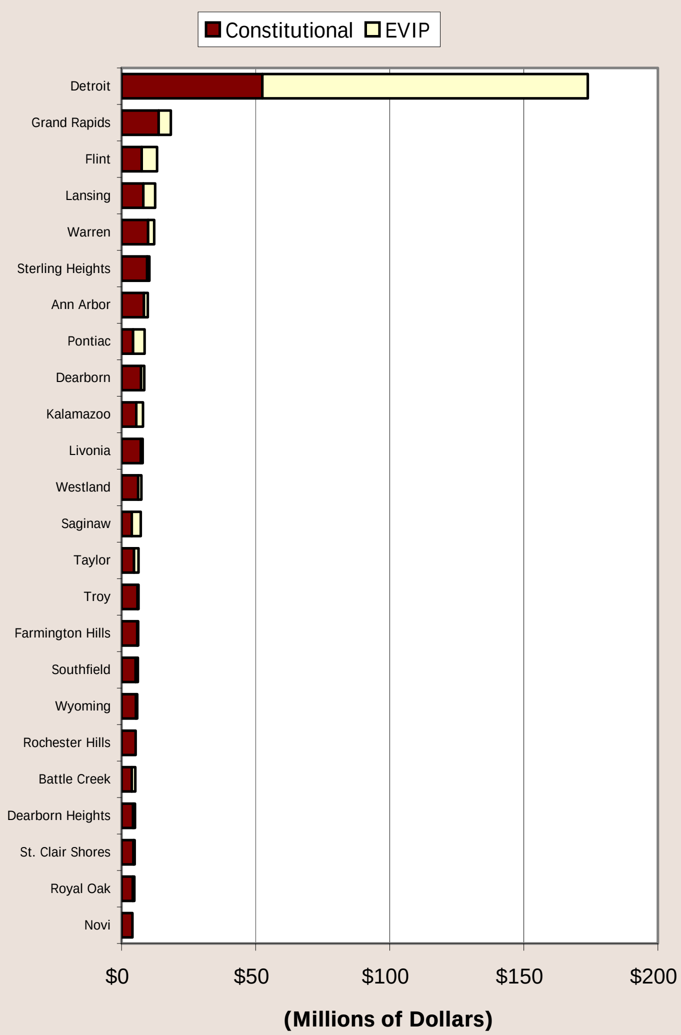
	Payment to Detroit	All Revenue Sharing Payments	Detroit as a Percent of Total
2012			
Constitutional	$51.0	$707.5	7.2%
EVIP	121.4	209.7	57.9%
Total	$172.4	$917.2	18.8%
2013			
Constitutional	$52.5	$713.2	7.4%
EVIP	121.4	224.8	57.8%
Total	$173.9	$937.95	18.6%

Source: Michigan Department of Treasury, Constitutional and EVIP Revenue Sharing, January Consensus

When statutory revenue sharing was changed to the Economic Vitality Incentive Program, a total of $210 million was appropriated for formula distribution to eligible local units. If it met the criteria, Detroit was eligible for the same 57.8 percent it had received in 2010 from statutory revenue sharing, but 57.8 percent of $210 million was $121.4 million, or $70.7 million less than the 2011 statutory payment (See **Chart 24**).

Revenue sharing payments to Detroit have been affected by reductions in the state amounts appropriated, changes in the distribution formula, and changes in the population of the city. While Detroit's 25 percent population loss from 2000 to 2010 resulted in a loss of state shared revenues, some other cities gained population and are scheduled to receive more in SFY2013 than in SFY2010.

Chart 24
Estimated SFY2013 Constitutional Revenue Sharing and EVIP Payments to Michigan Cities over 50,000 Population



Source: Michigan Department of Treasury

Conditions for Receiving Economic Vitality Incentive Program Payments

In order to receive full payment under EVIP, a local government must fulfill the requirements in each of three categories (each category represents one-third of the maximum grant available to that local government).

The first required category is accountability and transparency, which is satisfied by making available to the public a citizens' guide and a performance dashboard of economic indicators or a financial summary that includes unfunded liabilities.

Local governments were required to certify to the state by January 1, 2012 that they had produced and made available to the public a plan with at least one proposal to increase the existing level of cooperation, collaboration and consolidation either within the jurisdiction or with other jurisdictions. The plan was to include previous service consolidations and resulting cost savings and estimates of savings from proposed consolidations. Consolidation of services was to be facilitated by a $5 million statewide grant program to help offset costs associated with service consolidation or sharing, or other cooperative efforts among local communities.

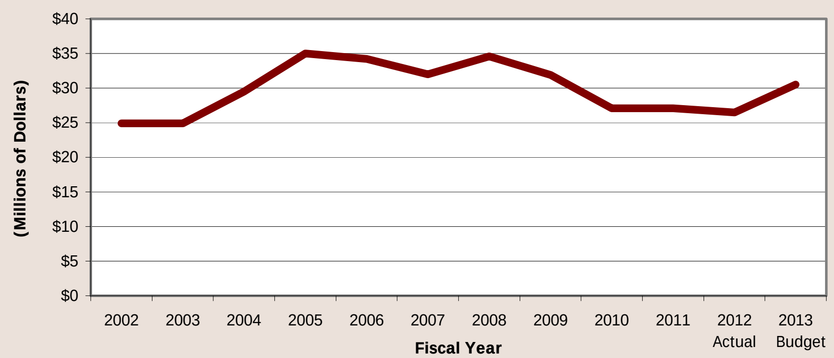
To qualify for the employee compensation category of the EVIP, local governments must have certified by May 1, 2012 that they had developed an employee compensation plan that they intended to implement. The plan must cap employer contributions to retirement plans for new hires at 10 percent of base salary for employees who are eligible for Social Security and at 16.2 percent for employees who are not eligible. The multiplier for defined benefit pension plans cannot exceed 1.5 percent for employees who are eligible for Social Security except where post employment health care is not provided, in which case the maximum multiplier is to be 2.25 percent. Average final compensation for defined benefit plans must use a minimum of three years, not include more than 240 hours of paid leave, and not include overtime hours. Health care costs for new employees must include an employee minimum cost sharing of 20 percent or the employers' share must be cost competitive with the new state preferred provider organization health plan.

