Citizens Research Council of Michigan

CRC

The Fiscal Condition of the City of Detroit

April 2010

Report 361

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The Fiscal Condition of the City of Detroit

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The Fiscal Condition of the City of Detroit

Summary

The “Great Recession” that began in December, 2007 has exacerbated the effects of population loss, poverty, and disinvestment on the City of Detroit. The tax base, already stressed, has deteriorated significantly, as the number of businesses and jobs has declined, unemployment has increased, and population has dwindled. The recently published Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2007-08 (FY2008) indicates that the city’s general fund deficit increased from $155.6 million at the end of FY2007 to $219.2 million at the end of FY2008. (For purposes of preparing the FY2010 budget, prior to the availability of the FY2008 CAFR, the city had estimated that the FY2008 general fund accumulated deficit had declined slightly, to $155.0 million.) No CAFR is available for FY2009, but city officials budgeted a $280 million prior years accumulated deficit for FY2010 (based in part on the underestimated 2007-08 deficit), and they estimate the current year general fund operating deficit to be in the range of $80 to $100 million. The Crisis Turnaround Team appointed by Mayor Bing to assess city operations and make recommendations estimated that, absent major changes, the average annual (structural) budget deficit for Fiscal Years 2010 through 2012 would be $260 million, and the accumulated deficit would grow to $750 million by the end of FY2012.

The Economic Base

The deterioration of the economic base of the city has accelerated. There were an estimated 81,754 vacant housing units (22.2 percent of the total) in Detroit before the recession; that number increased to an estimated 101,737 (27.8 percent of the total) in 2008. The foreclosure crisis has exacerbated the problem: the U.S. Department of Housing and Urban Development was among the ten largest property taxpayers in Detroit in FY2008. The average price of a residential unit sold in the January through November, 2009 period was $12,439, down from $97,847 in 2003. Remaining businesses and individuals are challenging property tax assessments on parcels that have lost value and, in some cases, cannot be sold at any price. Proposal A guarantees that any recovery in real estate values will be reflected in tax levies on only a limited basis (at a maximum annual growth rate of the lesser of five percent or the rate of inflation).

More than half of employed city residents work outside the city limits; the metro area has the highest unemployment rate of the 100 major metro areas in the U.S. Detroit residents are 82.7 percent Black, 11.1 percent White, and 6.9 percent Hispanic or Latino. They are significantly less likely than the national average to have completed high school (23.9 percent without a high school diploma in Detroit compared to 15.1 percent in the U.S.) or earned a Bachelor’s degree (10.8 percent in Detroit compared to 27.7 percent in the U.S.). They are less likely to be in the labor force (55.3 percent in Detroit compared to 65.9 percent in the U.S.) and more likely to live in poverty (33.3 percent in Detroit compared to 13.2 percent in the U.S.).

Revenues

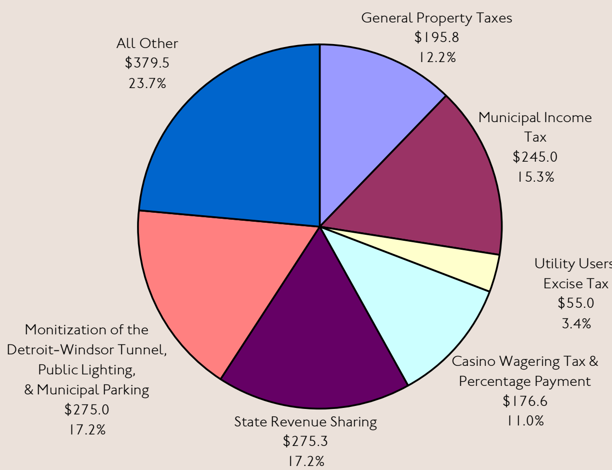
Detroit has a more diversified tax revenue base than any other Michigan city. The tax burden on residents is comparatively high, especially on middle and higher income households, and includes property, income, and utility users' taxes. (Only 22 Michigan cities impose a municipal income tax; no other Michigan city imposes a utility users' excise tax or casino wagering tax.) Six major revenue sources provide 76 percent of Detroit's general fund revenues included in the budget's fiscal plan for FY2010 (See **Chart 1**).

At the time the budget was prepared, the tax revenue estimates were not out of line for this shrinking city in normal times. However, the extreme effects of the restructuring of the auto industry, including massive layoffs, plant closures, and extended suspension of production, have had a disproportionate effect on Detroit. All major tax revenues will be below budgeted levels, significantly so in some cases.

State revenue sharing was budgeted at an amount equal to the prior year budget, but state budget problems will result in reductions that could add $40 million or more to the projected deficit.

The city budgeted $275 million as revenue from the monetization of assets. Although there is precedent for the sale of future revenue streams in other cities and states (Chicago leased the Chicago Skyway Toll Road and parking meters, and tried but failed to lease Midway Airport), it is highly unlikely that Detroit can sell future revenues from the parking and lighting departments. Discussions on the Detroit-Windsor Tunnel have occurred, but, even if an agreement were to be reached, the sale would not generate the amount included in the budget. These three revenue items were included to balance the $280 million estimated prior years deficit, which had to be budgeted as an appropriation in the current year. There was no realistic plan in the budget to address that accumulated deficit.

Chart 1
Major Revenue Sources in the City of Detroit FY2010 Budget (Dollars in Millions)



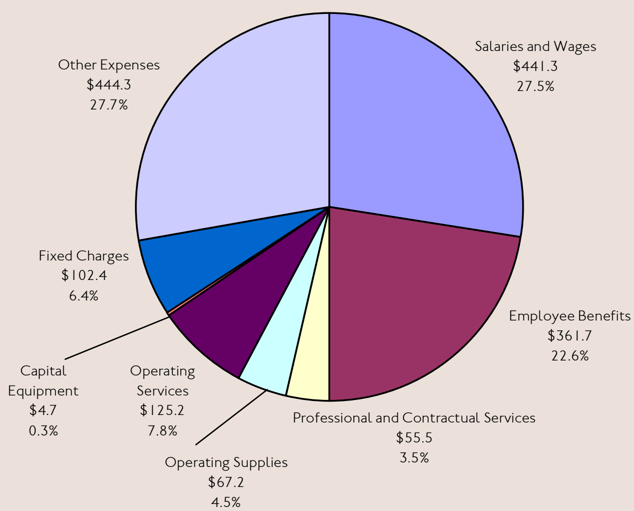
Source: City of Detroit FY2010 Budget

Expenses

The general fund budget includes the appropriations summarized in **Chart 2.**

As Detroit has lost population, the number of city government employees has declined. In 1951, the city government had 29,004 employees; in 1989, there were 20,036 city government employees. The 2009-10 budget includes 14,539 full time equivalent positions, of which about 13,000 are filled.

Chart 2
Appropriations by Major Classification, City of Detroit General Fund, FY2010
(Dollars in Millions)



Source: FY2010 City of Detroit Budget

The Potential Deficit

The city could well end the year with an accumulated deficit that is over a quarter of the total $1.6 billion general fund:

Budgeted prior years accumulated deficit	$280 million
Estimated increase in prior years accumulated deficit	$46 million
Estimated current year general fund operating deficit	$80-$100 million
Potential state revenue sharing shortfall	$40 million
Possible general fund deficit	$446-$466 million

Personnel costs are 50.1 percent of all general fund appropriations. The plan for reducing expenditures includes a ten percent wage cut and layoffs. If laid off employees earn salaries in the $30,000 to $50,000 range and if civilian pension and fringe benefit costs are 65 percent of salaries, about $66,000, less unemployment benefits, could be saved per laid off employee in the first full year. One thousand layoffs would therefore produce a savings of $66 million, less unemployment benefits, in the first full year of the layoff. Because the city's fiscal year started on July 1, the longer the delay in laying employees off, the larger the number of layoffs must be to accomplish required savings.

The general fund includes an appropriation of over $80 million to support the Department of Transportation, which operates a bus system within the city limits (there is a separate suburban bus system funded by a voter approved, dedicated property tax). Although it is technically an enterprise agency, layoffs in the Department of Transportation will reduce the general fund subsidy and, therefore, the general fund deficit.

Potential Solutions

Clearly, the city government cannot afford to remain at its present size. There are four ways the government can downsize:

- The elected mayor and city council can develop and implement required changes.
- The mayor and city council can implement changes specified in a consent agreement reached with a review team appointed by state officials under the Local Government Fiscal Responsibility Act
- An emergency financial manager appointed under the Local Government Fiscal Responsibility Act can negate the authority of the mayor and city council, can implement changes, and can renegotiate (but not abrogate) contracts.
- If an emergency financial manager recommends, and the state approves, reorganization and restructuring can occur under protection of bankruptcy, which does allow contracts to be abrogated. No Michigan municipality has ever filed under federal bankruptcy laws.

In order to address what could be an accumulated general fund deficit exceeding $400 million, Detroit city government must be restructured. The new structure must reflect both the reduced tax base and the limited ability of state government to provide shared revenues. Restructuring will necessitate process improvements, load shifting, load shedding, privatizing, concentrating service delivery on an area smaller than 138 square miles, and other strategies. The most recent Crisis Turnaround Team has recommended closing facilities, privatizing services, improving and centralizing processes, renegotiating contracts, improving debt collection, restructuring debt, and other actions. It remains to be seen whether the city's elected officials will be able to implement these recommendations.

The Fiscal Condition of the City of Detroit

Introduction

The City of Detroit is by far the largest city in Michigan, and is the 11th largest city in the United States. Although not the state capital, Detroit has been a center of economic activity in Michigan. Population loss and disinvestment have, however, created very significant challenges for the city.

The government of the City of Detroit is funded by taxes on the economic activity in the city; by a variety of fees, fines, charges for service, and other local revenues; by state revenue sharing; and by a changing array of state and federal grants. City government expenditures for public safety, public health, recreation, public transportation, code enforcement, community and economic development, infrastructure, and management reflect choices made by local elected officials within constraints established in state statute. (The school district is a separate political entity, with an independently elected board and, at present, a state-appointed emergency financial manager.) In the present fiscal year, the Mayor has informed the City Council that current expenditures exceed current revenues by an estimated $80 million to $100 million (that statement preceded reductions in state revenue sharing that would increase the number), the estimate of the accumulated prior years deficit has been increased from the $280 million that was included in the official budget to $326 million, and the administration is struggling to reduce the size and cost of city government.

The City's most recent Comprehensive Annual Financial Report (CAFR) is for the 2007-08 fiscal year (the FY2009 CAFR is expected in May, 2010). The FY2008 CAFR, the deficit elimination plan filed with the State of Michigan, and other sources of information, both within and without the city, have been used for this report.

The Economic Base

The local tax base (business activity, property wealth, and personal income) and city tax rates are key factors contributing to the financial condition of the city government. According to the city's FY2008 CAFR (p. 23), "The City's economic and demographic profile remains one of the weakest in the nation. Though limited signs of economic improvement can be seen on a national level, locally and throughout the State of Michigan the economic conditions remain depressed. The city faces continued rising unemployment (28.9 percent in July 2009; 24.3 percent in December, 2009), potentially leading to more significant reductions in personal income tax. Higher resident home foreclosures and delinquent property tax levels represent another sign of significant future financial concern."

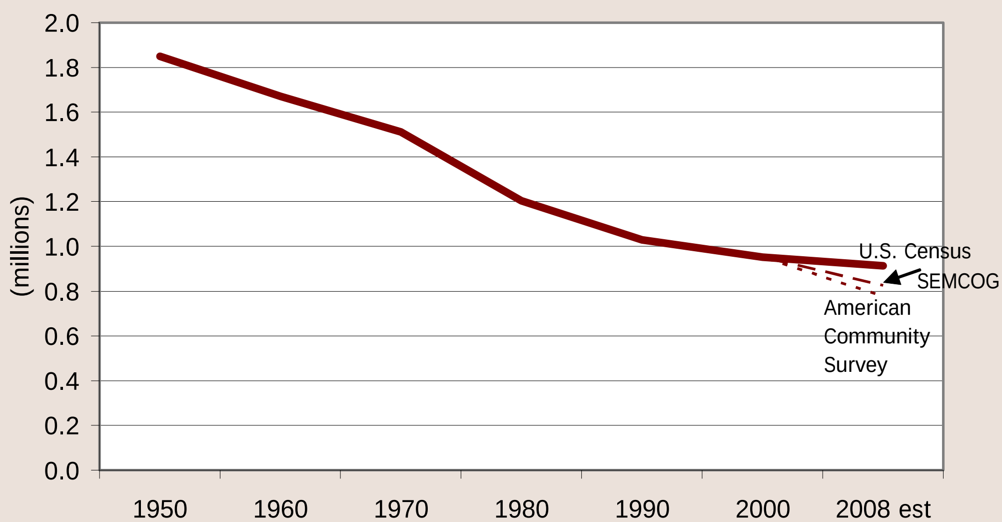
Population

The population of the City peaked in the 1950s and has declined, albeit at varying rates, ever since (See **Chart 1**).

Various methods of estimating population changes between decennial censuses produce different results. The official Census Bureau estimate for Detroit's 2008 population is 912,062. The American Community Survey estimate for 2008 is 777,493 (a loss of 173,777 or 18.3 percent from 2000). The Southeast Michigan Council of Governments (SEMCOG) uses a different technique for estimating population change; that approach produces a 2009 population estimate of 827,284 for Detroit (a loss of 13.0 percent from 2000). SEMCOG projects that population loss will moderate and the 2030 population of Detroit will be 708,508.

Detroiters are somewhat more likely to be female and are generally younger than are residents of comparable cities. The distinguishing social characteristic of Detroit is its racial composition. In Detroit, 11.1 percent of residents identify themselves as White, 6.9 percent as Hispanic or Latino, and 82.7 percent as Black or African American. Nationally, 75.0 percent of residents identify themselves as

Chart 1
Population of the City of Detroit



Source: U. S. Bureau of the Census; CRC Calculations

Table 1
Demographic Characteristics of Comparable Cities, 2008

			Age			Race		
City	Male	Female	Under 5	18 and Over	65 and Over	White	Black	Latino*
Buffalo	47.2%	52.8%	6.3%	76.2%	11.1%	54.8%	38.2%	8.2%
Cincinnati	47.1	52.9	7.0	78.2	12.1	51.4	44.6	2.1
Cleveland	47.5	52.5	7.1	74.4	12.2	42.3	52.4	9.5
Detroit	**46.8**	**53.2**	**7.1**	**72.4**	**11.0**	**11.1**	**82.7**	**6.9**
Milwaukee	47.9	52.1	8.7	72.6	9.3	50.8	38.3	15.8
Minneapolis	50.8	49.2	7.3	80.0	9.0	70.5	18.2	9.4
Pittsburgh	48.4	51.6	5.0	82.5	15.3	66.9	27.1	2.0
St. Louis	47.6	52.4	7.2	75.2	11.4	46.8	47.8	2.9
Michigan	49.2%	50.8%	6.2%	76.1%	13.0%	79.6%	13.9%	4.1%
U.S.	49.3%	50.7%	6.9%	75.7%	12.8%	75.0%	12.4%	15.4%

*Hispanic or Latino of any race

Source: Census Bureau, American Community Survey

White, 15.4 percent as Hispanic or Latino, and 12.4 percent as Black or African American (See **Table 1**).

In *The Economic Impacts of County Population Changes in Michigan*, the Land Policy Institute at Michigan State University reports that between 2005 and 2008 "Wayne County experienced the highest population loss in Michigan—74,254 people or 28,127 households. In the U.S., it ranked 2nd only to Orleans Parish in Louisiana, which experienced significant population loss following the Hurricane Katrina disaster." The economic impacts of the population loss were estimated to be $359.5 million in labor income, $207.2 million in property-type income, 8,852 jobs, and $1.1 billion in value of economic output.[1]

[1] Land Policy Institute at Michigan State University, New Economy Report Series, *The Economic Impacts of County Population Changes in Michigan*, December 1, 2009.

Households

Household characteristics in Detroit vary in significant ways from the U.S. average. Nearly half (49.2 percent) of all households in the U.S. are married couple families; 22.8 percent of Detroit households are married couple families. In the U.S., 12.5 percent of all households are classified as "female householder, no husband present, family"; 31.1 percent of Detroit households are classified that way. Further, 17.4 percent of Detroit households are "female householder, no husband present, with own children under 18 years," compared to 7.4 percent of families in the U.S. that are classified that way. (See **Table 2**.)

