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THE PROPOSED 1994-95 CITY OF DETROIT BUDGET

On April 12, the Mayor of the City of Detroit delivered his recommended financial plan for 1994-95 to the Detroit City Council. According to the budget calendar followed by the city, the council has until May 17 to consider and modify the mayor's budget; the budget must be returned to the mayor by May 24. The mayor may veto any item or the whole budget and is required to return the budget and a statement of his reasons for any vetoes to council by May 27. Council has until June 1 to override the mayor's vetoes. The new fiscal year begins on July 1, 1994.

The proposed budget is balanced with full funding for contractual salary and fringe benefit obligations for employees and reasonable projected amounts of operating revenues. This is accomplished without layoffs by restructuring the general fund deficit. The city will issue \$125 million of deficit funding bonds to refinance \$82 million outstanding from an August, 1992 deficit bond sale, lengthen the repayment of that debt to seven years, and fund \$43 million of the \$63 million 1993-94 deficit. This strategy increases funds available to pay for current services by \$34 million over 1993-94 levels. The proposed budget reflects attempts to use existing personnel and other resources to improve city services without addressing the structural deficit. Improving economic conditions will help the city to accomplish this objective.

Expenditures

The total (all funds) budget of \$2.2 billion proposed by the mayor is \$232 million larger than the 1993-94 budget, an 11.6 percent increase.

Comparison of Adopted 1993-94 and Proposed 1994-95 Budgets (Dollars in Millions)

	<u>1993-94 Budget</u>		<u>Proposed 1994-95</u>		<u>Increase(Decrease)</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Salaries and Wages	\$565.0	28.3%	\$605.2	27.2%	\$40.1	7.1%
Employee Benefits	294.1	14.7	336.3	15.1	42.2	14.3
Professional? and						
Contractual Services	163.1	8.2	179.6	8.1	16.5	10.1
Operating Supplies	108.1	5.4	108.9	4.9	0.8	0.7
Operating Services	257.2	12.9	232.1	10.4	(25.1)	(9.8)
Capital Equipment	179.0	9.0	250.0	11.2	71.0	39.7
Fixed Charges	171.5	8.6	222.3	10.0	50.8	29.6
Other Expenses	256.2	12.2	292.6	13.1	35.7	13.9
Total	\$1,995.0	100.0%	\$2,227.0	100.0%	\$232.0	11.6%

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Personnel Costs Of the 17,851 positions in the 1993-94 budget, 16,039 are filled (excluding those on leaves of absence and workers' compensation); the proposed budget includes 17,790 positions, a slight reduction in budgeted positions, but a major increase over the number of positions currently filled. Salaries and wages are proposed at the levels required by existing union contracts, increasing budget allocations by \$40 million. The negotiated 10 percent pay reductions that took effect beginning July 1, 1992 are restored to participating union members on the two year anniversary of the implementation of the pay cut; no further wage increases are provided. Although the proposed budget does not assume cuts that have not been negotiated, the mayor indicated his intention to continue efforts to achieve salary savings from uniformed police and fire employees and bus drivers who did not accept the 10 percent cut.

Although the proposed budget fully funds personnel costs, savings are assumed for positions that are expected to be vacant at some time during the year. Eleven departments have employee turnover savings reductions totaling \$10 million from salary, pension, and fringe accounts; the largest of these is \$4.6 million from the Department of Transportation. Turnover savings amounts equate to 228 civilian and 45 uniformed position.

Pension and other fringe costs are also budgeted at the amounts expected according to existing contracts; fully funding pensions and fringe benefits increases appropriations in all funds by \$42 million. Much of the increase results from fully funding hospitalization costs; the 1993-94 budget assumed cost savings from a planned managed care hospitalization program that was not implemented. Hospitalization costs for employees in general city agencies and general city retirees increase from \$88 million in the 1993-94 budget to \$117 million in the proposed budget. This \$88 million appropriation was underfunded by \$26 million; full funding would have increased the 1993-94 budgeted amount to \$114 million.

Non-Personnel Costs Expenditures for capital equipment are proposed to increase by 40 percent, fixed charges by 30 percent, other expenses by 14 percent, contractual and professional services by 10 percent. The only major category of expenditures expected to decline in the proposed budget is operating services, where a reduction of \$25 million (10 percent) is proposed.

Revenues

The 1994-95 proposed budget is balanced; proposed revenues are \$232 million more than the adopted 1993-94 budget. The proposed budget includes \$251 million from federal sources, a \$50 million increase from the 1993-94 budget. Housing grants are expected to increase by \$32 million, block grants by \$7 million, and head start and training grants by a net \$7 million.

Although state officials are projecting a state budget surplus, state revenue sharing payments to counties, cities, villages, and townships have been reduced for the past four years below the amount required by the revenue sharing formula; the 1994-95 reduction for Detroit totals \$24 million. City officials expect all 1994-95 revenues from the state to be \$3 million less than the \$426 million budgeted from state sources in 1993-94.