These requirements guided the employment terms imposed by the mayor in July, 2012. Under PA 4 of 2011, 30 days after a consent agreement was adopted, the local government was no longer required to bargain with employee unions. Because most City of Detroit collective bargaining agreements expired on June 30, 2012, the Mayor was able to impose contracts that satisfied the state requirements. PA 4 was rejected by state voters at the November 6, 2012 general election, but PA 436 contains a similar provision.

Licenses, Permits, and Inspection Charges

The city charges for issuing required licenses and permits, and for the cost of inspections. In FY2013, the departments of Public Works, Fire, Health and Wellness Promotion, Police, and Non-Departmental were expected to generate $7.6 million from licenses, permits, and inspection charges (down from $9.1 million in FY2012); the Buildings, Safety Engineering and Environmental Department was expected to earn $22.9 million. (See **Chart 25**.) On a city-wide basis, Detroit expected to earn $30.5 million from licenses, permits, and inspection charges in FY2013.

Chart 25
General City Licenses, Permits, and Inspection Charges



Source: FY2011 and FY2012 CAFRs, FY2013 City of Detroit Budget

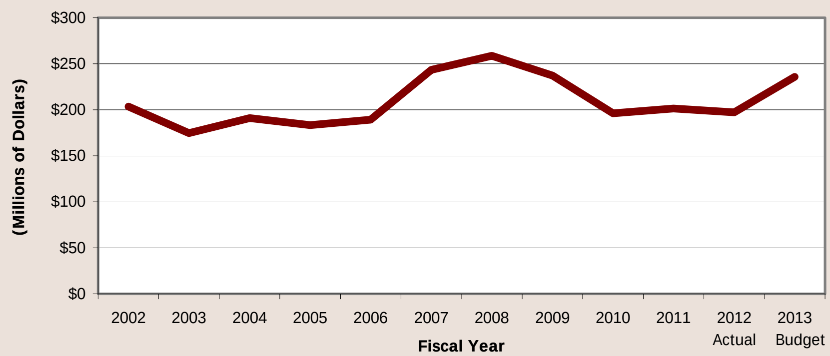
Sales and Charges for Service

The city government provides a range of services for which it charges a fee. Of 27 General City agencies in the FY2013 budget, 19 generate revenues that are categorized as "sales and charges for service." The city charges a household solid waste fee of $240 for residential customers ($120 for seniors) that is expected to produce $36.9 million for the DPW in FY2013; the Public Lighting Department charges for steam and electrical service to those buildings it serves (sale of electricity and steam is budgeted to produce $46.0 million in FY2013); the Emergency Medical Services (EMS) charges for ambulance transport; the city charges for collecting property taxes and for a host of other services. Collection of past due bills for permits, licenses, and fees is valued at $8 million in the July 26, 2012 Discussion Document. The city announced an initiative to hire business license investigators to ensure that all businesses in the city have the proper city licenses.

In the FY2013 budget, General City agencies are expected to generate $283.3 million from sales and charges for service ($235.5 million of that is General Fund). While these numbers are reflected in the city's budget, the data used to produce **Chart 26** are from the Comprehensive Annual Financial Report, and may not capture exactly the same items.

While 19 of 27 General City agencies charge fees for various services or receive receipts from sales, enterprise agencies in particular earn revenue from their activities: water and sewer fees, parking fees, bus fares, inspection fees, etc. Most enterprise agencies are similar to businesses, but the Buildings and Safety Engineering and Environmental Department is essentially regulatory. The parking enforcement function of the Municipal Parking Department is an ordinance enforcement function that is part of the General Fund. If, as has been discussed by the city administration and the Financial Oversight Board, the city government were to actually refocus only on core services, it could be argued that the airport, parking

Chart 26
General City Agencies, Sales and Charges for Service



Source: FY2011 and FY2012 CAFRs, FY2013 City of Detroit Budget

garages, bus system, water and sewerage, and library could all be made independent of city government or transferred to other entities.

Table 9
Budgeted Sales and Charges for Service in Enterprise Agencies

	FY2012	FY2013
Airport	$85	-
Buildings, Safety Engineering and Environmental	$213	$65
Department of Transportation	$82,000	$66,540
Municipal Parking	-	-
Water	$374,691	$389,936
Sewerage	$489,189	$517,576
Library	-	-
Total	$946,178	$974,117

General city agencies are budgeted to receive $283.3 million from sales and charges for service in FY2013; enterprise agencies are budgeted to receive $974.1 million from these sources (See **Table 9**).

The adopted FY2013 city budget includes a total of $1.3 billion from sales and charges for service for all departments.

The sale of the Veterans Memorial Building to the UAW/Ford for $5 million will generate $4 million for the General Fund and $1 million for the Detroit Economic Growth Association for the maintenance of Hart Plaza, according to the August 13, 2012 Discussion Document. The sale of the Fire Department Headquarters building was announced in March, 2013. The developer proposes converting that building into a boutique hotel.

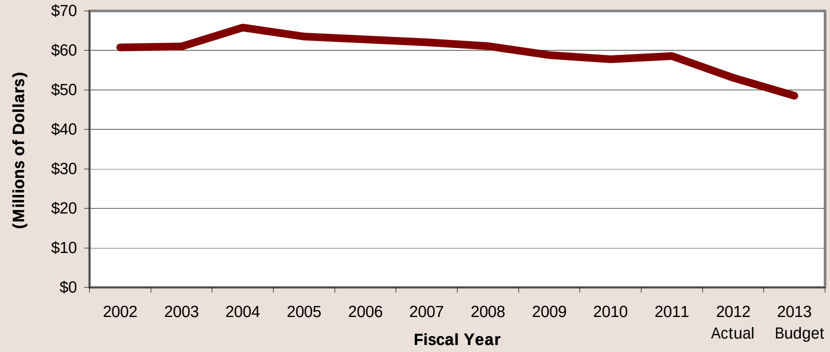
Fines

The Finance Department, Department of Administrative Hearings, Municipal Parking Department, and the 36th District Court are among the city departments that impose fines. According to the February 19, 2013 supplemental documentation of the Detroit Financial Review Team report, the 36th District Court had $279.3 million in outstanding accounts receivable. Of that, about $199 million was owed to the City of Detroit. These accounts receivable were uncollected fines, fees, and other costs related to parking violations, civil infractions, misdemeanor traffic and drunken driving violations, and other misdemeanor violations.