Table 2
Household Composition in Detroit and Comparable Cities, 2008

City	Family Household: Married Couple	Family Household: Male HofH,* No Wife	Family Household: Female HofH, no Husband	Nonfamily Households	Householder Living Alone**
Buffalo	23.9%	5.4%	21.4%	49.4%	39.8%
Cincinnati	24.7	4.3	17.5	53.5	46.8
Cleveland	24.3	5.5	23.9	46.3	40.2
Detroit	**22.8**	**6.0**	**31.1**	**40.1**	**35.8**
Milwaukee	29.2	5.9	22.3	42.7	35.0
Minneapolis	28.0	4.5	12.4	55.1	41.9
Pittsburgh	29.1	4.2	14.4	52.3	40.6
St. Louis	24.9	5.4	19.0	50.8	43.7
Michigan	49.6%	4.1%	12.6%	33.7%	28.4%
U.S.	49.2%	4.6%	12.5%	33.7%	27.8%

* Head of household

** "Householder living alone" is a subset of "nonfamily households"

Source: Census Bureau, American Community Survey

Educational Attainment

Compared to the U.S. as a whole, Detroit residents are significantly less likely to have completed high school or earned a college degree: 76.1 percent of Detroiters have at least a high school diploma, compared to 85.0 percent of U.S. residents. Only 10.8 percent of Detroiters have a Bachelor's Degree or higher, compared to 27.7 percent of all U.S. residents. (See **Table 3**.)

Table 3
Educational Attainment of the Population 25 Years and Over, Detroit and Comparable Cities, 2008

City	Less Than 9th Grade	9th to 12th, No Diploma	High School Grad	Some College, No Degree	Associate's Degree	Bachelor's Degree	Graduate or Professional Degree
Buffalo	5.0%	13.5%	30.6%	22.1%	8.5%	11.0%	9.4%
Cincinnati	3.8	14.4	27.9	16.9	6.7	18.8	11.3
Cleveland	5.4	18.7	33.1	23.1	6.4	8.6	4.7
Detroit	**7.7**	**16.2**	**33.9**	**25.3**	**6.0**	**6.6**	**4.3**
Milwaukee	7.4	12.3	29.7	22.8	6.0	14.4	7.5
Minneapolis	5.0	7.1	17.7	19.1	6.8	28.1	16.2
Pittsburgh	3.4	8.8	30.0	16.0	7.6	17.7	16.6
St. Louis	6.5	13.2	25.2	23.7	5.4	15.6	10.4
Michigan	3.7%	8.2%	31.1%	24.1%	8.1%	15.3%	9.4%
U.S.	6.4%	8.7%	28.5%	21.3%	7.5%	17.5%	10.2%

Source: Census Bureau, American Community Survey

Labor Force Participation and Income

Age distribution, household composition, and educational attainment affect labor force participation rates, which are lower in Detroit than in comparable cities. (See **Table 4** on page 5.)

The Census Bureau estimates that in 2008, using various metrics (median household income, median family income, and per capita income), income in Detroit was slightly more than half of the national average. Additionally, 33.3 percent of Detroit residents were below the poverty level, compared to 13.2 percent of the U.S. population as a whole. More than half (an estimated 51.0 percent) of "female headed households with related children under 18 years" in Detroit were below the poverty level (nationally, the number was 36.3 percent). In Detroit, there was no vehicle available in 22.2 percent of occupied housing units (nationally, 8.8 percent of occupied housing units had no vehicle available).

Detroit is a very poor city that displays the self-reinforcing pathologies of poverty: high school drop out rates and low educational attainment; small proportion of homes with both parents present; high rate of births to unmarried mothers; and low rates of labor force participation.

Business Establishments

Detroit is still known as the "Motor City" and remains the home of the reorganized General Motors; Ford Motor Company is headquartered in nearby Dearborn and the reorganized New Chrysler (formerly Chrysler Group LLC) is headquartered in nearby Auburn Hills. In the 20th Century, manufacturing firms, most related to the automobile industry, provided relatively high paying jobs for large numbers of Detroit workers, creating a blue collar middle class. Although it is possible for a city to lose population and remain a hub for businesses and jobs, in Detroit

Table 4
Labor Force Participation, Income, and Poverty, Detroit and Comparable Cities, 2008

City	Percent In Labor Force	Median Household Income	Median Family Income	Per Capita Income	Families Below Poverty Level*	Individuals Below Poverty Level*
Buffalo	61.0%	$29,973	$35,258	$19,254	26.5%	30.3%
Cincinnati	64.3	33,562	46,114	23,758	20.4	25.1
Cleveland	60.3	26,731	33,986	16,545	25.0	30.5
Detroit	**55.3**	**28,730**	**32,798**	**14,976**	**30.3**	**33.3**
Milwaukee	66.1	37,331	43,609	19,237	18.5	23.4
Minneapolis	72.6	48,724	62,308	30,825	14.1	21.3
Pittsburgh	60.8	36,709	51,567	26,140	13.4	21.2
St. Louis	65.7	34,078	44,503	21,204	17.7	22.9
Michigan	63.9%	$48,591	$60,615	$25,303	10.5%	14.4%
U.S.	65.9%	$52,029	$63,366	$27,589	9.7%	13.2%

*In the past 12 months

Source: Census Bureau, American Community Survey

the loss of manufacturing firms and high-pay, low-skill jobs has been more extreme than the loss of population. In 2008, 25.6 percent of employed Detroiters worked in educational services, health care, and social assistance jobs and 12.1 percent worked in arts, entertainment, recreation, accommodation, and food service; only 11.5 percent worked in manufacturing.

The Census Bureau conducts a count of business firms with payroll every five years. Just after World War II, in 1947, there were 3,272 manufacturing firms with 338,400 employees in Detroit. In 1972, there were 2,398 manufacturing establishments in the City of Detroit, and of these, 821 had more than 20 employees. By 1982, the number of manufacturing firms with payroll had declined to 1,518, of

Table 5
Manufacturing Establishments in the City of Detroit

	Number of Establishments	Total Employees in 1,000s	Annual Payroll in $1,000s
1972	2,398	180.4	$2,224.2
1977	1,954	153.3	2,881.9
1982	1,518	105.7	2,781.0
1987	1,255	102.2	3,519.1
1992	1,061	62.2	2,708.3
1997	825	47.5	2,312.2
2002	647	38.0	2,054.0

Source: Census Bureau, Census of Manufacturing which 477 had more than 20 employees. By 2002, there were 647 manufacturing firms remaining in the city; the 2007 numbers are not yet available. (See **Table 5**.)

In 1972, manufacturing establishments in Detroit employed 180,400 workers. By 1982, the number of people employed in manufacturing firms had declined to 105,700, and by 2002, manufacturing employment accounted for 38,019 jobs in the city. SEMCOG estimates that in 2005, there were 35,289 manufacturing jobs in Detroit. The 2008 American Community Survey conducted by the U.S. Census Bureau estimated that 29,933 Detroit residents were employed in manufacturing (these jobs were not necessarily located in Detroit).

Although the U.S. Census Bureau has not yet released the 2007 data from the Economic Census for cities, the change in the numbers and types of business establishments in Detroit over the period 1997 to 2002 is available and indicates increasing diversification (See **Table 6**).

Data on the number of firms and wage and salary employment in 1997 and 2002 are not precisely comparable. The North American Industry Classification System (NAICS), which is the federal standard for classifying business establishments, was adopted in 1997 to replace the Standard Industrial Classification (SIC) system. The industry classification for "Information" was not included in 1997, but does appear in summary statistics for 2002.

Table 6
Number of Firms with Payroll in the City of Detroit

			Change	
	1997	**2002**	**Amount**	**Percent**
Manufacturing	825	647	-178	-21.6%
Wholesale Trade	740	611	-129	-17.4
Retail Trade	2,253	2,179	-74	-3.3
Information	N/A	148		
Real Estate, Rental, Leasing	380	348	-32	-8.4
Professional, Scientific, Technical	718	832	114	15.9
Administrative, Support, Waste Management, Remediation	439	444	5	1.1
Educational Services	39	76	37	94.9
Health Care, Social Assistance	900	1,260	360	40.0
Arts, Entertainment, Recreation	66	104	38	57.6
Accommodation, Food Services	1,108	1,037	-71	-6.4
Other Services (Except Public Administration)	829	1,005	176	21.2

Source: Census Bureau, Economic Census

Employment

The State of Michigan has lost wage and salary employment in every year since 2000. In the seven-county SEMCOG region, wage and salary employment declined by 445,800, from 2,406,900 in 2000 to 1,961,100 in March of 2009. Vehicle and parts manufacturing jobs in the SEMCOG region declined by 134,500, from 206,600 in 2000 to 72,100 in 2009.

As noted, the U.S. Census Bureau has not yet released the 2007 data from the Economic Census for cities, but the 1997 and 2002 data on the number of employees in Detroit is available (See **Table 7**).

Table 7
Number of Paid Employees in Firms with Payroll in the City of Detroit

			Change	
	1997	**2002**	**Amount**	**Percent**
Manufacturing	47,487	38,019	-9,468	-19.9%
Wholesale Trade	12,878	10,153	-2,725	-21.2
Retail Trade	17,886	14,760	-3,126	-17.5
Information	N/A	7,735	7,735	
Real Estate, Rental, Leasing	2,279	2,486	207	9.1
Professional, Scientific, Technical	12,794	16,908	4,114	32.2
Administrative, Support, Waste Management, Remediation	12,556	14,403	1,847	14.7
Educational Services	206	948	742	360.2
Health Care, Social Assistance	12,747	46,274	33,527	263.0
Arts, Entertainment, Recreation	1,773	13,671	11,898	671.1
Accommodation, Food Services	15,426	15,918	492	3.2
Other Services (Except Public Administration)	7,518	7,979	461	6.1

Source: Census Bureau, Economic Census

According to Crain's Detroit Business, the Detroit Public Schools and the City of Detroit government continue to be the largest employers in Detroit, but Chrysler and General Motors were the largest for-profit employers in the city (eighth and eleventh largest respectively in the comprehensive list). Eleven of the largest 15 employers were nonprofit organizations that pay neither property tax nor corporate income tax (See **Table 8**). Of those, three are hospital systems that together added 980 jobs from January 2008 to January 2010 (Detroit economic development efforts particularly value hospital and health care because they provide employment for people with a range of educational levels).

Table 8
Largest Employers in Detroit, Hamtramck, and Highland Park
Ranked by Full-Time Employees (May Include Full-Time Equivalents)

		January 2008	January 2009	January 2010
1.	Detroit Public Schools	15,904	13,750	13,039
2.	City of Detroit	13,352	13,187	12,472
3.	Detroit Medical Center	10,213	10,499	10,502
4.	Henry Ford Health System	7,954	8,502	8,289
5.	U.S. Government	5,945	6,335	6,880*
6.	Wayne State University	4,946	5,025	5,152
7.	State of Michigan	4,804	4,910	4,740#
8.	Chrysler LLC	7,689	4,517	4,150#
9.	U.S. Postal Service	4,700	4,106	3,987
10.	St. John Health	3,528	3,818	3,884
11.	General Motors Corporation	5,290	4,652	3,740
12.	DTE Energy Co.	3,741	3,771	3,668
13.	Wayne County Government	3,858	3,674	3,409
14.	MGM Grand Detroit Casino and Hotel	3,600	3,000	3,000
15.	Blue Cross and Blue Shield of MI/Blue Care Network	3,172	3,082	2,457
16.	Motor City Casino	2,427	2,424	2,087
17.	Compuware Corp.	3,221	2,597	1,940
	American Axle and Manufacturing Holdings Inc.	3,129	1,990	
18.	Greektown Casino-Hotel	2,200	1,600	1,793
19.	Comerica Bank	1,897	1,706	1,552
20.	Deloitte L.L.P.			903
	Total	111,570	103,145	97,644

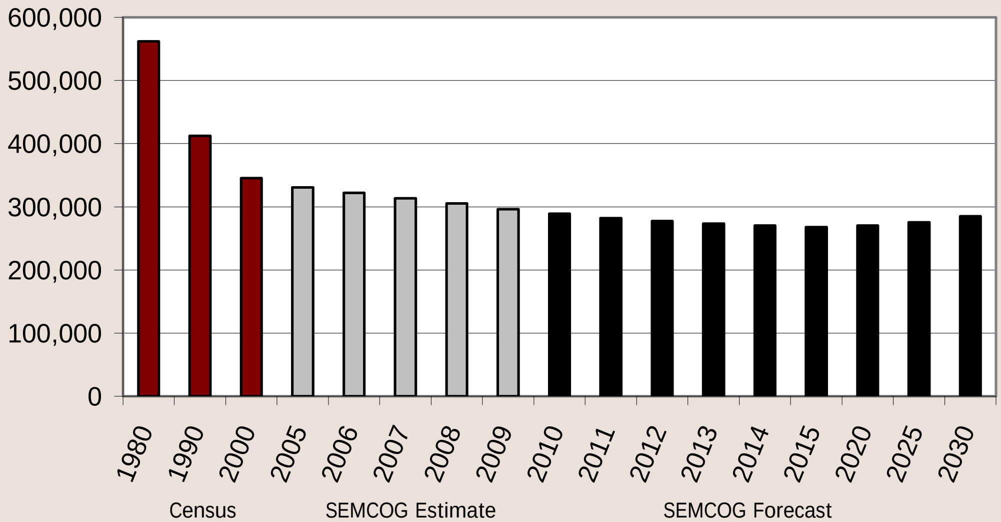
* As of September 2009

\# Crain's estimate

Source: Crain's Book of Lists, December 28, 2009; Crain's Detroit Business, February 1-7, 2010.

Between January, 2008 and January, 2010, an estimated 3,830 (7.2 percent) of the public sector jobs were lost in the seven governmental employers in the list of the 20 largest employers. The three casinos reduced employment by 1,347, or 16.4 percent. The five for-profit businesses that are not casinos that were in the top 20 employers in both 2008 and 2010 reduced employment by 6,788 jobs, or 31.1 percent.

Chart 2
Total Employment in Detroit



Source: SEMCOG

SEMCOG estimates that there were 296,191 jobs in Detroit in 2009, and that this was 12 percent of regional employment (See **Chart 2**). SEMCOG projects that employment losses, as well as population losses, will moderate significantly in the future (See **Table 9**).

Table 9
Demographic and Employment Changes in Detroit

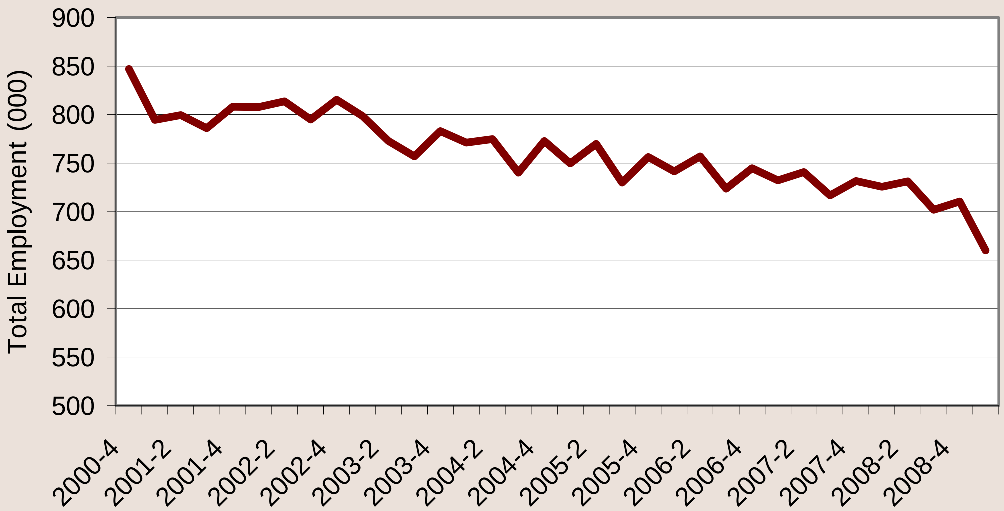
	1970-2000		2000-2009		Projection for 2009-2030	
	Number	Percent	Number	Percent	Number	Percent
Population	-560,202	-37%	-123,986	-13%	-118,776	-14%
Households	-161,325	-32%	-45,878	-14%	-36,087	-12%
Housing Units	-154,089	-29%	-18,207	-5%	NA	NA
Employment	-389,680	-53%	-49,233	-14%	-11,132	-4%

Source: SEMCOG

County Employment

In 2000, less than half of employed Detroiters worked in the city; most commuted to jobs outside Detroit. Those jobs are also disappearing. The Census Bureau publishes Quarterly Workforce Indicators (QWI) that reflect the number of jobs by county. QWI count all jobs in the quarter, but do not include self employed workers and contractor employment. Using this metric, employment in Wayne County in the fourth quarter of 2000 was 846,844; in the first quarter of 2009, it was 659,841, a loss of 187,003 jobs, or 22.1 percent. (See **Chart 3**.)