City of Detroit Budget (Dollars in Millions)

	<u>1993-94</u>	<u>1994-95</u>	<u>Increase(Decrease)</u>	
	<u>Budget*</u>	<u>Proposed</u>	<u>Amount**</u>	<u>Percent</u>
Executive Agencies:				
Arts	\$11.1	\$12.6	\$1.5	13%
Budget	1.8	2.0	0.2	10
Buildings and Safety	13.6	14.3	0.7	5
Civic Center	17.4	18.0	0.6	4
Consumer Affairs	1.0	1.1	0.1	5
Department of Public Works	189.8	180.6	(9.2)	(5)
Employment and Training	29.7	31.6	1.9	7
Finance	32.0	32.5	0.5	2
Fire	115.0	128.0	13.0	11
Health	95.6	84.5	(11.0)	(12)
Historical	2.6	2.6	0.0	1
Human Rights	0.9	0.9	(0.0)	(0)
Law	12.6	15.4	2.9	23
Management Info. Services	13.8	14.0	0.1	1
Mayor's Office	5.2	6.1	0.9	18
Neighborhood Services	32.5	38.3	5.8	18
Personnel	14.6	10.9	(3.9)	(25)
Planning and Development	67.1	62.7	(4.4)	(7)
Police	286.9	309.9	23.0	8
Public Information	1.8	1.9	0.1	6
Public Lighting	54.2	55.9	1.8	3
Recreation	43.4	44.3	0.9	2
Senior Citizens	0.5	0.6	0.1	14
Youth	0.1	0.2	0.1	54
Zoological	8.8	10.4	1.6	19
Legislative Agencies:				
Auditor General	1.9	2.1	0.2	9
City Clerk	2.0	2.0	0.0	2
City Council	7.1	7.8	0.7	9
Election Commission	6.1	5.4	(0.8)	(13)
Ombudsman	0.6	0.7	0.1	8
Zoning Appeals	0.6	0.6	(0.1)	(12)
Judicial Agency:				
36th District Court	29.7	29.9	0.2	1
Other Agency:				
Non-Departmental	187.2	271.2	83.9	45
Total General Agencies**	\$1,287.3	\$1,399.0	\$111.6	9%
Debt Service	\$35.4	\$46.7	\$11.2	32%
Enterprise Agencies:				
Airport	\$3.3	\$2.7	\$(0.6)	(18)%
Housing	41.8	76.0	34.2	82
Municipal Parking	42.1	38.4	(3.7)	(9)
Transportation	120.3	129.3	8.9	7
DWSD- Water Supply	250.3	203.4	(46.9)	(19)
DWSD- Sewerage Disposal	188.9	306.0	117.1	62
Library	25.4	25.5	0.1	1
Total Enterprise Agencies**	\$672.2	\$781.3	\$109.1	16%
GRAND TOTAL**	\$1,995.0	\$2,227.0	\$232.0	12%

* Modified for comparability with proposed budget.

** May not add due to rounding.

The City of Detroit has high city property tax rates and the highest city income tax rates and is the only city to impose a city utility users, excise tax. As a result, the relative tax effort of the Detroit city government is 6.7 times larger than the average of Michigan cities, villages, and townships. The proposed budget maintains the existing rates of city income and utility taxes, and the city property tax rate will be 30.827 mills, an increase of 0.448 mill from the current rate of 30.379 mills. The city will continue to levy 20 mills for general operations, 3 mills for garbage disposal, and 2 mills for the library. Bonds sold to pay for construction of Detroit Receiving Hospital have been retired, resulting in elimination of the 1.184 mill levy for the building authority, but the unlimited tax rate for general obligation debt service will increase by 1.632 mills, from 6.195 to 7.827 mills. In 1992-93, current year property tax collections were 88.5 percent of the tax levy. The rate of current year taxes collected during the year has been declining: in 1972-73 it was 96.8 percent; in 1982-83 it was 92.6 percent.

The proposed budget includes a \$13.3 million increase in municipal income tax collections expected from improved economic conditions and better coordination of taxpayer data with the state and federal governments, a new \$3 per car entry fee for Belle Isle, and an increase in bus transfer charges from 10 cents to 25 cents. In addition, the city proposes a net increase of \$65 million from water and sewerage revenue bonds and \$125 million from deficit funding bonds.

The General Fund

This year, the total Detroit city budget for all funds is \$2.0 billion. The total budget of the general fund is \$1.1 billion; debt, grant, and enterprise funds account for the remainder. The general fund includes all revenues that are not required to be applied to debt, grant, or enterprise funds, and the expenses associated with those general revenues. The police, fire, and public works departments account for 55 percent of the general fund; those three plus the health, public lighting, and recreation departments account for 73 percent of the general fund. Historically, the general fund also has provided financial support to enterprise funds other than water and sewerage; a general fund subsidy of \$38 million to the transportation fund is proposed for 1994-95.