State Gas and Weight Taxes

The State of Michigan funds road construction and maintenance by taxing gasoline and diesel fuel, imposing a vehicle registration fee and a commercial vehicle weight tax, and through receipt of federal highway aid. The weak economy and improved fuel economy has resulted in flat or declining tax and registration fee revenue since 2005. A portion of these state revenues are distributed to cities and villages for major and local street construction and maintenance.

Chart 27
Gas and Weight Tax Receipts



Source: FY2011 and FY2012 CAFRs; FY2013 City of Detroit Budget

The Department of Public Works is the primary city government recipient of state shared gas and weight tax payments for street maintenance.

Declining revenues from this source ($51.2 million in FY2012 and $48.5 million in FY2013) affect the city's ability to maintain critical infrastructure. (See **Chart 27**.)

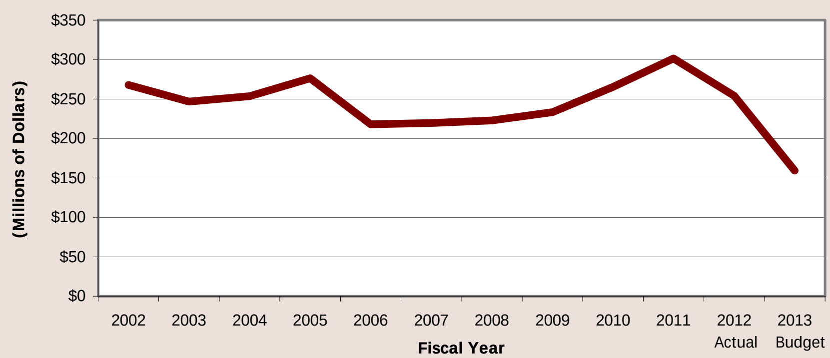
Other Revenues from the State

In addition to revenue sharing and gas and weight taxes, in FY2013 the state is also expected to provide $41.5 million in transportation funds for the bus system (down from $52.0 million budgeted in FY2012) and $30.1 million in other revenues (down from $35.9 million in 2012).

Revenues from the Federal Government

The city government receives grants from the federal government for a variety of specific purposes, including public safety programs, purchase of buses, and community development. In FY2013, the city has not budgeted federal source revenues for weatherization grants ($10.4 million budgeted in FY2012), Head Start grants ($51.2 million budgeted in FY2012), or health grants ($45.4 million in FY2012). (See **Chart 28**.)

Chart 28
Revenues from the Federal Government



*FY2013 Budgeted amount does not include weatherization, Head Start, or health grants.

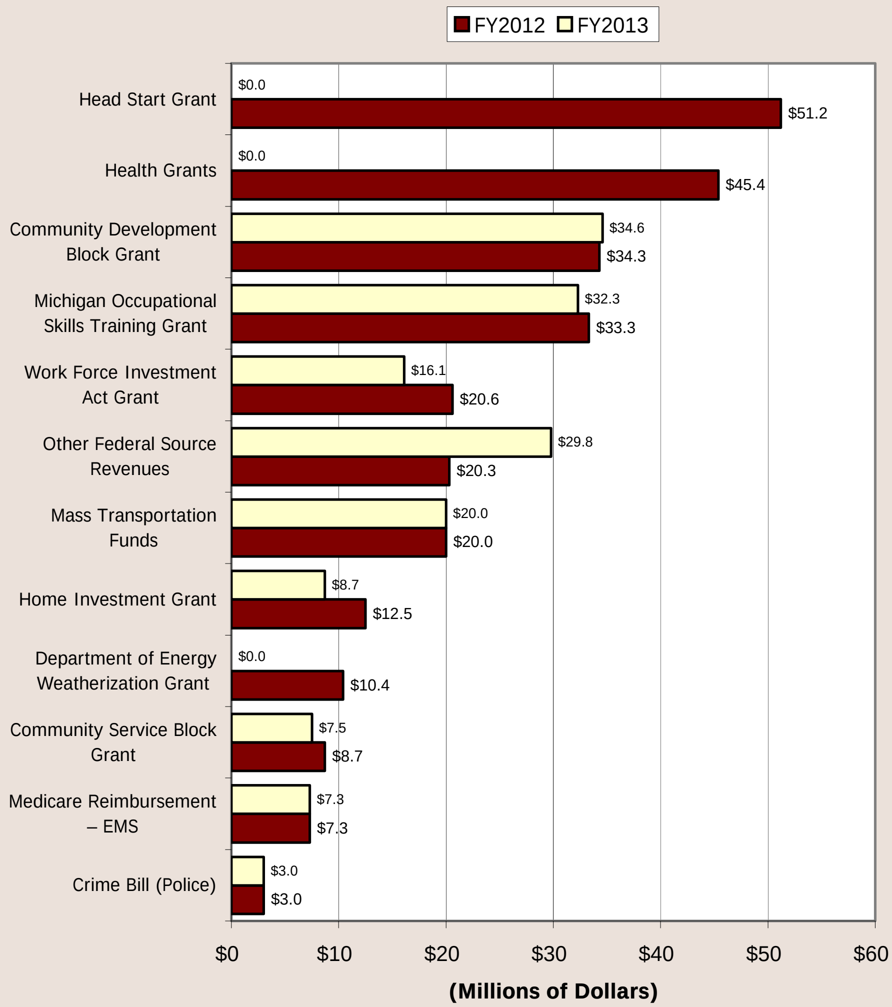
Source: FY2011 and FY2012 CAFR; FY2013 City of Detroit Budget

As a result of planned changes in service delivery systems that transfer responsibility for Head Start, weatherization, and health programs to other providers, the FY2013 city budget includes $107.6 million less than the FY2012 budget from federal sources (See **Chart 30**).