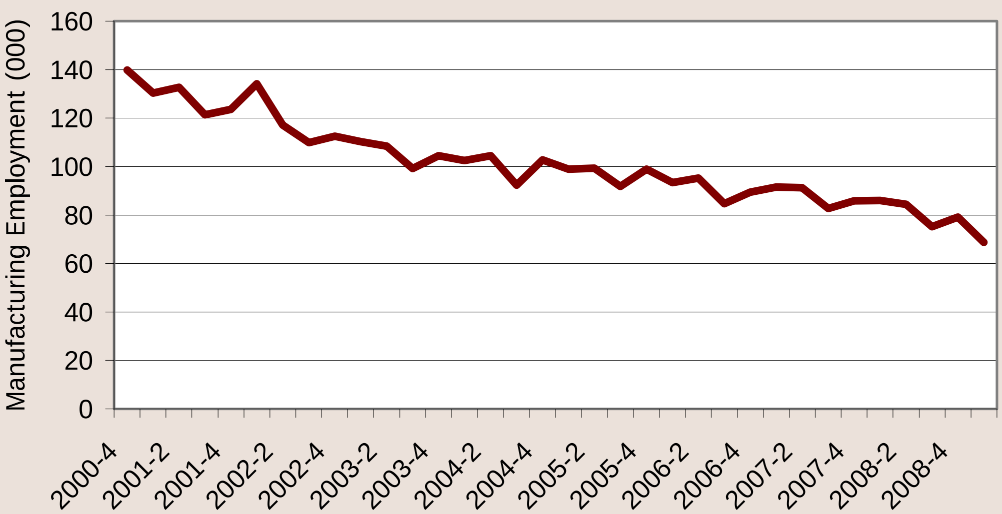
Chart 3
Wayne County Total Employment



Source: Census Bureau Quickfacts

More than half of all manufacturing jobs in Wayne County disappeared between the end of 2000 and the beginning months of 2009. In the last quarter of 2000, there were 139,809 manufacturing jobs in Wayne County, but by the first quarter of 2009, only 68,676 manufacturing jobs remained (See **Chart 4**).

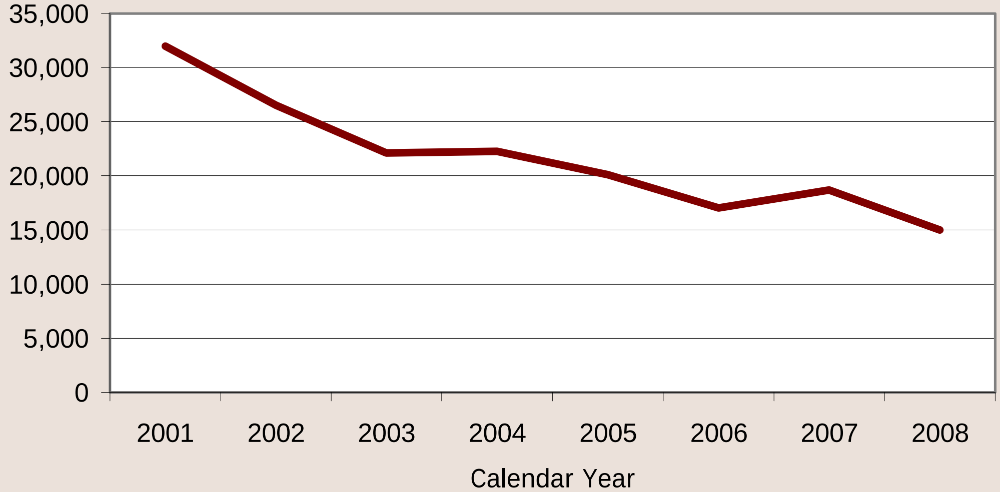
Chart 4
Wayne County Manufacturing Employment



Source: Census Bureau Quickfacts

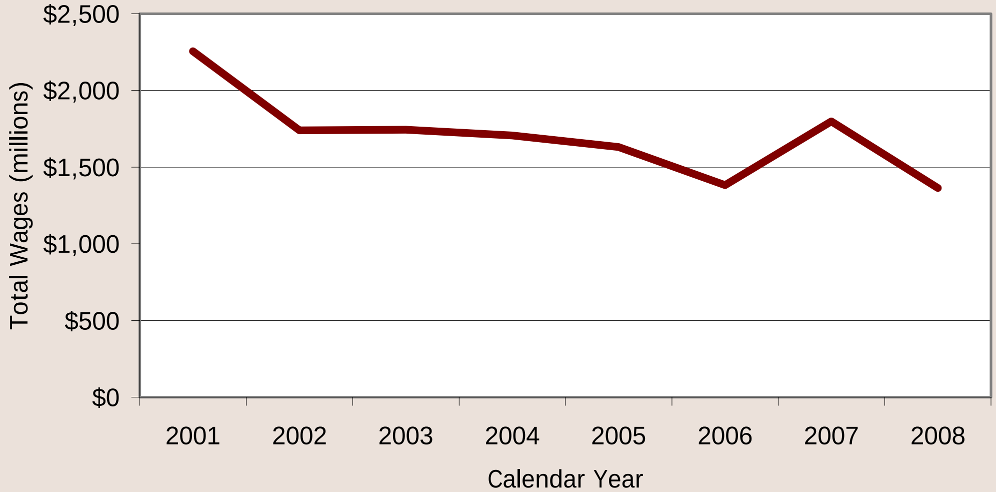
The "gold standard" of jobs in Michigan has been those in the auto industry, which traditionally paid high wages and included generous benefits. From 2001 to 2008, the number of jobs classified as "motor vehicle manufacturing" (NAICS 3361) in Wayne County declined by 53 percent, from 31,991 in 2001 to 14,974 in 2008. Additional losses occurred after 2008, as vehicle sales tumbled and the domestic auto industry struggled to survive.

Chart 5
Wayne County Motor Vehicle Manufacturing Employment



Source: Bureau of Labor Statistics

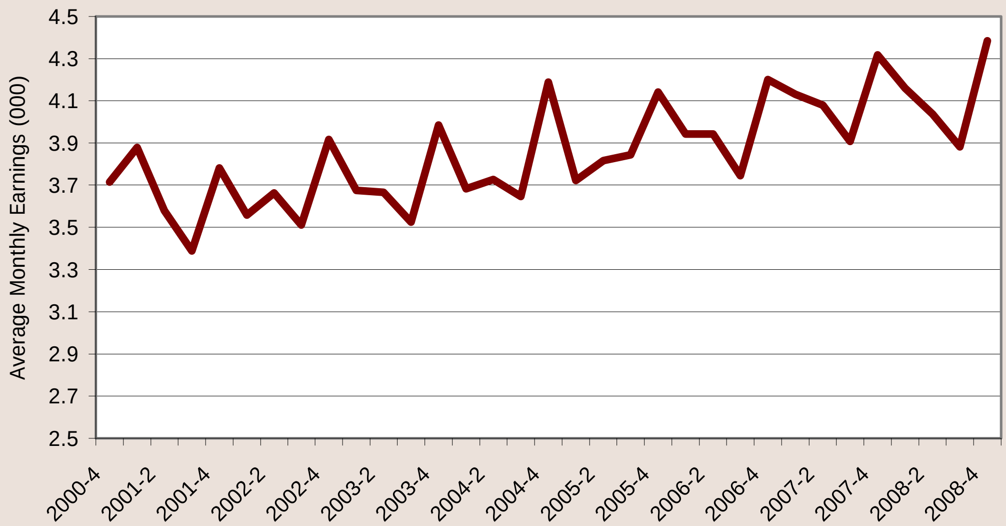
Chart 6
Wayne County Motor Vehicle Manufacturing Wages



Source: Bureau of Labor Statistics

Quarterly Workforce Indicators also reflect average monthly wages, which includes gross wages and salaries, bonuses, stock options, tips and other gratuities, and the value of meals and lodging, where supplied (See **Chart 7**).

Chart 7
Wayne County Average Monthly Earnings



Source: Census Bureau Quickfacts

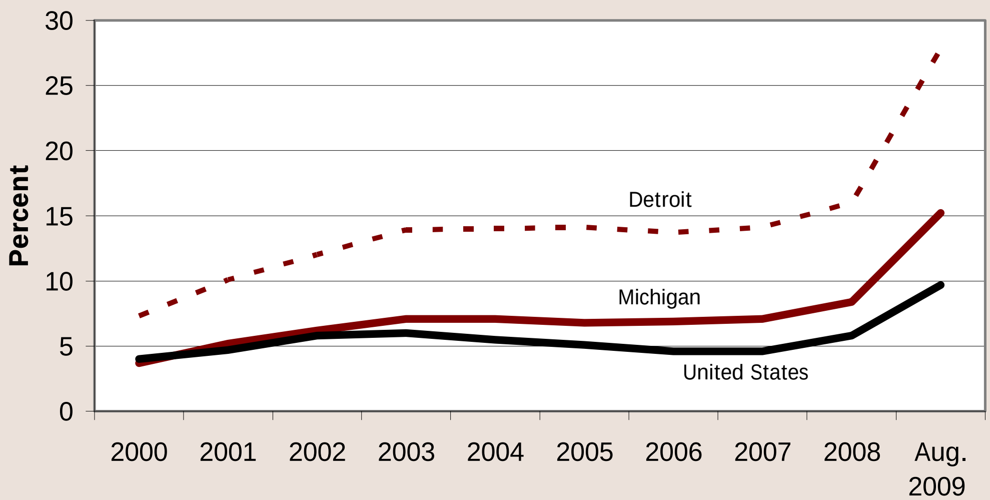
Unemployment Rate

In 2000, the unemployment rate in Michigan was below that of the United States, and the rate in Detroit was twice that of the state. The unemployment rate in Detroit and in Michigan more than doubled between 2000 and 2008, and nearly doubled again between 2008 and August, 2009. (See **Chart 8**.)

The Bureau of Labor Statistics publishes annual average unemployment rates for the 50 largest cities in the U.S., and ranks those cities with the lowest unemployment rate being first and the highest rate being 50th. Detroit ranked 50th every year after 2000.

The erosion of the economic base of the City of Detroit continued through decades of population and business losses, and accelerated in the "Great Recession" that began officially in December, 2007.

Chart 8
Annual Civilian Unemployment Rates, Detroit, Michigan, and U.S.



Source: U.S. Department of Labor, Bureau of Labor Statistics

Land Use

Detroit occupies 138 square miles. Depopulation has resulted in large areas of the city becoming vacant, as abandoned homes and businesses have been demolished.

SEMCOG provides information on land use in terms of acreage (See **Table 10**).

Table 10
Land Use in Acres in Detroit, 2000

	Acres	Percent
Residential	46,915	52.8%
Single Family	43,385	48.8
Multiple Family	3,530	4.0
Non-Residential	31,359	35.3%
Commercial and Office	8,108	9.1
Industrial	7,020	7.9
Institutional	5,384	6.1
Transportation, Communication, Utility	4,107	4.6
Cultural, Outdoor Recreation, Cemetery	6,741	7.6
Under Development	0	0.0%
Active Agriculture	0	0.0%
Grassland and Shrub	164	0.2%
Woodland and Wetland	265	0.3%
Extractive and Barren	34	0.0%
Water	70	0.1%
Total Acres	88,876	100.0%

Source: SEMCOG, Community Profiles, Detroit

Table 11
Land Use in Detroit, 2008

	Acres		Parcels	
	Number	**Percent**	**Number**	**Percent**
Commercial, Industrial, and Residential Used Land	37,368	51.9%	270,723	70.7%
Institutional	3,811	5.3	5,166	1.3
Transportation, Communication, and Utilities	11,331	15.7	1,361	0.3
Outdoor Recreation and Public Open Space	6,736	9.4	631	0.2
Non Residential Use* and Needs Redevelopment	2,129	2.9	4,831	1.3
Residential Use and Needs Redevelopment	763	1.1	6,424	1.7
Vacant Developable Land	9,837	13.7	93,913	24.5
Total	71,975**	100.0%	383,049	100.0%

* Excludes property used for institutional, recreational, communications, and utility purposes.

**Acreage does not add to total city land area due to road right of way.

Source: SEMCOG

For 2008, SEMCOG estimated the condition and use of land in Detroit as shown in **Table 11**.

SEMCOG defines "developable land" as previously developed land that now has no structures, that is not park land and not intended for public use. While the 9,837 acres of vacant developable land translates into 15 square miles (there are 640 acres in one square mile), this land is owned on a parcel basis and consists of 93,913 parcels scattered across the city. Vacant parcels represent 24.5 percent of all parcels in the city; vacant parcels and those in need of redevelopment represent 27.5 percent of all parcels. Tens of thousands of parcels are tax reverted and in the inventories of the city, county, and state; the rest are owned by individuals, businesses including foreclosing banks, HUD, and nonprofit organizations. There are 58,127 parcels that are tax exempt (15.2 percent of all parcels) and over two-thirds of exempt parcels are vacant commercial and residential properties now owned by the city government.

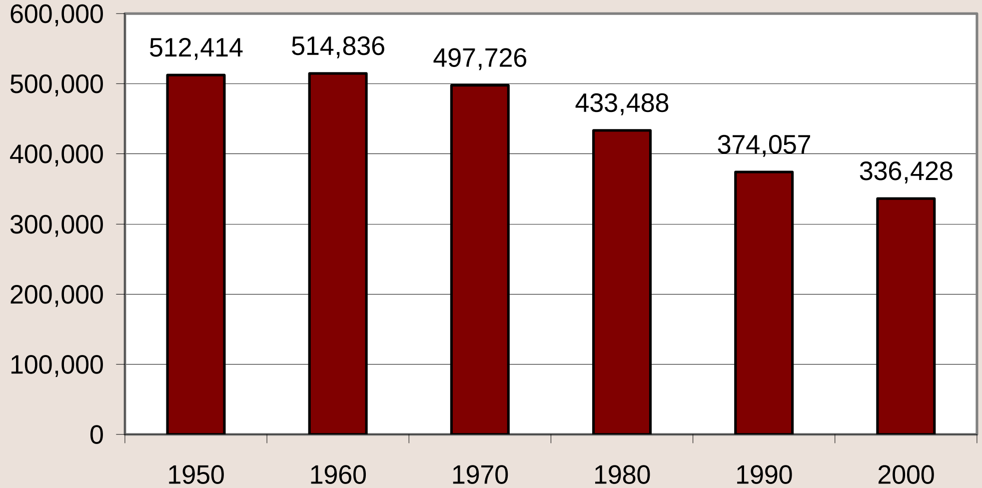
Neighborhood Revitalization Strategic Framework

In December, 2008, Community Development Advocates of Detroit (CDAD), a trade association of community development organizations, organized an effort to develop a vision for land use in Detroit that acknowledges that the city will not reverse its population loss in the foreseeable future. The framework proposes 11 neighborhood classifications that reflect future directions, including naturescapes with natural landscapes, green venture zones with farms and fisheries, and green thoroughfares.

Housing Units

The Census Bureau reports that the number of occupied housing units in the city continued to increase until 1960, and declined in every census since 1960 (See **Chart 9**).

Chart 9
Occupied Housing Units in Detroit



Source: Census Bureau

Nearly half of Detroit land is occupied by single family, detached homes. SEMCOG reports that there were 34,931 fewer housing units in Detroit in 2000 then there had been ten years earlier, and 18,389 fewer in 2009 than in 2000. (See **Table 12**.)