The General Fund Deficit The expected June 30, 1994 accumulated general fund deficit is \$63.4 million. The 1993-94 deficit was caused primarily by the rejection of a budgeted 10 percent wage reduction for uniformed police and fire employees and bus drivers, failure to implement a budgeted managed competition health care plan for city employees and retirees, and reductions in expected state revenue sharing payments. While not as severe as the \$88.5 million deficit that had been projected in November (the \$25 million improvement from that projection is attributed to negotiation of no cost increases for existing health insurance, vacant positions, and other economies, and economic improvement resulting in revenue increases), the budget deficit does present a significant factor in the development of the 1994-95 budget. The city charter requires that a general fund deficit be included in the next annual budget as an appropriation, "paying off" the deficit from operating revenues in that next year. Unless revenues are increasing at a rate sufficient to offset the deficit appropriation, budgeting the deficit in the next year reduces the amount available for delivering services in that year.

Detroit has had considerable experience in dealing with deficits. Beginning in 1949-50, the city will have recorded 32 year end general fund deficits, and only 13 surpluses. The 1993-94 deficit will be the fifth straight general fund deficit. While very significant, the projected budget deficit would not be the largest the city has recorded: the 1979-80 deficit was \$80.9 million; the 1980-

81 deficit was \$115.7 million; the 1990-91 deficit was \$105.9 million; and the 1991-92 deficit was \$106.1 million.

In 1981 and 1992, the city sold deficit funding bonds, thereby spreading the obligation to repay the debt to future years. In both cases, the bonds were guaranteed by state revenue sharing payments and were retired in five years. While the local government audit section of the state department of treasury allows local governments that file deficit elimination-plans a period of not more than five years to correct deficit conditions, Wayne County, some cities, and school districts have sold deficit funding bonds that spread repayment obligations up to 20 years.

The proposed City of Detroit budget is predicated on the sale of \$125 million of deficit funding bonds that the city intends to repay in seven years, but which may be repaid in as little as five or as long as 10 years. This sale would provide funding to guarantee repayment of the \$82 million of principal still outstanding from the 1992 deficit bonds, which are not callable. Establishing a guaranteed reserve for repayment removes this debt from the legal debt limitation established in state law. The revenue from the new deficit funding bonds would also repay all but \$20 million of the 1993-94 deficit.

The \$125 million revenue from the sale of new deficit funding bonds will be used to "“defease”" \$82 million due on the 1992 deficit bonds and repay \$43 million of the \$63 million 1993-94 deficit. In the current year, the city appropriated \$30 million for the prior year deficit and \$30 million for payment on the 1992 deficit bonds, a total of \$60 million. Next year, the comparable payments will be \$20 million on the prior year deficit and \$6 million on the new deficit bonds, a total of \$26 million. Because the deficit bonds are limited tax bonds and no new general fund revenues are proposed, servicing the debt will exert a claim of \$26 million on general fund revenues for the six years following fiscal 1994-95. At some point in the future, the city could request voter approval to convert these bonds to unlimited tax bonds payable from the separate debt service levy.

Structural Deficit Over the years, the city has used a series of exceptional revenues to reduce the imbalance between revenues and other financing sources (income) and expenditures and other financing uses (expenses). Financial pressures have resulted in new taxes, increases in tax rates, additions to state revenue sharing, state equity grants, federal revenue sharing and federal countercyclical funds (both since discontinued), and other revenues.

It appears that there is a continuing imbalance between the city's recurring revenues and recurring expenditures. Over the past five years, that imbalance has ranged from \$24 million to \$126 million. In the following table, expenditures and transfers out have been adjusted to reflect increases and decreases in reserves; transfers to and from the budget stabilization fund have been removed; and, bond and note revenues and transfers to general debt service have been deleted. These adjustments have been made to more clearly present the variance between operating revenues and operating expenditures.

**City of Detroit General Fund
(in Millions)**

Year	Adjusted Revenues and Transfers In	Adjusted Expenditures and Transfers Out	Revenues Over(Under) Expenditures
1989	\$1,049.0	\$1,092.4	\$(43.4)
1990	1,099.3	1,154.8	(55.5)
1991	1,040.9	1,167.3	(126.4)
1992	1,056.5	1,142.3	(85.8)
1993	1,035.4	1,059.7	(24.3)

City general fund operating revenues and expenditures have been essentially flat for the past five years. The city has controlled expenses, but revenues have not grown. One response to balance the budget has been the use of extraordinary revenues: \$76 million from the budget stabilization fund; \$190 million of bond and note proceeds; \$54 million of revenue from the sale of the incinerator; and \$103 million of proceeds from the sale of deficit funding bonds.

Conclusion

The expected 1993-94 City of Detroit budget deficit is the latest in a long series; deficits have been the norm rather than the exception for decades. The proposed 1994-95 budget avoids one common cause of deficits by fully funding expected expenses and conservatively estimating revenues. However, previous analyses of changes in Detroit tax base as well as differences in recurring general fund revenues and expenditures suggest that in the long term, restructuring of public services and restoration of the city's economic/revenue base will be needed to eliminate the city's structural budget problem.