Grant Funding

As the city government is forced by financial and operational challenges to refocus on core services and to restructure service delivery systems, there has been both more dependence on grant funding and greater pressure to offload functions that the city government has failed to administer effectively. The city received a federal SAFER grant that allows it to retain 108 firefighters, but federal grant funding for Head Start, and Weatherization programs will be redirected to other providers. According to the administration's plans, other Community Services Block Grant programs that have been administered by the Human Services Department will be moved to an independent Community Action Agency, health grants will be transferred to the Institute for Population Health, and the Workforce Development Board, a 501(c)(3), will assume the role of fiscal agent and grant recipient for workforce development grants.

Chart 29
City of Detroit Budgets: Federal Grants



Source: FY2012 and FY2013 Budgets, Revenue by Major Source

Table 10 shows the major departments that in FY2012 were primarily funded by federal and state grants rather than by municipal taxes or other non-dedicated general revenues.

Because the grant funding for these programs comes from state and federal sources, there are rules and restraints on how the funds can be used, reports are required, and some oversight is exercised by the appropriate federal or state agency. In addition to grants and General Fund support, some of these departments also earn revenues categorized as licenses, permits, and inspection charges; revenues from use of assets; sales and charges for service; and miscellaneous.

The city has had significant problems in administering some of these grant programs, and has had to return tens of millions of dollars to the federal government. One of the benefits the city receives from administering grant programs is the ability to charge grant funded positions for the full amount of pensions and other fringe benefits, including amounts for unfunded accrued liabilities in pension funds and for hospitalization and other costs for city government retirees.

Reductions in grant funded programs do not reduce the General Fund deficit.

Table 10
City of Detroit Budget: Major Grant Funded Departments

	Grant Revenues	Total Appropriations	Percent Grant Funded	General Fund
Workforce Development				
FY2012	$52,892,432	$53,894,132	98.1%	$1,001,700
FY2013	48,403,093	48,404,595	100.0%	1,502
Health & Wellness Promotion				
FY2012	60,727,784	77,443,865	76.7%	18,055,176
FY2013	0	7,030,000	0.0%	7,030,000
Human Services				
FY2012	70,327,838	70,327,838	99.7%	222,725
FY2013	7,471,162	7,471,162	100.0%	0
Planning & Development				
FY2012	44,344,887	46,863,149	90.9%	4,284,001
FY2013	33,005,103	42,789,049	77.1%	2,051,600
Total				
FY2012	$228,292,941	$248,528,984	91.9%	$23,563,602
FY2013	$88,879,358	$105,694,806	84.1%	$9,083,102

Sale of Assets

The sale of assets can provide one-time revenues. The strategy concerning property that the city does not need for service provision (tax reverted parcels or surplus property) is evolving. The large inventory of tax reverted properties exists because there was no buyer for those parcels at the various tax sales; tax reverted parcels lack market value because there is no demand and abundant supply. The city has for many years tried to sell tax reverted parcels to adjacent property owners or otherwise return those properties to productive use. Current strategies contemplate banking some properties for active or passive recreation purposes, community gardens or commercial agriculture, or other uses.

Other city owned assets include parks, municipal buildings, collections of city-owned cultural institutions, and the water and sewer system; the city has recently announced the sale of the Veterans Building and the old Fire Department headquarters building. The city has determined that it is unable to maintain all of its 350 parks; some parks will remain open to the public but will receive no maintenance, neither mowing nor trash pick-up.

The city's largest income-producing asset is the water and sewerage system (DWSD), which in March, 2013, was released from U.S. District Court supervision. Water and sewerage operating revenues cannot be transferred to the General Fund, but the court-appointed Root Cause Committee, composed of two Detroit City Council members, the chairman of the Board of Water Commissioners, and the city's Chief Financial Officer, proposed a plan that would have the city government establish an authority that would lease the system to another authority that would pay the General Fund up to $70 million annually. According to the Committee's proposal, the plan would achieve the following:

- Achieve short and long term compliance with court orders,
- Maintain Detroit's ultimate ownership,
- Provide an ongoing and reliable revenue stream to Detroit's General Fund,
- Insulate DWSD and customers from risks of Detroit's financial situation,
- Protect DWSD assets from bankruptcy risk, and
- Improve DWSD's credit rating, thereby reducing DWSD's borrowing costs.

The Committee also noted additional benefits to the city government, including reducing the city's long term liability by $6 billion and transferring the DWSD's share of unfunded pension and other post employment benefit obligations. The plan, first described publicly in a March 10, 2013 Free Press article (Regional water authority could be a $50 million boost for Detroit), notes that DWSD has received several bond rating downgrades over the past two years as a result of its connection to the city government.

Borrowing and Debt

The city government also obtains resources by borrowing. Governments borrow money for a variety of purposes by issuing notes, bonds, or other debt instruments. Detroit currently has several general categories of borrowing: bonded general obligation (G.O.) debt, revenue bonds with a designated source of repayment, and pension certificates of participation. General obligation debt is either "limited tax" debt that is not voter approved and is repaid from general operating revenues, or "unlimited tax" debt which is voter approved and is repaid from a special property tax levy. Detroit has issued bonded debt to fund capital improvements and current operations and has issued certificates of participation to fund the city's two defined benefit pension systems. The city has also issued non-general obligation revenue bonds that are only repayable from designated revenues such as water and sewerage fees or automobile parking system revenues.