Table 12
Housing Units in the City of Detroit

Housing Type	Census 1990	Census 2000	Change 1990-2000	New Units Permitted 2000-2009
Single Family Detached	244,290	237,129	-7,161	1,977
Duplex	48,002	40,558	-7,444	212
Townhouse/Attached Condo	27,224	25,065	-2,159	1,207
Multi-Unit Apartment	83,036	70,740	-12,296	2,813
Mobile Home/Manufactured Home	600	1,438	838	0
Other	6,875	166	-6,709	0
Total	410,027	375,096	-34,931	6,209
Units Demolished				-24,598
Net				-18,389

Source: SEMCOG, Community Profiles, Detroit

In 2008, the Census Bureau estimated that about 53.3 percent of occupied housing units in Detroit were owner occupied, a larger proportion than in comparable cities. There were also 101,737 vacant housing units in Detroit. At 27.8 percent of the total 365,367 housing units remaining in the city, this was a larger proportion of vacant housing units than in comparable cities. (See **Table 13**.)

Table 13
Housing Characteristics in Detroit and Comparable Cities, 2008

	Total	Occupied Housing Units						Vacant Units	
	Housing	Total		Owner-Occupied		Renter-Occupied			
City	Units	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Buffalo	140,319	115,386	82.2%	46,837	40.6%	68,549	59.4%	24,933	17.8%
Cincinnati	164,363	126,103	76.7	53,960	42.8	72,143	57.2	38,260	23.3
Cleveland	215,413	168,628	78.3	77,915	46.2	90,713	53.8	46,785	21.7
Detroit	**365,367**	**263,630**	**72.2**	**140,523**	**53.3**	**123,107**	**46.7**	**101,737**	**27.8**
Milwaukee	249,302	221,194	88.7	105,918	47.9	115,276	52.1	28,108	11.3
Minneapolis	177,069	160,600	90.7	84,689	52.7	75,911	47.3	16,469	9.3
Pittsburgh	158,203	129,994	82.2	67,830	52.2	62,164	47.8	28,209	17.8
St. Louis	180,917	142,299	78.7	72,813	51.2	69,486	48.8	38,618	21.3
Michigan	4,535,568		84.0%		74.0%		26.0%		16.0%
U.S.			87.6%		66.6%		33.4%		12.4%

Source: Census Bureau, American Community Survey

In spite of some new construction, residential neighborhoods became increasingly empty in the 1990 to 2000 period. SEMCOG reports for Detroit include the amount of land in areas losing housing, and indicate that the amount of land where there was less than 12.5 percent of housing remaining increased from 349.1 acres in 1990 to 711.0 acres in 2000 (See **Table 14**).

According to Crain's Detroit Business, there were 78,000 vacant parcels and 18,000 foreclosed properties in Detroit in the autumn of 2009.[2]

[2] Crain's Detroit Business Vol. 25 No. 34 Fall 2009.

Table 14
Land Use Change in Detroit: Areas Losing Housing

Current Amount of Remaining Housing in an Area Losing Housing	Acres in 1990	Acres in 2000	Change 1990-2000 Acres	Change 1990-2000 Percent
62.5%-87.5%	10,063.1	14,130.7	4,067.6	40.4%
37.5%-62.5%	4,230.5	5,732.0	1,501.5	35.5
12.5%-37.5%	308.1	489.8	181.7	59.0
0.0%-12.5%	349.1	711.0	361.9	103.7

Source: SEMCOG, Community Profiles, Detroit

Detroit Residential Parcel Survey

A survey of residential parcels was conducted by the Detroit Data Collaborative in August and September of 2009 to develop a comprehensive data set that could be used by foundations, the city, and others to inform decisions and develop strategy for neighborhood stabilization activities. College students and Detroit residents drove the streets of Detroit in three person teams (a driver and two surveyors) to record the following information for each residential parcel:

- Address verification
- Property type
- Property condition
- Vacancy
- Vacant, open, or dangerous (VOD)
- Fire damage
- Vacant lot

This was a "windshield" survey; teams did not leave their vehicles. Apartment buildings with more than four units, commercial and industrial parcels were excluded from the residential parcel survey. Of the approximately 387,000 total parcels in the city, 343,849 were included. (See **Table 15**.)

The survey found single family houses on 90.9 percent of the residential parcels surveyed that had residential structures, and structures with two housing units (duplexes) on 8.6 percent of parcels that had residential structures. In only 0.5 percent of parcels with structures did those structures contain three or four housing units. Overall, 85.5 percent of residential structures were rated in good condition (well maintained, structurally sound, no more than two minor repairs): 92.5 percent of structures thought to be occupied were rated good and 39.9 percent of

Table 15
Detroit Residential Parcel Survey Findings

	Total	Vacant	Occupied
Housing Type			
Single	229,634	29,964	199,670
Duplex	21,793	3,395	18,398
Multi-unit	1,168	168	1,000
Condition			
Good	216,059	13,389	202,665
Fair	24,448	9,926	14,522
Poor	8,519	6,845	1,674
Demolish	3,480	3,365	115
Vacancy			
Vacant	30,806	30,806	0
Possible	2,721	2,721	0
VOD	10,413	10,390	23
Fire	2,953	2,875	77
Vacant Lot			
Unimproved	67,843	1	276
Improved	23,645	1	167
Total	343,849	33,529	219,511

Source: Data Driven Detroit, Detroit Residential Parcel Survey, www.detroitparcelsurvey.org.

structures thought to be vacant were rated good. Structures containing housing units on 3,480 parcels were placed in the "demolish" category (not structurally sound), although residential structures on 10,413 parcels were vacant, open, and dangerous, and residential structures on 2,953 parcels had fire damage visible from a vehicle on the street. Surveyors judged that 30,806 parcels had residential buildings that were vacant and another 2,721 parcels had residential buildings that were possibly vacant. A total of 67,843 parcels in this residential survey were unimproved vacant lots (no structure and no improvement) and another 23,645 parcels were improved vacant lots (no structure, but having a paved lot, accessory feature, fence, or park). A total of 91,488 parcels that were considered residential were vacant (26.6 percent of all residential parcels).

Survey results have been mapped and those maps are available at www.detroitparcelsurvey.org. This parcel information, intended to be updated and refined by additional input, should be valuable to the city government in various ways: verifying Assessor's Office records, developing land use strategies, allocating Block Grant and other funding, planning future infrastructure investments and demolition efforts.

Comparative Metro Area Economic Performance

The Metropolitan Policy Program at The Brookings Institution has tracked the disparate economic performance of the 100 largest metro areas over the course of the recession. Metrics used include employment, unemployment rate, home values, and gross metropolitan output (GMO). The analysis indicated that the 12 metro areas (including Detroit) that were highly specialized in auto and auto parts manufacturing lost large numbers of jobs that were paid relatively high wages, disproportionately affecting the GMO.

- Employment in the Detroit-Warren-Livonia metro area declined 14.5 percent from the peak quarter (the first quarter of 2004 was the start date for the analysis, but the actual peak could have occurred earlier for metro Detroit) to the second quarter of 2009, which ranked 98th of the 100 largest metro areas. The change in employment from the first to the second quarter of 2009 was -2.5; metro Detroit ranked last of the 100 metro areas.
- Metro Detroit ranked last when measured by both the June, 2009 rate of unemployment (17.1 percent) and the change in unemployment from June, 2008 to June, 2009 (8.1 percent increase).
- Metro Detroit also ranked last when measured by the percentage change in gross metro product (GMP) from the peak quarter to the second quarter of 2009 (-14.5 percent) and by the percentage change in GMP from the first to the second quarter of 2009 (-1.5 percent).
- Real estate owned properties (REOs) are those that are acquired by the lender through foreclosure. Metro Detroit ranked 93rd in the number REOs in June, 2009 (10.46 REOs per 1,000 mortgageable properties).
- Metro Detroit ranked 77th in the percentage change in housing prices from the second quarter of 2008 to the second quarter of 2009.[3]

[3] The Brookings Institution.

City of Detroit Government

Structure

Detroit is a home rule city with a strong mayor form of government and a city council composed of nine members elected at large. The most recent city charter became effective January 1, 1997. On November 3, 2009, Detroit voters approved (84,292 voted yes and 32,626 voted no) a city charter amendment that provided for a nine-member city council with seven members elected from districts and two members elected at large. Members of a new city charter commission were also elected at that November, 2009 election to draft a revised city charter.

All local governments in Michigan are required by the state's Uniform Budgeting and Accounting Act (PA 2 of 1968) to adopt an annual, balanced budget. This budget reflects the financial, staffing, and operational plan for the fiscal year.

For budgeting and accounting purposes, the city government is organized into funds, departments, appropriations, programs, and projects. The city's accounting system is the Detroit Resource Management System (DRMS), which is used for purchasing, accounts payable, accounts receivable, and general ledger.

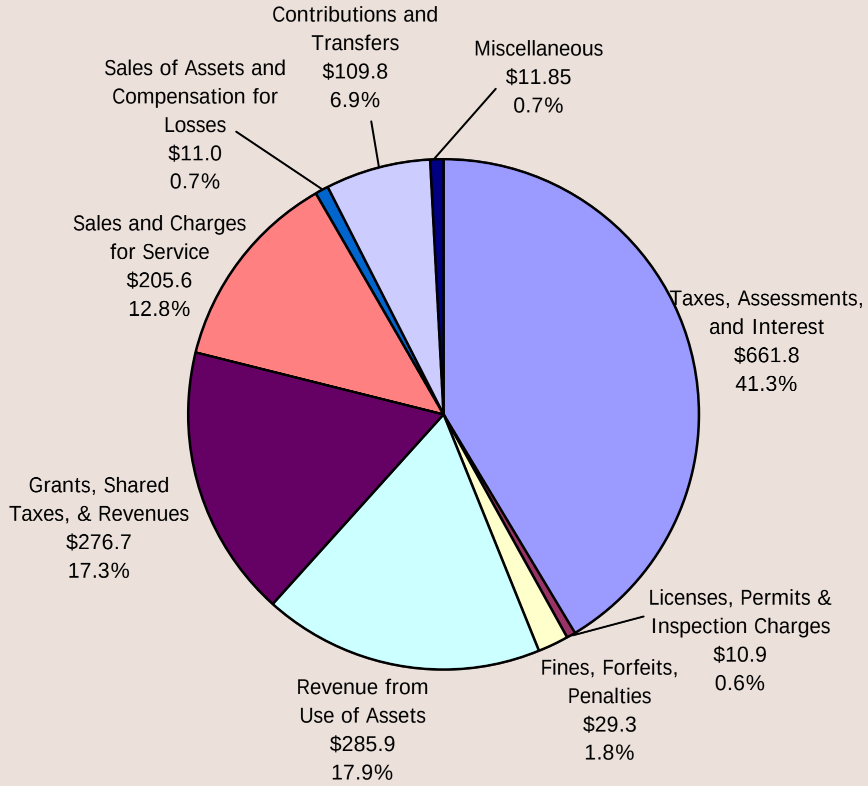
Various funds include the general fund, debt service fund, and enterprise funds including Airport, Buildings and Safety, Transportation, Municipal Parking, Water Supply, Sewerage Disposal, and Library. Enterprise funds are generally self supporting, although they may receive general fund appropriations (the Department of Transportation is budgeted to receive $80,018,789 from the general fund in FY2010). The debt service fund is supported by an unlimited property tax levy, which is set at a rate that is sufficient to pay principal and interest due during the fiscal year (7.4773 mills in FY2010). In addition to voter-approved, unlimited tax debt, the city has issued limited tax debt to be repaid from the general fund.

General Fund

The key fund is the general fund, which is supported by general city tax revenues, state revenue sharing, and a variety of other revenues. (See **Chart 10**.)

Challenges to balancing general fund revenues and appropriations include declining tax revenues and reductions in state revenue sharing, increasing personnel costs including health care and pensions, limited tax debt (which must be paid from general operating revenues), law suit settlements, and other factors.

Chart 10
Revenues by Major Classification, City of Detroit General Fund Budget, FY2010
(Dollars in Millions)

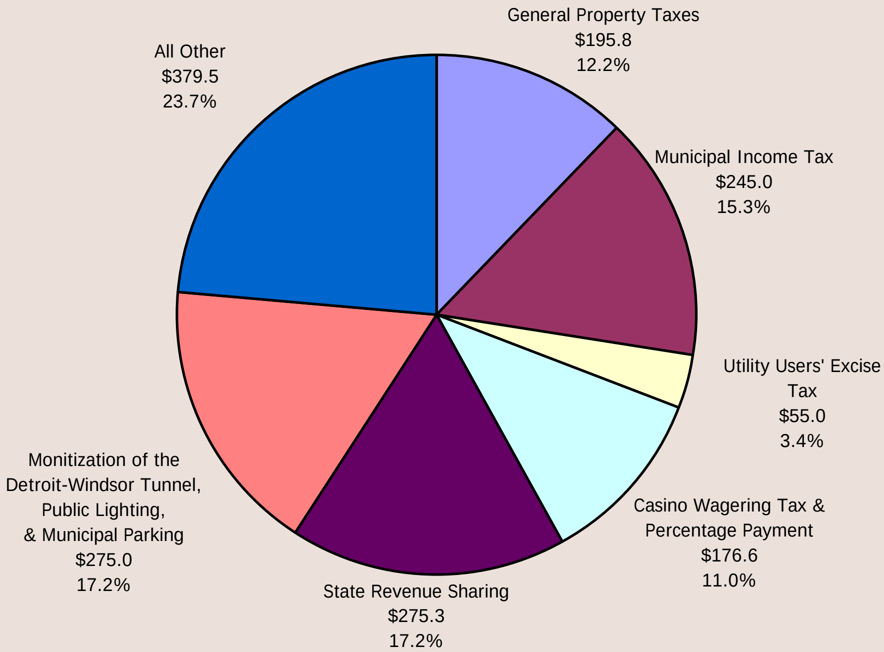


Source: City of Detroit 2009-2010 Budget

Major Revenues

Six major revenues provide 76 percent of all General Fund revenues included in the adopted financial plan for FY2010 (See **Chart 11**).

Chart 11
Major Revenue Sources in the City of Detroit FY2010 Budget
(Dollars in Millions)



Source: City of Detroit FY2010 Budget

Property Taxes

Detroit imposes a property tax, as do essentially all general purpose local governments in Michigan. The property tax rate, defined in mills ($1 of tax per $1,000 of taxable value), is levied on the taxable value of real and personal property. Cities may levy no more than 20 mills for general operations. The 1978 Headlee Amendment to the Michigan Constitution requires that the property tax rate be "rolled back" when the existing tax base grows faster than the rate of inflation. Detroit had been levying the full 20 mills, but the general tax rate has been rolled back by a total of 0.0480 mills over the years. Debt service for voter-approved, unlimited tax, general obligation bonds is an additional levy. Further, a number of other taxing authorities levy property taxes in Detroit. The total property tax rate on homestead property was 65.1384 mills in 2009; the rate on non-homestead property was 82.9692 mills. (See **Table 16**.)

Table 16
Tax Rates and Levies in the City of Detroit, Fiscal 2009

	Millage	Levy in Millions
City of Detroit		
General Fund	19.9520	$194.4
Debt Service	7.4779	75.0
Library	4.6307	45.1
Total City	32.0606	$314.5
Schools		
Debt Service	13.0000	$126.7
Non-homestead Tax	17.8308	173.7
Total Schools	30.8308	$300.4
State Education Tax	6.0000	$58.5
Wayne County		
General Fund	6.6380	$64.7
Regional Educational Service Operational Agency	3.4643	33.8
Community College	2.4769	24.1
Wayne County Parks	0.2459	2.4
Huron-Clinton Metro Authority	0.2146	2.1
Public Safety	0.9381	9.1
Zoo	0.1000	1.0
Total Wayne County	13.9778	$137.2
Total Levy		$810.6
Total Homestead Rate	65.1384	
Total Non-homestead Rate	82.9692	

Source: City of Detroit Budget

For FY2010, the general city tax rate remained 19.9520 mills, while the debt service levy declined very slightly to 7.4773 mills. In Michigan, homestead property is exempt from up to 18 mills of local school millage, which results in homeowners paying a lower property tax rate on their principal residence than owners of commercial, industrial, and utility property pay (or than would be paid on vacation property).

The total tax burden on Detroit properties remains very high compared to the statewide average (See **Table 17**).