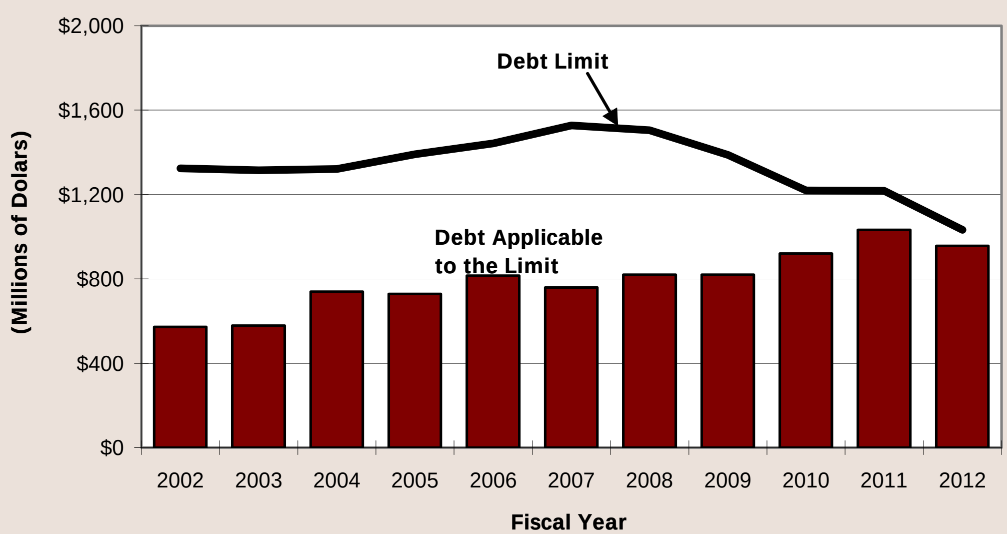
One of the methods that the city has in the past used to increase the resources available for operations is the sale of deficit funding bonds and other borrowing to support current activities such as risk management and purchase of vehicles. The receipts from the sale of deficit funding bonds are accounted for as revenues in the year of sale, but in the years that follow the principal and interest the city must pay is accounted for as a liability. In recent years, Detroit has relied heavily on long-term debt to address current operating deficits. Debt issuance can mask fiscal problems in the short run by reducing the General Fund deficit in the year in which the debt is issued. Detroit has been running a General Fund deficit since FY2003, and in FY 2012 the accumulated General Fund deficit was $326.6 million. Had Detroit not issued debt during this period, the FY 2012 accumulated deficit would have been $936.8 million.[11] Because Detroit's operating revenues are decreasing, the increasing debt service payments needed to support this newly issued debt is contributing to the current fiscal crisis.

This topic is addressed further in CRC Report 373, *Legacy Costs and Indebtedness of the City of Detroit*, published in December 2011.

Debt Margin

Because the state limits the amount of general obligation debt municipalities may have outstanding to a percentage of taxable value, the declining tax base and increasing outstanding debt applicable to the limit have resulted in reduced capacity to issue additional general obligation debt.

Chart 30
General Obligation Debt Capacity



Source: FY2011 and FY2012 CAFRs

Previously issued bonds are constantly being repaid, but as the city government has issued more general obligation debt to fund operations (such as the $250 million of limited tax budget stabilization bonds sold in 2010) and capital improvements (such as the $100 million of unlimited tax general obligation bonds sold in 2011), the shrinking debt margin provides a serious constraint (See **Chart 30**).

The state imposed general obligation debt limit was one factor in the city's decision to issue non-bond, non-general obligation debt in the form of pension certificates of participation, which are contractual obligations of the city, sold in 2005 and 2006 to fully fund the two defined benefit pension systems (in 2004, both systems had fallen below the 80 percent funded ratio that is deemed acceptable for public pension plans: the Police and Fire system was 79.7 percent funded and the General system was 73.0 percent funded). These certificates are now rated far below investment grade (CC by Fitch; Caa1 by Moody's).

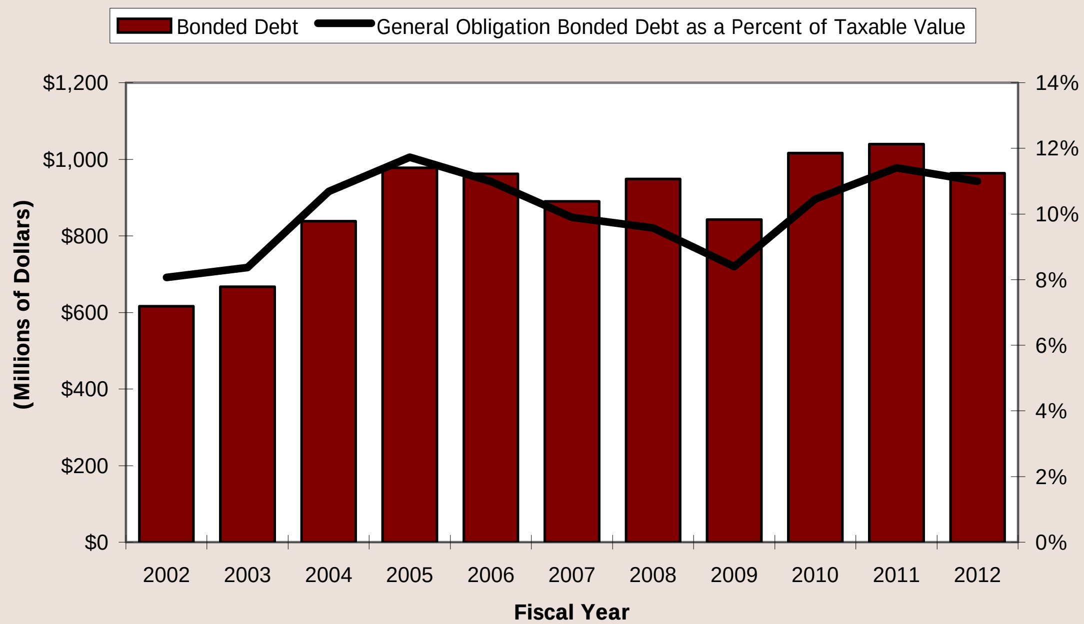
General Obligation Debt

Total general obligation bonded debt outstanding increased from $616.3 million in 2002 to $963.4 million in 2012. The relationships resulting from changes in general obligation bonded debt and taxable value are reflected in **Chart 31**.

Total Bonded Debt

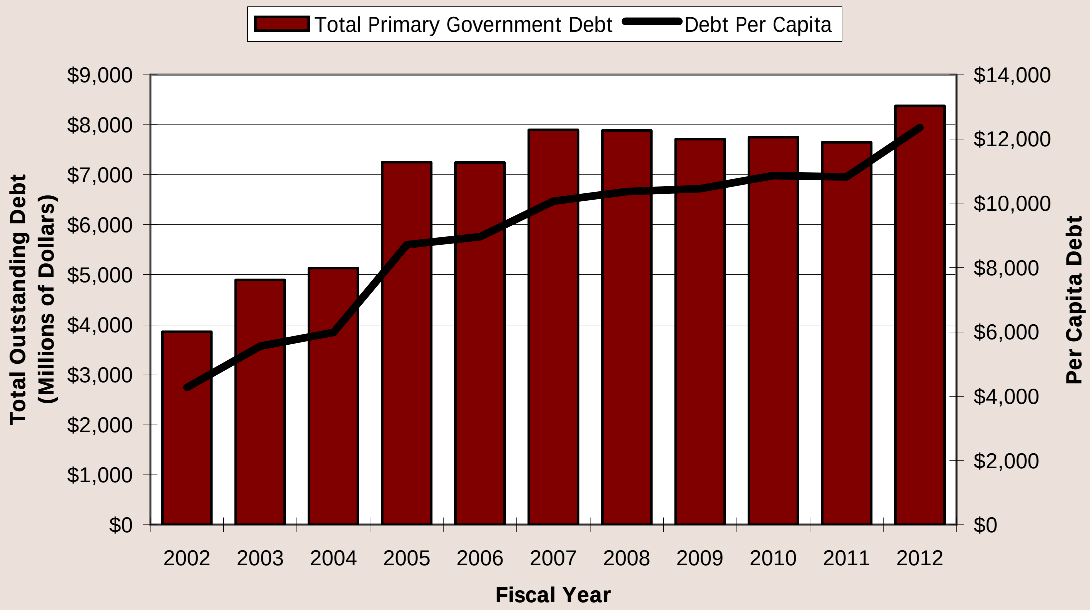
Total bonded debt includes revenue bonds, which will be repaid from designated revenues such as water or sewerage charges. The reduced number of residents has the effect of dramatically increasing

Chart 31
General Obligation Bonded Debt



Source: FY2011 and FY2012 CAFRs, CRC calculations

Chart 32
Outstanding Debt Per Capita



* Assumes equal annual population loss 2000-2010, U.S. Census estimate for 2011, SEMCOG estimate for 2012.

Source: FY2011 and FY2012 CAFRs, CRC calculations

the reported bonded debt per capita, even though total primary government (governmental activities and business-type activities) debt has been relatively stable since 2005 (See **Chart 32**, the CAFR used the 2000 population number through 2010 and the lower 2010 new census figure in 2011 and 2012, but the GO bonds per capita numbers in this chart reflect average population losses from 2000 to 2010, the census estimate for 2011, and the Southeast Michigan Council of Governments' (SEMCOG's) estimate for 2012).

Most of the debt ($6.0 billion) reflected in **Chart 32** results from revenue bonds that will be repaid from water and sewerage fees. As a practical matter, however, there are fewer residents and businesses to repay general obligation debt and contractual obligations incurred by the municipal government. This, and the city government's underlying financial problems, recurring cash flow problems, and weaker state oversight resulting from the repeal of PA 4 resulted in recent downgrades of city issued debt. (See **Table 11**.)

The outlook on these bonds was negative, according to Moody's, based on the rating agency's assessment of the possibility that the city could file for bankruptcy over the next 12 to 24 months.

Table 11
Moody's Investors Service Rating of Detroit Debt

General Obligation Unlimited Tax	Caa1
General Obligation Limited Tax	Caa2
Certificates of Participation	Caa1
Water and Sewerage Revenue (Senior Lien)	Baa3
Water and Sewerage Revenue (Second Lien)	Ba1