Table 17
Comparison of Tax Rates in Detroit and Statewide Averages, 2005 - 2009

	Detroit*		Statewide Average for	Statewide Average for Commercial, Industrial,
	Homestead	Non-Homestead	Homestead	and Utility Property**
2005	67.06	85.06	32.60	51.71
2006	67.70	85.25	32.66	51.89
2007	65.96	86.95		51.85
2008	65.63	83.63		48.39
2009	65.14	83.14		

* City of Detroit, FY2010 Budget

** Michigan Department of Treasury

The Michigan Constitution limits the growth of taxable value (TV) on a parcel basis to the lesser of 5 percent or inflation, excluding additions and losses. When transferred, property is reassessed to state equalized value, which is 50 percent of true cash value (there are special provisions for agricultural and qualified forest property). For many communities, tax revenues have been protected from the recent slide in property values by the gap that had grown between taxable value and state equalized value; property tax levies grew even as market value declined. That gap between SEV and TV has now generally been eliminated, and declining property values may be expected to be reflected in property tax revenues for years to come.

The city's FY2010 budget reports state equalized values (SEV), taxable values (TV) including Renaissance Zones (debt service levies, but not general operating levies, may be applied to taxable values in Renaissance Zones), and allows for the calculation of the taxable base for general city operations (See **Table 18**.)

Table 18
City of Detroit Property Tax Base
(Dollars in Millions)

Fiscal Year	State Equalized Value including Renaissance Zone Amount	State Equalized Value including Renaissance Zone Percent	Taxable Value including Renaissance Zone for Debt Service Amount	Taxable Value including Renaissance Zone for Debt Service Percent	Taxable Value for General City Operations Amount	Taxable Value for General City Operations Percent
2000	$ 8,628.4				$ 6,856.7	
2001	9,824.3	13.9%			7,204.4	5.1%
2002	10,975.8	11.7%			7,639.8	6.0%
2003	12,048.3	9.8%			7,976.0	4.4%
2004	12,041.8	-0.1%			7,844.2	-1.7%
2005	12,840.6	6.6%	$ 8,446.2		8,346.2	6.4%
2006	13,412.2	4.5%	8,872.3	5.0%	8,749.8	4.8%
2007	13,455.2	0.3%	9,298.3	4.8%	8,996.2	2.8%
2008	14,113.4	4.9%	9,896.7	6.4%	9,600.9	6.7%
2009	13,945.5	-1.2%	10,031.3	1.4%	9,743.3	1.5%
2010	12,497.6	-10.4%	9,725.9	-3.0%	9,439.1	-3.1%

Source: City of Detroit FY2010 Budget; CRC Calculations

In FY2007, DaimlerChrysler Corporation was the largest property taxpayer in the city, with $720.3 million of taxable property, 7.7 percent of the total. The second largest property taxpayer was General Motors Corporation, with $395.3 million in taxable property, 4.3 percent of the total. Both Chrysler and General Motors have since filed for, and emerged from, federally supervised bankruptcy. Greektown Casino has also filed for reorganization under bankruptcy. (See **Table 19** on p. 28.)

Table 19
Ten Largest Detroit Property Taxpayers, FY2007 and FY2008
(Dollars in Millions)

	FY2007		FY2008	
	Taxable Value	Percent of TV	Taxable Value	Percent of TV
Chrysler	$720.3	7.7%	$538.2	5.4%
General Motors Corporation	395.3	4.3	147.0	1.5
Detroit Edison	330.6	3.6	323.2	3.3
American Axle and Manufacturing	165.6	1.8	145.2	1.5
MGM Grand Detroit LLC	164.7	1.8	246.7	2.5
Marathon Oil/Ashland Petroleum LLC	141.2	1.5	134.4	1.4
Michigan Consolidated Gas	91.0	1.0	91.9	0.9
One Detroit Center LP	85.6	0.9		
ATT Mobility LLC f/k/a/ Cingular Wireless	75.8	0.8		
Detroit Entertainment LLC	66.7	0.7	99.6	1.0
Riverfront Holdings, Inc.			147.5	1.5
Greektown Casino LLC			79.0	0.8
Total for 10 Largest Taxpayers	$2,236.9	24.1%	$1,952.7	19.8%
Total Taxable Value	$9,298.3		$10,031.3	

Source: 2006-07 and 2007-08 Comprehensive Annual Financial Reports; 2009-10 City of Detroit Budget

According to the city's budget document, the federal Department of Housing and Urban Development owned property in the city with taxable value of $72.8 million, 0.7 percent of the total.

In addition to the ad valorem property tax roll and the Renaissance Zone, there are other tax rolls that are authorized by state law (Industrial Facilities Tax, PA 198 of 1974; Neighborhood Enterprise Zone Tax, PA 147 of 1992; Obsolete Property Rehabilitation Act, PA 146 of 2000; Land Bank Act, PA 258 of 2003) and that have tax rates that may differ from the general rates.

Table 20 shows the valuations for these special districts in FY2010.

Table 20
Valuation of Property in Special Districts, FY2010

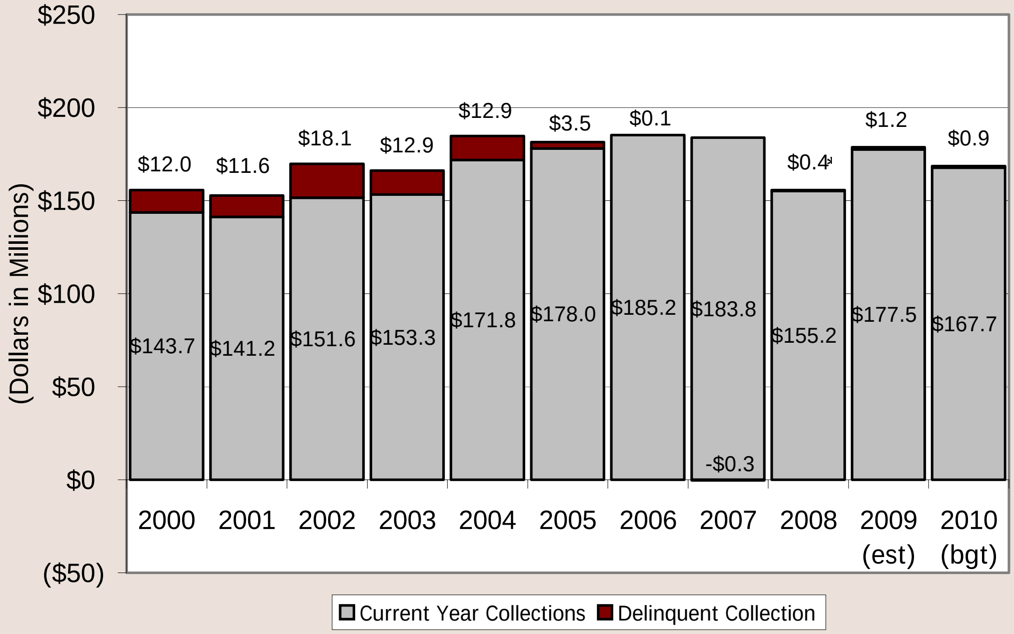
Type of Special District	Value of Property
Industrial Facilities Tax, PA 198 of 1974	$446,140,157
Neighborhood Enterprise Zone Tax, PA 147 of 1992	435,480,286
Obsolete Property Rehabilitation Act, PA 146 of 2000	58,739,557
Land Bank Act, PA 258 of 2003	8,164,030

Source: FY2010 City of Detroit Budget

After March 1 of each year, current year delinquent property taxes are "sold" to Wayne County for collection; the city receives payment in advance of collections from the county. The county attempts to collect the delinquent taxes for two years, then nets the uncollected amount from the next payment to the city. Thus, there is a two-year lag in the impact of uncollectible property taxes on the city.

The FY2010 budget assumes unspecified adjustments that will lower collections by $6 million, a 96 percent collection rate, and $900,000 in collections of prior years levies. (See **Chart 12**.)

Chart 12
General Fund Property Tax Revenues



*2008 delinquent tax collections estimated in FY2010 Budget

Source: FY2010 City of Detroit Budget; 2007-08 Comprehensive Annual Financial Report

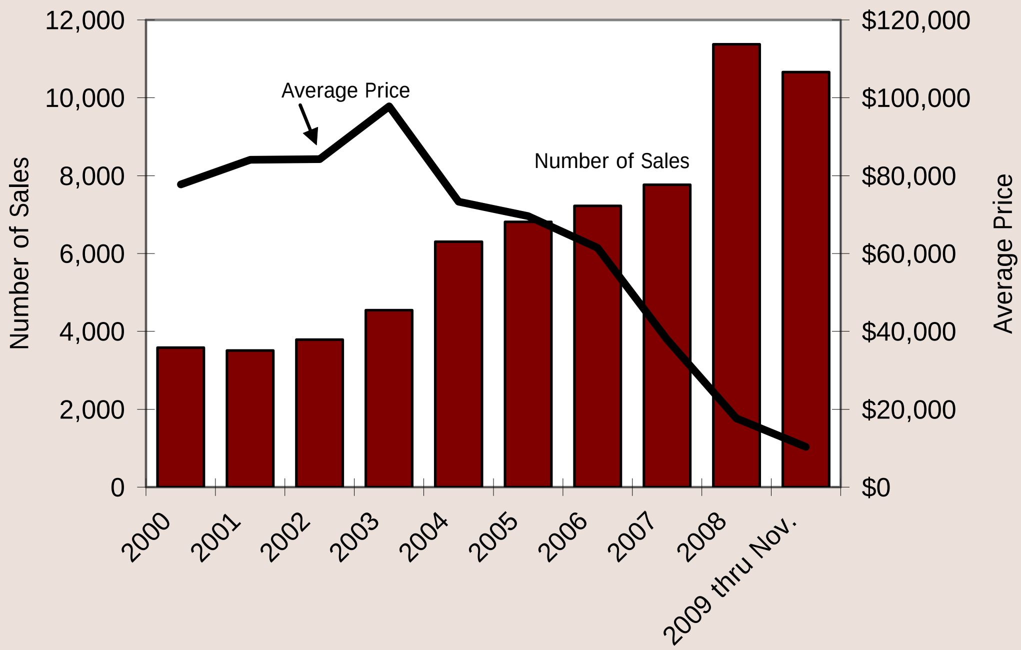
The numbers in **Table 12** are from the city's budget for FY2010. The FY2008 CAFR reports the general fund property tax revenue was actually $155,155,928. The difference between the estimated and actual revenue was due to Wayne County making $33.2 million in charge backs for delinquent property taxes.

According to residential sales statistics published by the Michigan Association of Realtors, the average sale price of houses in Detroit has declined precipitously (See **Chart 13**).

The dramatic deterioration of the real estate market has prompted auto related and other companies, as well as individuals, to challenge the state equalized and taxable valuations assigned to their properties. Because sale prices have declined very substantially, and because some properties have become unmarketable at any price, it is very likely that these challenges will exacerbate the erosion of the property tax base.

Erosion of the property tax base has long-term consequences. Proposal A restricts the growth in the property tax base on a per parcel basis to the lesser of inflation or five percent. Therefore, even after real estate prices recover, the growth in property tax revenues will be restricted.

Chart 13
Residential Sales Reported by the Detroit Board of Realtors



Source: Michigan Association of Realtors, Residential Sales Statistics

Municipal Income Tax

Detroit is one of 22 Michigan cities that impose a municipal income tax, and the rate of Detroit's income tax remains higher than that of the other cities'.

PA 500 of 1998 required Detroit to reduce the rate of its income tax, which was then 3 percent on residents, 2 percent on corporations, and 1.5 percent on non-residents, over a 10-year period. In 2003, the city received a suspension of the rate reduction in accordance with provisions of the law; that suspension remains in effect and the rate remains 2.5 percent on residents, 1 percent on corporations, and 1.25 percent on non-residents who work in the city.

Since FY2003, the tax has generated less revenue in each year except FY2006, when the personal exemption amount was lowered from $750 to $600 (this change was estimated to produce an additional $2.5 million). Although no audited figures were available, the city estimated that 7.2 percent less was collected from the municipal income tax in FY2009 than was collected in FY2008. (See **Chart 14**.)

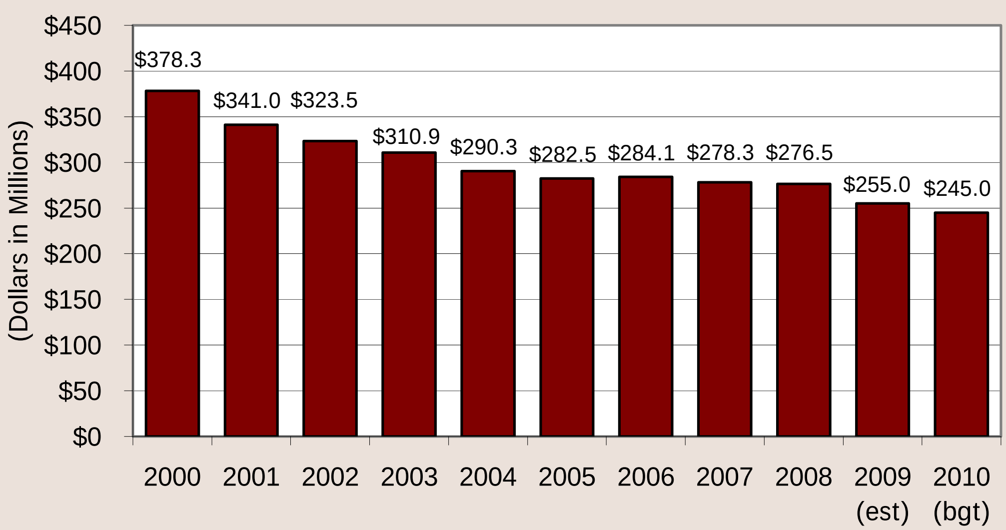
In FY2010, city income tax revenues may be expected to decline at a rate that is steeper than the rate anticipated in the budget. In January, 2010, the State of Michigan's net income tax collections were down 8.7 percent from the prior January, and year-to-date, net income tax collections were down 7.7 percent from the prior year.[4]

The state's January Revenue Estimating Conference, held each year to arrive at a prediction of the revenue available for appropriation in the upcoming fiscal year, forecasts continuing challenges in the income tax base statewide (See **Table 21**.) The January 11, 2010 economic forecast included a de-

[4] Senate Fiscal Agency, January 2010, Monthly Revenue Report.

[5] Administrative Estimates Michigan Economic and Revenue Outlook, FY2010 and FY2011, January 11, 2010.

Chart 14
Municipal Income Tax Revenues



Source: City of Detroit

Table 21
January 2010 Consensus Economic Forecast for Michigan

	Calendar 2009 Forecast	Percent Change	Calendar 2010 Forecast	Percent Change	Calendar 2011 Forecast	Percent Change
Wage and Salary Employment (thousands)	3,876	-6.8%	3,791	-2.2%	3,757	-0.9%
Unemployment Rate (percent)	14.1		15.7		15.3	
Personal Income (millions of dollars)	$340,173	-2.7%	$343,575	1.0%	$349,416	1.7%
Real Personal Income (millions of 1982-84 dollars)	$166,751	-2.3%	$164,469	-1.4%	$164,122	-0.2%
Wages and Salaries (millions of dollars)	$173,069	-7.9%	$171,338	-1.0%	$172,366	0.6%

Source: Census Revenue Agreement, Executive Summary, January 11, 2010.

cline of 10.2 percent in net income tax revenues for the state's general fund for the 2010 fiscal year.[5]

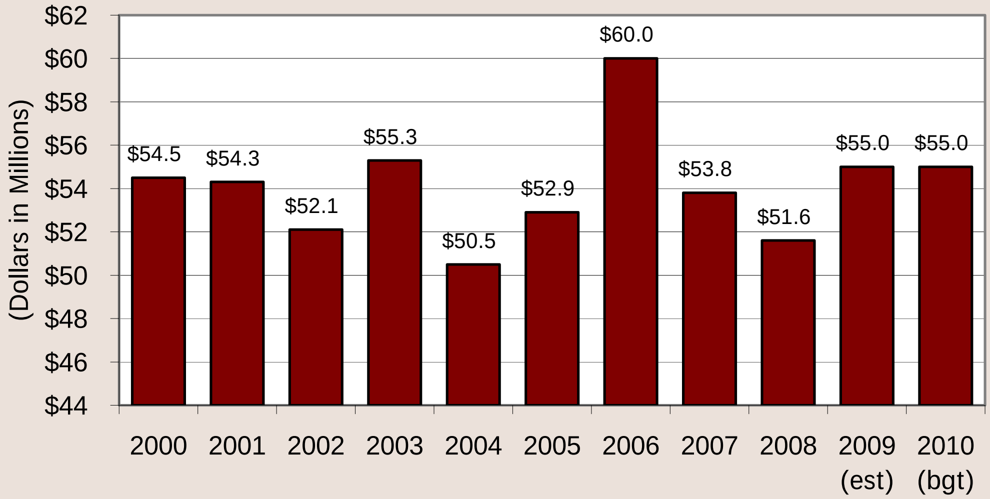
Detroit started its 2009-10 fiscal year with an unemployment rate of 28.9 percent, up from 28.2 percent in June. If the reduction in Detroit income tax collections in the current fiscal year were to match the estimated approximately 8.0 percent reduction from FY2008 to FY2009, the tax would produce $234.6 million and the resulting revenue deficit would be $10.4 million. If the year-over-year reduction were 10 percent, the tax would produce $229.5 million and the resulting revenue deficit would be $15.5 million. If the year-over-year reduction were 20 percent (about the percentage that net, state, year to date, income tax receipts were down in July, 2009), the tax would produce $204 million and the resulting revenue deficit would be $41 million. The Crisis Turnaround Team appointed by Mayor Bing to assess city operations and make recommendations estimated a $20 million city income tax deficit for FY2010. The deficit elimination plan filed by the city with the Michigan Department of Treasury projects FY2010 income tax revenues to be $212.7 million, $32.3 million less than budget. The central question is the severity of the loss of jobs and population, and the effect on income earned by Detroit residents and by non-residents who work in Detroit.