Source: Moody's Investors Service, Rating Update November 28, 2012

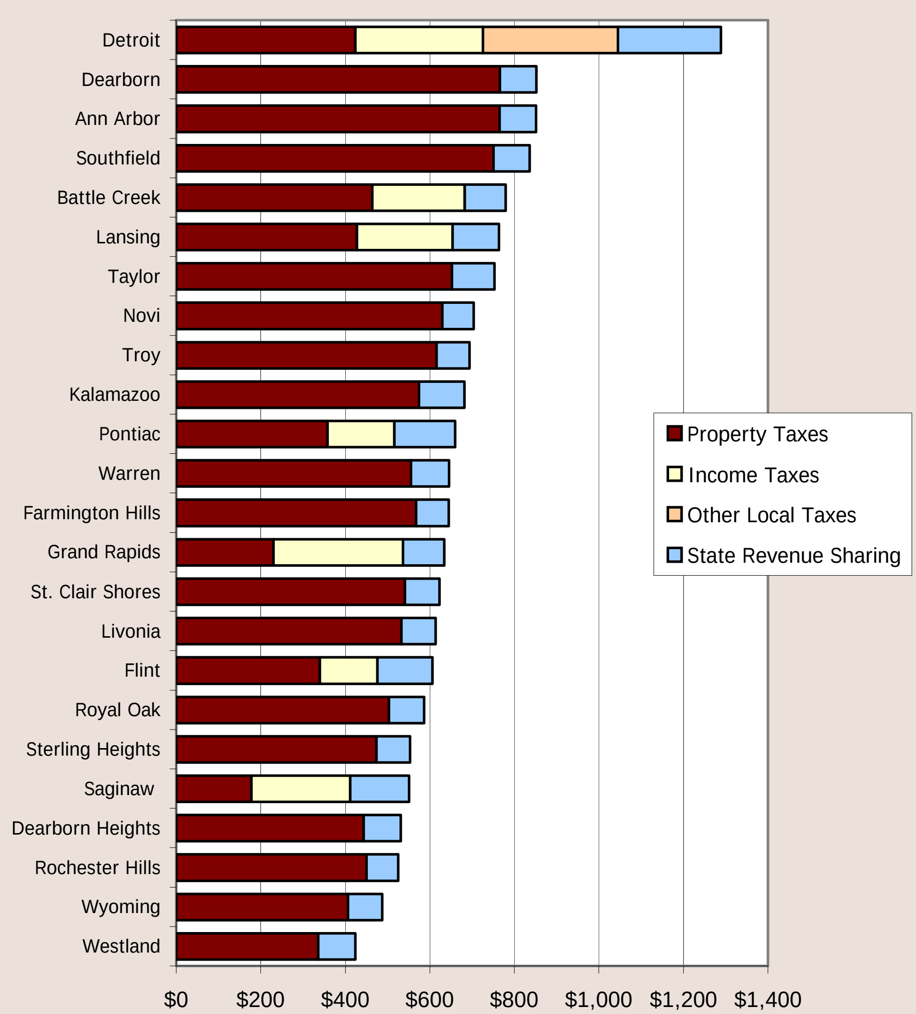
Conclusion

Michigan city governments have a variety of revenue sources, but city taxes and state shared revenues are the major sources of revenues for general operations. An estimated 40.9 percent of Detroit residents are below the federal poverty level, but the city government imposes more taxes and higher rates of taxes, and notwithstanding recent declines in some tax receipts and state shared taxes, receives considerably more in local tax revenues and state shared taxes than other Michigan cities of over 50,000 in population on a per capita basis. (See **Chart 33**.)

Detroit receives nearly 60 percent of the state's statutory shared revenues as well as hundreds of millions of dollars in other state and federal grants ($452.3 million of the FY2013 total budgeted revenues of $2.6 billion are expected to come from state and federal sources). Nonetheless, since FY2003 General Fund expenditures have exceeded revenues every year, even though municipal service levels are far below adequate. As the city's tax base shrinks, obligations for legacy costs including pensions, certificates of participation, and retiree health care; negotiated wages and employee benefits; limited tax debt service; and vendor payments become harder to meet. Deficits are now so large that the city has repeatedly warned it will exhaust its cash.

The city suffered very significant losses in income tax revenues and state revenue sharing from FY2002 to FY2012, but revenues from the casino wagering tax have been fairly stable since 2007. Overall, annual non-enterprise funds revenues declined by $423.9 million or 21.8 percent from FY2002 to

Chart 33
Major Revenues Per Capita in Michigan Cities over 50,000 Population, 2010



Sources: U.S. Census Bureau, Michigan Department of Treasury; CRC Calculations

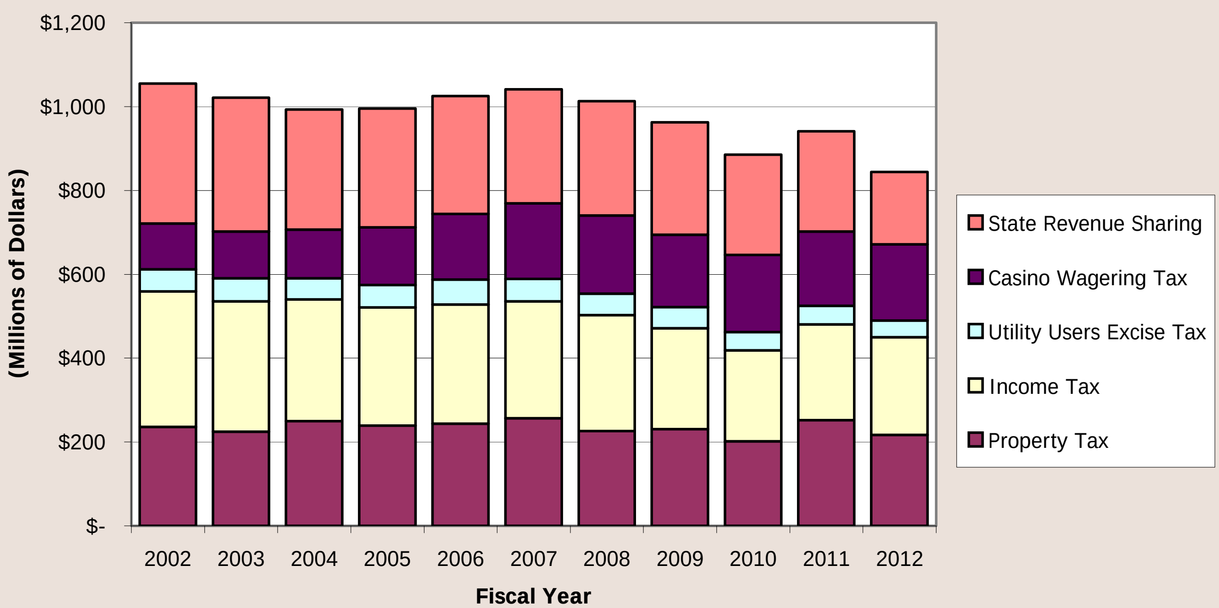
FY2012, creating major challenges for the city. (See **Chart 34**.)

The city has consistently overestimated revenues in the budget, and has been unable to reduce expenses (legacy costs and debt service are relatively fixed costs) even when it was obvious that revenues were falling below the budgeted amounts. The consent agreement negotiated between the city and the state anticipated that more accurate estimates of revenues could be derived through a twice yearly revenue estimating conference based on the state model, and the required approval of the financial advisory board appointed in 2012. It was hoped that an effective restriction on the amounts budgeted as revenues and assurances that expenditure reductions would be imposed when actual revenues were less than budgeted could allow the city government to eliminate deficits over time, and could result in a somewhat improved bond rating and improved confidence in the city government.

Unfortunately, the FY2012 CAFR reported that the general fund deficit grew from $196.6 million at June 30, 2011 to $326.6 million at June 30, 2012, raising significant liquidity risks. Bankruptcy is a possibility. An emergency manager has been appointed, and it remains to be seen if this will affect the trajectory of economic growth of the city. It also remains to be seen how the myriad of legal challenges and the enhanced powers available to an emergency manager under PA 436 will affect the city government's ability to meet its obligations.

Although it could be argued that the city government's problem derives more from its inability to control expenses than from inadequate revenues, one solution to the city government's fiscal problem would be to increase revenues still further. Increasing revenues depends on a growing economic base and/or increasing tax rates or broadening taxable bases; increasing fees, fines, charges for service, or penalties; selling assets; or increasing revenues from

Chart 34
City of Detroit General City Revenues FY2002 through FY2012



Source: FY2011 and FY2012 CAFRs

the state and federal governments. In the current political and economic environment, tax rate increases are highly unlikely (although further reductions in the city income tax rate have been paused to enable the city to improve street lights), nor is it likely that the legal base of existing taxes will be broadened. Improved collection of accounts receivable and of existing taxes, especially improved collection of taxes on Detroit residents' wages earned outside of the city, should be pursued; state legislation requiring withholding by suburban employers would be helpful.

Increasing already high tax rates would make the city less competitive. Increasing non-tax operating revenues such as fees and charges for service may have limited revenue-raising effects, but care must be taken so as not to increase disincentives to live or do business in the city.

The city government has increased operating resources through the sale of deficit funding and other bonds and certificates of indebtedness. As operating revenues decline, the debt service on these bonds is increasingly difficult to meet, contributing to the current financial crisis. The city is also approaching its legal debt limit, and bond ratings on general obligation debt are far below investment grade, precluding the use of this option for the foreseeable future.

The federal government is reducing transfers to local governments as the stimulus program ends and sequestration takes effect. While targeted federal grants will continue to be available, federal deficit reduction efforts make increased federal funding for most city operations highly unlikely.

As part of the financial stability agreement, the state agreed to supportive activities designed to contribute to the growth and health of the city. Several of the supportive initiatives have the potential to increase city government revenues or reduce city government costs in the short term, others have longer term prospects, and some are intended to increase services to residents, lower costs for residents, or improve the quality of life of residents. Some of the initiatives are designed to promote long-term economic growth. Most of the initiatives require cooperative actions of the city and state for success. Although locally elected officials were unable to capitalize on these opportunities, the new Emergency Manager may use those agreements as a template, building on negotiations that have already taken place.

Detroit city government receives far more from total local taxes and from state shared revenues, both on a dollar basis and on a per capita basis, than other Michigan cities. The city also faces far more problems than most other Michigan cities: very substantial loss of population and business establishments; legacy costs including those associated with pensions and other post-employment benefits; large numbers of dangerous and abandoned buildings; deteriorated public infrastructure; high crime and low employment; general fund deficits since FY2003 and shrinking city government staffing; and a host of other challenges. Nonetheless, projected revenues in the current fiscal year require substantial reductions on the expenditure side to balance the budget and begin paying down the accumulated deficit. Expenditure reductions imposed include further reducing the number of city workers, wage reductions, changes in pensions and other fringe benefits, and changes in working conditions. Not all planned reductions were imposed effective July 1, however, and the deficit continued to grow in FY2013.

On December 18, 2012, the Governor appointed a second review team to examine the city's financial condition. On March 1, 2012, the Governor concurred in that review team's finding of a financial emergency. This set the stage for appointment of an Emergency Manager who will have extraordinary powers to set aside impediments that prevented the Mayor and City Council from balancing the budget, addressing the accumulated deficit, and improving services to residents. Optimally, better financial management and improved city services will create an environment in which more private individuals will make decisions that result in a better economy and an improved tax base in a virtuous cycle of good government and private investment.

Appropriations and expenditures are explored in the next report in this series on Detroit's financial condition.

Endnotes

[1] These reports are based on the city's June 30, 2012 Comprehensive Annual Financial Report (CAFR), which was published in January, 2013 (the state's Uniform Budgeting and Accounting Act, PA 2 of 1968, requires the CAFR to be filed with the state within 180 days of the city's June 30 fiscal year end), as well as information from the 2012 and 2013 adopted budgets, the consent agreement authorized by PA 4 of 2011, the city charter adopted in 2011, reports made to the financial advisory board, and numerous other sources.

[2] The 1978 Headlee Amendment to the Michigan Constitution provides in part that if the value of a local government's total taxable property, excluding new construction and improvements, increases by more than the inflation rate, then the maximum authorized property tax rate must be reduced so that the total taxable property yields the same revenue, adjusted for inflation, as would be collected on the prior value.

[3] The state also imposes a property tax, revenues from which are used for school funding.

[4] Detroit Works Project Long Term Plan, Public Land and Facilities Element.

[5] Values for Detroit's fiscal year are listed in State Tax Commission reports for the earlier of the calendar years in that fiscal year. For example, taxable value for Detroit for FY2009 is listed in the state report for 2008.

[6] Christine MacDonald, The Detroit News, "Detroit's property tax system plagued by mistakes, waste", February 22, 2013

[7] The 2011 property tax burden including ad valorem special assessment millage on principal residences in Royal Oak Township (Oak Park City Schools) was 75.7497 mills on homesteads and 93.7497 mills on non-homestead property; In River Rouge the burden was 79.5736 mills on homestead property and 93.0574 mills on non-homestead property; in the City of Ecorse (Ecorse Public Schools) the burden was 74.2617 mills on homestead property and the none-homestead burden was 91.9755 mills; the burden in Highland Park was 73.2592 mills on homesteads and 90.9892 mills on non-homestead property; the burden in Inkster (Inkster City Schools was 71.8611 mill on homestead property and 89.8611 mills on non-homestead property.

[8] The Detroit News, "Half of Detroit property owners didn't pay taxes", February 21, 2013

[9] Financial Stability Agreement, Section 2.5 (c)(c)

[10] Tax structure metrics include neutrality, efficiency, ease of administration, simplicity, stability, and sufficiency.

[11] Report of the Detroit Financial Review Team. February 19,2013.