Utility Users' Excise Tax

Detroit is the only city in the state that is allowed to impose a utility users' excise tax (5 percent on public utility usage). PA 197 of 2005 provides that all revenues from this tax on utility use in the city be used to hire and retain police officers. (See **Chart 15**.)

Given the reductions in the estimated revenues from this source in FY2007 and 2008, and the probable effects of the "Great Recession" on Detroit, a revenue deficit of at least $5 million can be expected. Productivity improvements and conservation can be expected to compound the effects of the loss of manufacturing and population on this revenue source.

Chart 15
Utility Users' Excise Tax Revenues



Source: FY2010 City of Detroit Budget; 2007-08 Comprehensive Annual Financial Report

Comparative Tax Burden

Tax rate and tax burden comparisons for cities are complicated by the various distributions of functions between states, counties, and cities; the different ways that states calculate taxable value; the different taxes that cities and states levy; and other factors. The Office of the Chief Financial Officer of the government of the District of Columbia annually publishes a report comparing state and local tax rates and tax burdens in D.C. and in the largest city in each state. The most recent report, that for 2008, estimates the burden of major taxes for a hypothetical family of three at different income levels: $25,000; $50,000; $75,000; $100,000; and $150,000. (See **Table 22**.)

Liquor taxes, cigarette taxes, and taxes on utility bills are not included in the study. As noted, Detroit imposes a utility users' excise tax of 5 percent, which produces about $51 million annually, and the state cigarette tax is among the nation's highest. Were these taxes included, it is possible that Detroit would have been ranked higher.

The D.C. study also calculates a combined overall tax burden for each of the 51 cities. Detroit ranks third highest in this category, after Bridgeport, Connecticut and Philadelphia. Generally, according to the D.C. analysis, high tax burden cities have a graduated individual income tax (neither Detroit nor Michigan have a graduated income tax) and/or high real estate taxes (Detroit does have high real estate taxes), moderate to high housing values (housing values in Detroit are low and falling) and are located in the Northeast.

While tax rates are relatively high in Detroit, the cost of purchasing a home is relatively low due to weak demand as population loss continues.

Table 22
State and City Tax Burden in the City of Detroit
Estimated Burden of Major Taxes for a Hypothetical Family of Three, 2008

Household Income	Tax Burden Amount	Percent	Rank of 51
$25,000	$2,871	11.5%	17
$50,000	5,769	11.5	4
$75,000	8,385	11.2	3
$100,000	11,069	11.1	3
$150,000	15,430	10.3	4

Source: Government of the District of Columbia, September 2009, Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison.

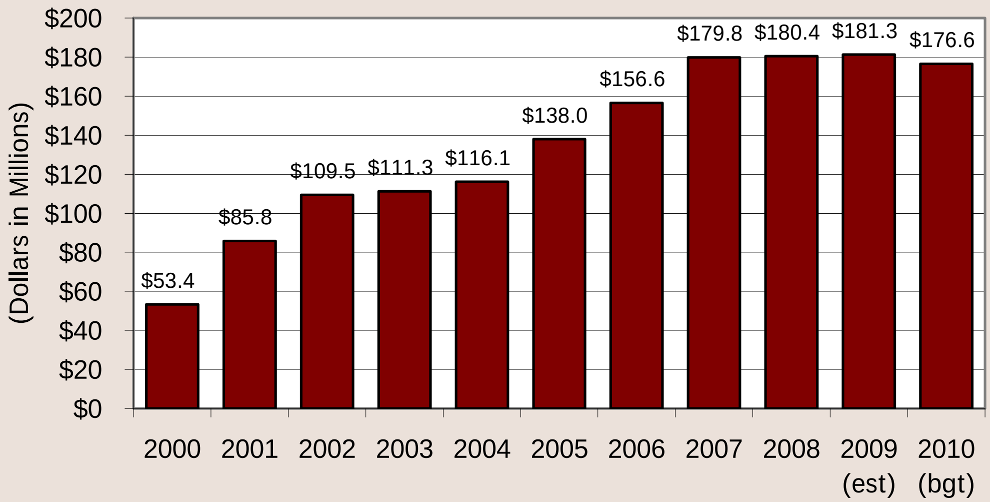
Casino Wagering Tax

Detroit is also the only city in Michigan that is home to non-Indian casinos and the only city allowed to impose a casino wagering tax. This tax has become an increasingly important revenue source for the city's general fund. Detroit collects 10.9 percent of adjusted gross receipts in wagering taxes from MGM and Motor City casinos, both of which opened permanent casinos in 2007. The Greektown Casino filed for Chapter 11 bankruptcy in May 2008, and opened its permanent hotel and casino in February 2009. In addition, the city collects the greater of 1.25 percent of adjusted gross revenue or $4 million as a municipal service fee and has negotiated other payments as well. (See **Chart 16**.)

The consensus revenue estimate adopted by the state in January, 2010 projected a 9.7 percent decline in state casino wagering tax receipts for state FY2010. State year-to-date casino wagering tax revenues were down 13.3 percent in August 2009; the August, 2009 collections were 15.1 percent lower than collections in August, 2008. Surprisingly, January, 2010, state casino wagering tax collections were up 5.2 percent from the same month in 2009 and December, 2009 collections were up 5.3 percent from December, 2008. The Crisis Turnaround Team estimated revenues to the city from the casino wagering tax would be $10 million less than budgeted. The deficit elimination plan filed with the state estimated FY2010 revenues at $179.7 million and includes $8 million in net revenues from finalizing an agreement with Greektown Holdings LLC involving the bankruptcy.

The casino business in Detroit, now ten years old, is a mature industry. However, studies commissioned by the city prior to the recession indicated that wagering activity in Detroit still had growth potential. The long-term effects of the loss of personal wealth, the lack of population growth in the region, and the bankruptcy of Greektown Casino on gaming in Detroit is unknown.

Chart 16
Casino Wagering Tax Revenues

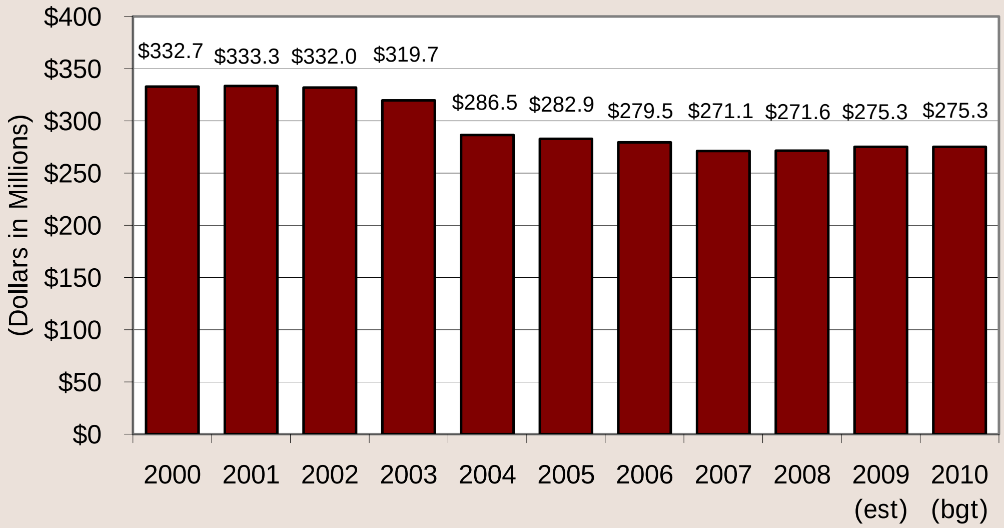


Source: FY2010 City of Detroit Budget; 2007-08 Comprehensive Annual Financial Report

State Revenue Sharing

The state revenue sharing program distributes sales tax revenues collected by the state to local governments as unrestricted revenues. Funding consists of a constitutionally mandated portion (15 percent of the gross collections sales tax at the 4 percent rate) and a statutory portion (up to 21.3 percent of the gross collections of the sales tax at the 4 percent rate). The constitutional portion is distributed on a per capita basis. The statutory portion was distributed on a formula basis that includes a percentage share of the FY1998 distribution, taxable value per capita, population unit type, and yield equalization. Since 2001, distributions have been calculated as a proportion of the prior year's amount. (See **Chart 17**.)

Chart 17
State Revenue Sharing



Source: FY2010 City of Detroit Budget; 2007-08 Comprehensive Annual Financial Report

According to a January 11, 2010 report on revenue sharing prepared by the state Office of Revenue and Tax Analysis, the state's FY2009 (October 1, 2008 – September 31, 2009) actual revenue sharing payments to Detroit were $62.2 million in constitutional payments and $206.8 million in statutory payments, a total of $269.0 million. This was $3.8 million (1.4 percent) less than the comparable state FY2008 amount paid to Detroit ($272.7 million). According to that report, the state's FY2010 payment to Detroit will be $234.7 million which is $34.2 million less than the state's FY2009 payment, and $40.6 million less than the city's FY2010 budgeted amount. Because the state's and city's fiscal years are different, however, the timing of payments has to be considered (See **Table 23** on p. 37.)

The payment estimates in **Table 23** were updated on November 19, 2009, and reflect the $239.2 million payment to Detroit projected by the state in May. The state's January estimate of its payment to Detroit was $4.5 million less than the May estimate. Should state sales tax revenues fall further below the estimates upon which the table was based, revenue sharing payments to Detroit and other units of local government would be reduced even further.

Table 23
Revenue Sharing Amounts to Detroit (including amounts for the Detroit Public Library)
Based on July 1-June 30 Fiscal Year
(Dollars in Millions)

	2006-07	2007-08	2008-09	2009-10	2010-11
August	$47.2	$44.0	$45.0	$43.7	$40.0*
October	47.0	46.5	45.9	40.3	
December	46.7	45.7	46.4	40.1	
February	45.2	46.1	45.7	40.7*	
April	45.5	44.9	43.3	38.3*	
June	44.3	44.5	44.0	39.9*	
Total	$275.9	$271.6	$270.3	$242.8*	

* Projected payments.

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

The consensus revenue estimate adopted on January 11, 2010 projected that state sales tax revenues would decline 3.2 percent in state FY2010.

The state withheld $23 million of state revenue sharing from FY2008 because the city failed to issue the FY2007 CAFR timely. The FY2009 general fund statement will reflect that receivable.

Miscellaneous Revenues

The city's general fund receives a variety of fees, fines, charges for services, revenue from use of assets, property sales, interest earning, and other sources. While the amounts collected from each of these various sources may be relatively small, the aggregate amount can have a significant impact on the final surplus or deficit of the general fund.

Monetization of Assets

Monetization is the process of converting assets into legal tender. The FY2010 City of Detroit budget includes $275 million in general fund revenues to be generated by the long term lease of Municipal Parking, Public Lighting, and Detroit's 50 percent interest in the Detroit-Windsor Tunnel. This plan to sell the income from specific city operations or assets for a specific period of time was defined by the former mayor as "unlocking the value of city assets for citizens."

The Detroit Windsor Tunnel is jointly owned by the cities of Windsor, Ontario and Detroit and operated under two separate agreements by the Detroit and Windsor Tunnel Corporation. Prior efforts by Detroit to sell or lease its interest in the tunnel for amounts ranging from $30 million to $75 million have not been successful.

The plan is not to sell the assets themselves, but rather to sell the revenues from the operation of the assets. Both the state constitution and city charter contain requirements for voter approval to sell city owned utilities.

Examples of Asset Monetization

In the United States, the long term lease of city owned, revenue producing assets was pioneered by Chicago.

The Chicago Experience in Leasing Parking Meters. In December 2008, Chicago aldermen approved Mayor Richard Daley's plan to lease the City of Chicago's 36,000 metered parking spots to a private firm for 75 years.

The deal resulted in an upfront payment to the city of $1.157 billion from Chicago Parking Meters LLC, comprised of Morgan Stanley Infrastructure Partners and others including the Texas Teachers Pension Fund. Part of the payment was used by the city to support its budget. The deal also resulted in sharply higher rates at parking meters.

LAZ Parking will be responsible for the operation of the system, while city police will enforce parking violations. LAZ Parking specializes in the management, leasing, ownership and development of parking facilities and leases or manages over 800 parking facilities (over 300,000 parking spaces) in 18 states and 88 cities.

The action is the basis of a lawsuit filed in August, 2009 by the Independent Voters of Illinois-Independent Precinct Organization.

Chicago Skyway. The Chicago Skyway Bridge is a 7.8 mile toll road built in 1958 to connect the Dan Ryan Expressway to the Indiana Toll Road. It was operated and maintained by the City of Chicago Department of Streets and Sanitation. A $250 million reconstruction program began in 2001 and was completed in November 2004. In 2003, during the final phase of reconstruction, the Skyway served 17.4 million motorists who paid $39.7 million in toll revenue.

In January 2005, the Skyway Concession Company, LLC, a joint venture between the Australian Macquarie Infrastructure Group and Spanish Cintra Concesiones de Infraestructuras de Transporte S.A., assumed operation of the Skyway under a 99 year lease with the City of Chicago that gave the city an upfront payment of $1.83 billion. Skyway Concession Company is responsible for all operating and maintenance costs and has the right to all toll and concession revenue.

Midway Airport. In 2007, the City of Chicago and Southwest Airlines (Midway Airport's largest tenant) reached a preliminary agreement on potential terms for a long term lease for Midway Airport, a step that allowed the city to proceed with plans to lease the airport to a private operator.

In October 2008, the Chicago City Council approved a 99 year lease for Midway with Midway Investment and Development Company, a consortium of Citi Infrastructure Investors, YVR Airport Services, and John Hancock Life Insurance. The $2.5 billion upfront payment would have retired airport debt and provided about $900 million for the city's pension fund and for repairs to the city's infrastructure.

In March 2009, the city gave the investors another six months to secure financing. In April 2009, the deal to lease the airport collapsed because it was impossible for the investors to secure financing due to the global financial situation.

Indiana Toll Road. The Indiana Toll Road was constructed in the 1950s across northern Indiana to connect the Chicago Skyway and the Ohio Turnpike. It was operated by the Indiana Department of Transportation.

In 2006, Indiana received $3.8 billion from the Australian Macquarie Infrastructure Group and Spanish Cintra Concesiones de Infraestructuras de Transporte S.A., the same group that leases the Chicago Skyway. The Indiana Toll Road Concession Company was formed by the investors to operate the toll road. The lease agreement requires the Indiana Toll Road Concession Company to make over $779 million in improvements to the toll road.

Probability. There may be progress on the sale of income from the city's interest in the Detroit Windsor Tunnel this fiscal year, but the $275 million budgeted from monetization of assets appears to be a "plug" to balance the budget. The Crisis Turnaround Team estimated that $225 million of the budgeted $275 million would not be realized in 2009-10.

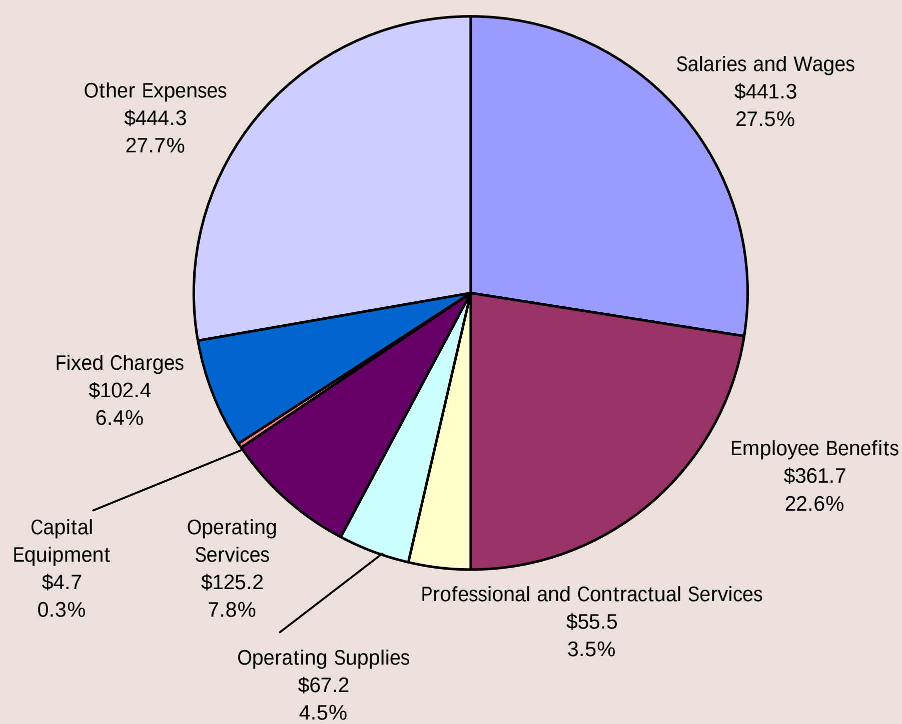
Fiscal Stabilization Bonds

The city's deficit elimination plan includes the sale of $230 million of limited tax fiscal stabilization bonds to be repaid from state revenue sharing over a period of 20 years. PA 4 of 2010 amended PA 80 of 1981 to increase the maximum principal amount of deficit funding bonds from $125 million to $250 million for bonds issued between January 1, 2010 and September 1, 2010. Revenue from the sale of these bonds will relieve the cash crisis threatening the city. However, because state revenue sharing is available for general operations, debt service on these bonds will reduce resources available for future city services by an estimated $15 million to $20 million annually.

Appropriations and Expenditures

The FY2010 general fund budget includes the appropriations summarized in **Chart 18**.

Chart 18
Appropriations by Major Classification, City of Detroit General Fund, FY2010
(Dollars in Millions)



Source: FY2010 City of Detroit Budget

Number of Employees

As Detroit has lost population, the number of employees on the city payroll has been reduced, though not in a linear relationship. In 1951, the city government employed 29,004 workers. In 1989, there were 20,036 city government employees.

The current city budget reflects a total of 14,539 full time equivalent (FTE) positions, of which 8,462 are city financed and in general city agencies. Of these, 1,171 are uniformed positions in the Fire Department and 3,253 are uniformed positions in the Police Department. Various grants fund 603 positions, the largest number of which is in the Planning and Development Department. Not all positions are filled: as of February, 2010 there were about 11,800 city employees in all funds. The city's deficit elimination plan assumes $16.8 million in savings from three phases of layoffs and $15 million in savings from furlough days in FY2010.

As of the time this was written, the city had ratified agreements with 26 of the city's 49 unions and was in fact finding with the American Federation of State, County, and Municipal Employees (AFSME), the city's largest union. The failure of AFSME to accept ten percent pay cuts and reductions in fringe benefits was costing the city about $500,000 a month.

General city departments with over 100 budgeted positions, and all enterprise departments, are shown in **Table 24** (on p. 41).

Table 24
City of Detroit Budgeted Positions, FY2010

	City Financed	Grant Financed	Total Amount	Total Percent
GENERAL CITY AGENCIES				
Executive Agencies				
Department of Public Works	729	0	729	8.1%
Detroit Workforce Development	0	131	131	1.5%
Finance	344	0	344	3.8%
Fire-Civilian	309	0	309	3.4%
Fire-Uniformed	1,171	0	1,171	13.0%
Fire-Total	1,480	0	1,480	16.4%
Health and Wellness Promotion	207	132	339	3.8%
Human Resources	186	0	186	2.1%
Human Services	6	116	122	1.4%
Law	124	0	124	1.4%
Planning and Development	25	145	170	1.9%
Police-Civilian	387	11	398	4.4%
Police-Uniformed	3,253	37	3,290	36.4%
Police-Total	3,640	48	3,688	40.8%
Public Lighting	199	0	199	2.2%
Recreation	178	0	178	2.0%
General Services	456	0	456	5.0%
7 Other Executive Agencies	241		241	2.7%
Legislative Agencies				
City Council	105	0	105	1.2%
Other Legislative Agencies	127	0	127	1.4%
Judicial Agency				
36th District Court	386	0	386	4.3%
Other General City	29	0	29	0.3%
TOTAL GENERAL CITY	8,462	572	9,034	100.0%
ENTERPRISE AGENCIES				
Airport	5	0	5	0.1%
Buildings and Safety	290	31	321	5.8%
Department of Transportation	1,524	0	1,524	27.7%
Municipal Parking	114	0	114	2.1%
Water	1,918	0	1,918	34.8%
Sewerage	1,157	0	1,157	21.0%
Library	466	0	466	8.5%
TOTAL ENTERPRISE	5,474	31	5,505	100.0%
GRAND TOTAL	**13,936**	**603**	**14,539**	

Cost of Employees

General city agencies may receive grant and other non-general fund revenues. When the 572 grant financed positions in general city agencies are added to the 8,462 city financed positions, the budget reports a total of 9,034 positions in general city agencies. Personnel costs are 47.8 percent of all general city agency operating appropriations and 42.3 percent of enterprise agency operating appropriations, according to budget documents. For the 9,034 positions in general city agencies (4,461 uniformed and 4,573 civilian positions), the mean (average) amount budgeted for salaries and wages is $54,775, including overtime, vacation, and holiday pay. For the 5,505 civilian positions budgeted in enterprise agencies, the mean amount budgeted is $36,799, and for the total 14,539 positions budgeted, the mean amount per budgeted position is $47,968.

The U.S. Bureau of Labor Statistics reports that in May of 2009[6] the median annual earnings for state and local government workers (including schools and public universities) in this area was $51,480, excluding premium pay for overtime, vacations, holidays, and non-production bonuses. Because the bases of the data sets are different (Detroit budget numbers include overtime, vacation, and holiday pay; BLS numbers do not include premium pay for overtime, vacations, holidays, and non-production bonuses), and there is not sufficient data in the budget to calculate the median for City of Detroit employees, exact comparisons are not possible.

As of May 2009, the mean straight-time annual wages or salaries for full-time private industry workers in the Detroit-Warren-Flint area was $49,481; the median (half are the same or more) annual earnings was $41,600.

Detroit general city employees and retirees receive a range of benefits, which are listed in the budget as shown in **Table 25**. One of the complexities in comparing benefit costs among different governmental units is the disparate ways that governments budget costs for employees who have already retired. Detroit spreads the cost of retiree benefits across active positions. The average amount budgeted per position for fringe benefits (including pensions) applicable to active employees in general city agencies is $29,572.16, and the average amount budgeted per position for retiree hospitalization, eye care, and dental is $14,544.68.

If employees earn salaries in the $30,000 to $50,000 range were laid off and if civilian pension and fringe benefits are 65 percent of salaries, about $66,000, less unemployment benefits, could be saved per laid off employee in the first year. The city's deficit elimination plan includes savings of $16.8 million from workforce reductions in the general fund and $5 million from layoffs in the subsidized Department of Transportation.

The Auditor General's analysis of the FY2010 budget notes that overtime has generally been underestimated in the budget, and estimates that it was underestimated by $35 million in this budget. Significant layoffs could impact the outlay for overtime as well.

Because union employees have "bumping rights," allowing them to replace less senior employees in the same or lower related classifications in other departments, it is very difficult to administer large numbers of layoffs.

[6] U.S. Bureau of Labor Statistics; Detroit-Warren-Flint MI National Compensation Survey, May 2009; December 2009

Table 25
City of Detroit Budget Appropriations for Personal Services, FY2010
General City Agencies
(Dollars in Millions)

	Amount		Percent	
Salaries and Wages		$494.8		55.4%
Fringe Benefits				
Actuarial Pensions	$137.7		15.4%	
Dental-Active	2.7		0.3%	
Dental-Retired	5.3		0.6%	
Eye Care-Active	1.2		0.1%	
Eye Care-Retired	1.5		0.2%	
Group Life	1.4		0.2%	
Hospitalization-Active	73.8		8.3%	
Hospitalization-Retired	124.5		13.9%	
Income Protection Insurance	0.7		0.1%	
Longevity	7.4		0.8%	
Miscellaneous Benefits	0.3		0.0%	
Other Compensation	3.6		0.4%	
Pension/Fringe Clearing Account	-0.3		-0.0%	
Retirement Sick Allowance	6.5		0.7%	
Social Security	18.7		2.1%	
Unemployment Compensation	3.7		0.4%	
Supplemental Unemployment Benefits	0.3		0.0%	
Workers Compensation	8.5		1.0%	
Workers Compensation-Medical	1.1		0.1%	
Total Fringe Benefits		$398.6		44.6%
Total Cost of Personal Services		$893.4		100.0%

Source: FY2010 City of Detroit Budget

Pensions

While the most recent published actuarial valuations for the city's pension systems indicate that there were no unfunded accrued liabilities, all public and private pension systems have suffered the effects of stock market and real estate market volatility over the past two years. The Auditor General's analysis notes that the budget includes a third excess funding credit of $25 million used to reduce the required contribution to the Police and Fire Retirement System, and that no provision has been made for the cost of implementing the defined contribution plan, estimated to exceed $20 million.

The city's Non-Departmental budget includes a separate appropriation for the payment on pension obligation certificates that were sold in 2005 and 2006. Pension obligation bonds or certificates are issued with the expectation that the issuer will be able to invest the proceeds at a higher rate of interest than is payable on the pension bonds. They are taxable because federal law restricts the investment of proceeds from tax exempt bonds in higher yielding securities.

In 2005, the City of Detroit issued $1.440 billion of 15-year, floating rate, pension obligation certificates in order to fund the June 30, 2003 unfunded accrued liabilities of the city's general employee and police and fire systems. Revenue from these bonds allowed employer contributions to the General Retirement system to be increased by $630,829,189 (of a total of employer contribution of $682,431,785) and allowed employer contributions to the Police and Fire Retirement System to be increased by $739,793,898 (of a total employer contribution of $781,483,426). This allowed a substantial decline in the percent of payroll that had to be contributed to pension funding, from 20.09 percent of payroll in 2004 to 11.06 percent in 2005 for the General System and from 54.36 percent of payroll in 2004 to 25.98 percent of payroll in 2005 for the Police and Fire System. The city expected that the strategy would save $277 million over 14 years, with $80 million of that in 2005, through repayment of the new debt at 5.9 percent rather than the 7.9 percent that the city assumes for its pension obligations. The 2006 certificates, which had a longer payment period, were used in part to redeem some of the 2005 certificates.

In conjunction with the issuance of the certificates, the city entered into a swap agreement to secure the city's interest rate as though the bonds had been issued at a fixed rate. The combined mark-to-market valuation of the swap agreement was estimated by the city at $400 million, payable to counterparties upon termination. The swap agreements allow the counterparty to terminate the agreement early if the city's credit rating is downgraded to below investment grade, which occurred in January, 2009. Results of efforts to renegotiate the amount and terms of the $400 million payment are described in the notes included in the 2007-08 Comprehensive Annual Financial Report (p. 123):

> As part of the amended Swap Agreements, the Counterparties waived their right to termination payments. Additionally, the City now directs its Wagering Tax revenues to a Trust as collateral for the quarterly payments to the Counterparties, increases the Swap rate by 10 basis points, and agreed to other new termination events. The termination events under the amended Swap Agreement includes a provision for the Counterparties to terminate the amended Swap Agreement if certain coverage levels of the Wagering Tax over the required quarterly payment are not met or if POCs ratings are withdrawn, suspended or downgraded below "Ba3"(or equivalent). Should such Termination Events occur in connection with these Swap Agreements, and not be cured, there presently exists significant risk in connection with the City's ability to meet the cash demands under the terms of the amended Swap Agreement.

Detroit has an unconditional contractual obligation to make debt service payments on the pension obligation certificates. Failure to make payments when due allows the contract administrator to file a lawsuit to force payment. A court judgment could require the city to raise the payment through an unlimited tax levy, for which voter approval is not required by Michigan law. The city has imposed judgment levies in the past. Imposing a judgment levy without prior approval of the local legislative body is a trigger event for the Local Government Fiscal Responsibility Act.

Table 26
Employee Pension Fund Contributions as a Percentage of Annual Salary

	Municipal	Elected	Police	Fire
Baltimore	0.00%	5.00%	6.00%	6.00%
Boston	7.50	7.50	7.50	7.50
Chicago	8.50	NA	9.00	9.10
Detroit	**4.50**	**NA**	**5.00**	**5.00**
Philadelphia	1.85	7.51	5.00	5.00
Phoenix	5.00	7.00	7.65	7.65
San Francisco	9.00	9.00	9.00	9.00

Source: Katherine Barrett and Richard Greene, Philadelphia's Quiet Crisis: The Rising Cost of Employee Benefits, 2008.

In addition, it is expected that, as a result of pension fund investment losses, the city will be forced to address an increased unfunded accrued liability in the General Retirement System, and that the Police and Fire Retirement System's overfunding may be reduced or eliminated.

The FY2010 appropriation for the payment on the pension obligation certificates and associated fees is $89,395,476.

A Government Finance Officers Association (GFOA) advisory,[7] recommends that state and local governments use caution when issuing pension obligation bonds. Although from a purely financial perspective, issuing pension obligation bonds can produce savings if assumptions about the overall cost of the bonds, including the interest rate, and assumptions about the long-term, actual earnings of the pension system, prove to be correct. In addition to the danger that financial assumptions may not materialize, there is the loss of flexibility associated with substituting bond debt service for pension payments, potential misunderstanding by policymakers about the long term effects on unfunded actuarial accrued liability, and pressure for additional benefits by employees who believe funding problems have been resolved.

A 2008 analysis for the City of Philadelphia[8] includes Detroit in a comparison of employee pension fund contributions as a percentage of annual salary. While that analysis used different comparable cities than those used elsewhere in this report, the data indicate that Detroit employees contribute less to their pension funds than municipal employees in some other cities (See **Table 26**).

Other Post Employment Benefits

Because the city has more retirees than active employees, the cost for hospitalization insurance, eye care, and dental insurance for retired employees exceeds that for active employees. The Michigan Constitution protects earned pension benefits for state and local public employees, but that protection does not extend to other post employment benefits.

The previously cited Philadelphia study[9] included a comparison of retiree health costs in peer cities that highlights the large number of Detroit city retirees

[7] Government Finance Officers Association, Evaluating the Use of Pension Obligation Bonds (1997 and 2005) (Debt and Cobra).

[8] Katherine Barrett and Richard Greene, Philadelphia's Quiet Crisis: The Rising Cost of Employee Benefits, 2008.

[9] Katherine Barrett and Richard Greene, Philadelphia's Quiet Crisis: The Rising Cost of Employee Benefits, 2008.

Table 27
Retiree Health Costs
(Dollars in Millions)

City	Number of Retirees	Total Cost of Retiree Health Insurance	Cost as a Percentage of General Fund Expenditures
Baltimore*	19,976	$120.6	11.2%
Detroit#	**22,451**	**145.5**	**9.8**
San Francisco	20,798	115.3	4.9
Pittsburgh	2,900	16.8	4.2
Atlanta#*	3,916	20.6	4.1
Boston*	12,600	78.3	3.8
Median	9,498	60.9	3.9
Chicago	24,400	79.4	2.7
Philadelphia	4,754	43.5	1.4
Phoenix	5,200	11.7	1.3
Denver	6,396	5.3	0.7

2005 data

* Cost includes retiree life insurance

Source: Katherine Barrett and Richard Greene, Philadelphia's Quiet Crisis: The Rising Cost of Employee Benefits, 2008.

and the relative burden of the cost of retiree health insurance on the city:

In FY2008, the city prospectively implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The city's annual other postemployment benefit (OPEB) cost is calculated in accordance with GASB 45, and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize the unfunded actuarial liabilities over 30 years. According to the CAFR, the required general fund contribution to the Health and Life Insurance Benefit Plan was $297.8 million, and the actual contribution was $151.3 million, or 50.8 percent of the required amount. The unfunded actuarial accrued liability of the general fund for the Health and Life Insurance Benefit Plan was $4.8 billion.

All U.S. cities with populations between 500,000 and 1 million offer retiree health care to employees. Of these cities, 53 percent offer retiree health care to all retirees, and 53 percent offer retiree health care to all full-time employees including new hires. Of cities with populations between 500,000 and 1 million, 47 percent plan to continue "pay as you go," 7 percent plan to fully fund retiree health care, and 13 percent plan to partially fund retiree health care. Of all these cities, 67 percent reported that they are very likely to increase retirees' contribution premiums in the next five years, and 13 percent reported they are somewhat likely to increase retirees' contribution premiums in the next five years.[10]

General Fund Subsidies

The city owns the Cobo Hall convention center, operation of which has been assigned to a regional authority. The city's deficit elimination plan notes that the annual savings to the city from transferring day to day operations to the authority is $15 million, of which $11.25 million will be realized in FY2010.

[10] Government Finance Officers Association, Center for State and Local Government Excellence, Government Benefits Comparison Tool.

In theory, enterprise departments are self supporting. In fact, the general fund may provide considerable resources to enterprise agencies. Because the general fund subsidizes the Department of Transportation by over $80 million (See **Table 28**), reducing staff in the bus operation reduces the financial burden on the general fund. The deficit elimination plan includes $13 million in savings from the Department of Transportation from workforce reductions and requested increases in federal funding.

Table 28
General Fund Subsidies for the Transportation Fund
(Dollars in Millions)

Fiscal Year Ended June 30	Subsidy
2003	$75.5
2004	74.3
2005	77.4
2006	75.5
2007	76.8
2008	79.7
2009 budgeted	85.1

Source: City of Detroit Budget

None of the cities used as comparables in this report operate a city bus system. In all of the other cities, bus and other transit services are provided by a system that serves the region (the Bi-State Development Agency that provides bus and light rail service in St. Louis serves portions of two states). Generally, a combination of federal, state, and local funds is used to subsidize these systems, but in no case is the central city's general fund responsible for the local share.

Buffalo: Niagara Frontier Transportation Authority; bus, light rail, and demand response; local funds 11.3 percent from general funds and 88.7 percent from dedicated revenues.

Cincinnati: Southwest Ohio Regional Transit Authority; bus and demand response; local funds 100 percent from dedicated sources.

Cleveland: The Greater Cleveland Regional Transit Authority; bus, heavy rail, demand response, and light rail; local funds 100 percent from dedicated sources.

Detroit: City of Detroit Department of Transportation; bus and demand response; local funds 100 percent from city general fund.

Milwaukee: Milwaukee County Transit System; bus, demand response, and vanpool; local funds 100 percent from county general funds.

Minneapolis: Metro Transit; bus and light rail; local funds 100 percent dedicated.

Pittsburgh: Port Authority of Allegheny County; bus, light rail, demand response, and inclined plane; local funds 78.5 percent from general funds and 21.5 percent from a county-wide dedicated alcoholic beverage tax.

St. Louis: Bi-State Development Agency; bus, light rail, and demand response; local funds from revenues generated from sales taxes in the City of St. Louis, St. Louis County, and the St. Clair County Illinois Transit District.

In August 2006, voters in Macomb County and in participating communities in Oakland County and Wayne County approved a four-year, .59-mill property tax dedicated to the Suburban Mobility Authority for Regional Transportation (SMART). Efforts to establish a single regional bus system encompassing both the Detroit and suburban systems have been unsuccessful. While a combined system could relieve the pressure on the city's general fund, funding for the increased costs of the combined system would have to be raised, probably by increasing taxes on Detroiters.

The general fund also provides $790,355 to the city-owned Detroit City Airport, another enterprise agency.

In addition to supporting two enterprise agencies, the general fund provides $2,507,500 to the Museum of African American History, $765,000 to the Detroit Zoo, $500,000 to the Detroit Institute of Arts, and $450,000 to the Detroit Historical Museum. (See **Table 29**.)

Table 29
General Fund Subsidies for Non-general Operations in the FY2010 Budget

Department of Transportation	$80,018,789	94.1%
Airport	$790,355	0.9%
Museum of African American History	$2,507,500	2.9%
Zoo	$765,000	0.9%
Historical	$450,000	0.5%
Detroit Institute of Arts	$500,000	0.6%
Total	$85,031,644	

Source: FY2010City of Detroit Budget

The Deficit

Prior Years Deficit

The estimate of the City of Detroit's FY2009 accumulated general fund budget deficit which formed the basis of the Mayor's recommended 2009-10 budget, was $280 million, based on a FY2009 operating deficit of $122.8 million and a FY2008 accumulated deficit of $157.2 million. In fact, the recently released 2007-08 CAFR established that the accumulated unreserved undesignated deficit in the city's general fund was $219 million as of June 30, 2008, $62 million worse than expected. (See **Table 30**.)

The FY2008 deficit was 18.6 percent of total expenditures. The FY2009 estimated deficit assumed in the FY2010 budget was 18.9 percent of expenditures, but because the annual financial report for 2008-09 has not been completed, the actual deficit may be different from the estimate. If it is $62 million worse than estimated (as the FY2008 deficit was), the FY2009 deficit would be $342.0 million, or 23.5 percent of expenditures.

According to the CAFR, the major reasons for the increased deficit in FY2008 were: 1) $33.2 million in reduced property tax revenues due to Wayne County charge backs for delinquent property taxes; 2) write off of $24.4 million in interfund receivables from the Transportation Fund; and 3) state withholding of $23.0 million of state revenue sharing due to the untimely completion of the 2006-07 CAFR.

The FY2009 estimated deficit is attributed to revenues falling far short of projections. This includes

Table 30
General Fund Surplus/(Deficit) History
(Dollars in Millions)

Fiscal Year	Total Expenditures	Final Operating Results: Surplus	Final Operating Results: Deficit	Surplus/(Deficit) as a Percent of Total Expenditures
1991	$1,187.7		$105.9	-8.9%
1992	1,151.6		106.1	-9.2
1993	1,066.7		26.2	-2.5
1994	1,431.2		53.4	-3.7
1995	1,140.8	$20.0		1.8
1996	1,448.3	18.4		1.3
1997	1,322.7	12.4		0.9
1998	1,403.3	13.4		1.0
1999	1,438.2	1.7		0.1
2000	1,511.1	2.3		0.2
2001	1,488.8		26.4	-1.8
2002	1,576.0	1.6		0.1
2003	1,601.4		69.1	-4.3
2004	1,577.6		95.0	-6.0
2005	1,587.5		155.4	-9.8
2006	1,410.1		173.7	-12.3
2007	1,278.1		155.6	-12.2
2008 (est)	1,181.4		219.2	-18.6
2009 (est)	1,456.3		280.0	-18.9

Source: City of Detroit

the failure to sell $78 million in Fiscal Stabilization Bonds, shortfalls of $20 million in Municipal Income Tax, $13.5 million in Casino Wagering Tax and casino percent payments, $5 million in Utility Users' Excise Tax, and $4.2 million in State Revenue Sharing. Economic conditions in FY2010 have continued to deteriorate, and can be expected to have similar effects on revenues.

Historically, major components of Detroit's plans to eliminate large accumulated deficits have been imposition of new taxes, increases in tax rates, transfer of functions to other governments or to non-profits, negotiated wage and benefit freezes or reductions, and layoffs. The most recent CAFR notes a deficit reduction plan for the general fund that includes staffing reductions, days off without pay, reduction in the level of city-provided services, reduced subsidies, and enhanced procedures for collection of revenues.

The Local Government Fiscal Responsibility Act, PA 72 of 1990, contains a number of conditions indicative of a financial emergency. One of these is "Projection of a deficit in the general fund of the local government for the current fiscal year in excess of 10% of the budgeted revenues of the general fund." Although Detroit did not project a deficit for FY2010, general fund deficits have been in excess of the statutory threshold of ten percent since FY2006.

Projected Current Year Deficit

Ignoring the monetization items which are unlikely to materialize, the Mayor has informed the City Council that the FY2010 operating deficit could be between $80 million and $100 million. Due to the deteriorating economic situation, actual revenues could be $60 million to $70 million less than budget, and expenditures could exceed appropriations by $20 million to $30 million. Announced reductions in state revenue sharing add to the potential current year deficit.

Mayor Bing has cited the Crisis Turnaround Team projection that the accumulated deficit could balloon to $750 million at the end of FY2012. Insolvency and attendant crisis would undoubtedly occur before the deficit reached that amount.

The Cockrel Plan

On January 30, 2009, then Mayor Kenneth Cockrel, Jr. and then Chief Financial Officer Joseph Harris presented to the Detroit City Council a deficit reduction plan that assumed a $300 million deficit for

Table 31
Mayor Cockrel's January, 2009 Deficit Elimination Plan
(Dollars in Millions)

2010	
Increased fines, fees and reimbursements; enhanced collections	$20.0
Crime lab and Cobo Center closure	6.5
10 percent wage reduction	48.6
57 layoffs	4.4
Operational savings	26.4
Monetization of Detroit Tunnel, Municipal Parking, Public Lighting	250.0
Total FY2010	$355.9
2011	
Crime lab and Cobo Center closure	$9.0
Operational savings	4.0
Total 2010-2011	$13.0
Grand Total	$368.9

FY2009. (The City Council's Fiscal Analysis Division had estimated the deficit at $225 million.) Mayor Cockrel's proposed deficit elimination plan would have been implemented in FY2010 and FY2011 and would have included the components in **Table 31** (See p. 50) to address both the accumulated deficit and the structural imbalance.

The major revenue component of the plan was the sale of future revenues from the City's interest in the Detroit-Windsor Tunnel, and from the Municipal Parking Department and the Public Lighting Department. In his statement, Mayor Cockrel made the following comparison "This is no different than a citizen winning the mega millions jackpot and taking a lump sum payment immediately instead of a series of payments over many years." According to the City Council Fiscal Analysis Division review of the Cockrel Plan, "it appears the generation of $250 million will require present value calculations of revenue streams to be taken over a 50 to 75-year period to realize this level of one-time cash. One major caveat, however, is the outstanding debt service and capital improvement requirements on the leased assets that could significantly lower the amount of cash generated from the proposals in order for the investor to earn a reasonable return on investment." If future revenues from the Detroit-Windsor Tunnel, Municipal Parking Department, and Public Lighting Department were monetized, revenues generated over the life of those agreements would not be available for city government operations.

The Bing Plan

Mayor David Bing was first elected in May, 2009, after Mayor Cockrel's recommended budget had been submitted to the Detroit City Council and just weeks before the beginning of the 2009-10 fiscal year on July 1. As noted, the 2009-10 budget was prepared under the direction of Interim Mayor Kenneth Cockrel; it includes an appropriation of $280 million in the Non-Departmental budget for the prior year's deficit. The Non-Departmental budget also includes revenues of $100 million from "Detroit Windsor Tunnel Securitization," $100 million from "Parking System Securitization" and $75 million from "Public Lighting System Securitization." Thus, the $250 million included in the January deficit elimination plan from monetization grew to $275 million in the budget.

In August, 2009, Mayor Bing announced that the accumulated deficit, estimated at $275 to $300 million, could grow to $350, which would be 21.9 percent of the 2009-10 budgeted appropriations. On July 24, the Mayor told the Free Press editorial board that the number could reach $400 million. The deficit could "grow this year because revenues and fees are down $100 million because of falling taxes and fees." A ten percent pay cut for 1,500 non-union employees was approved by City Council effective September 1, 2009. On August 10, after negotiations with about 50 city unions over a requested 10 percent pay cut, the Mayor announced that the city could run out of cash by October 1 (that date was subsequently revised). Even with the 10 percent pay cut, Bing predicted at least 1,000 layoffs of city government employees and a reduction in city services.

PA 140 of 1971 requires that local units of government that end their fiscal year with a deficit in any fund file a deficit elimination plan with the state Department of Treasury. In November, the city council approved a deficit elimination plan for the city's general fund, for which the estimated FY2009 deficit was $326.1 million. The components of that plan

Table 32
City of Detroit Deficit Elimination Plan, November 2009

Sale of Fiscal Stabilization Bonds	$230.0 million
Workforce Reduction	16.8 million
Transfer of Operations for Cobo Hall	11.25 million
Improved Collections, Delinquent Receivables	10.0 million
Escrow Balance, Greater Detroit Resource Recovery	20.0 million
Required Furlough Days	15.0 million
Greektown Casino Settlement Payment	8.0 million
Dept. of Transportation Layoffs and Increased Federal Funds	13.0 million
State Revenue Sharing for Release of 2007 CAFR	23.0 million
	$347.05 million

applicable to FY2010 are listed in **Table 32**.

This plan includes some components that are one-time revenues, some that will have long term effects, and one that will increase future costs. Reducing the workforce is a permanent solution if the workload is appropriate to the new personnel level, but care must be taken to control overtime. The plan notes that the 26 furlough days (equal to a ten percent wage concession) during which city offices are to be closed, is to be extended through FY2012. Imposition of unpaid furlough days makes strategic sense to retain workers through a difficult period, after which, it is expected either that revenues will recover or that attrition will reduce the workforce. Furloughs are not a permanent solution to declining revenues.

In the current economy, both the private sector and the public sector have relied on workforce reductions. Among the 460 respondents to an electronic survey conducted by The Center for State and Local Excellence from April 9 to 25, 2009, 41.8 percent of local governments reported that they were implementing layoffs.[11]

The transfer of Cobo Hall operations is a sound structural change that will reduce the demands on the general fund. Improving collections activities is an attractive goal given the size of the receivables being carried, but has proven to be elusive in the past.

Unless the city can obtain better control of financial reporting and more timely publication of CAFRs, the state can be expected to continue to hold future revenue sharing payments. Withholding revenue sharing payments is one of very few means of applying pressure the state has exercised to encourage the city to improve financial reporting.

The payment from the Greektown settlement is a one-time revenue, as would be any payments for the federal American Recovery and Reinvestment Act of 2009 (ARRA). If the Michigan Public Service Commission approves the plan, the initial payment of $20 million from the escrow account associated with the Greater Detroit Resource Recovery facility is to be followed by annual payments of $1 million for four years and $0.5 million for eight years. Obviously, one-time payments help the budget in the year of payment, but do nothing to address structural problems in future years.

As noted, the sale of $230 million of fiscal stabilization bonds will address the current cash crisis, but will require debt service payments from the city's allotment of state revenue sharing for the next 20 years. Although this strategy has been used in the past, it will reduce resources available for other general fund programs, and can actually exacerbate the city's structural problem.

[11] The Center for State and Local Excellence; Survey Findings, A Tidal Wave Postponed: The Economy and Public Sector Retirements; May, 2009.

Cash Flow: TANs and RANs

Tax anticipation notes (tax notes or TANs) and revenue anticipation notes (RANs) are typically sold to provide cash for operations during those times within a fiscal year when tax payments and other revenues are not sufficient to pay operating costs. TANs and RANs must be repaid by the end of the fiscal year in which they are issued. Because the city's accumulated fund deficit is so large, the city has relied on short term borrowing to a very significant extent. Combined borrowings increased from $54 million in 2005 to $129.6 million at June 30, 2008, and to $224 million in FY2009.[12]

Historically, Detroit issued tax notes that were guaranteed by the property tax revenues due to the general fund. The Series 2009 Tax Notes required the pledge not only of property taxes, but also of municipal income tax revenues. Those tax notes, worth $97.2 million, were purchased by Chase Bank in a private placement.

City officials expect to complete the sale of fiscal stabilization bonds guaranteed by state revenue sharing before September, relieving the cash flow pressure.

Bond Ratings

In April 2009, Moody's Investors Service identified rated bond issuers most at risk from the challenges of the domestic auto industry. The article listed 37 metro areas with domestic auto company presence, and reported the Moody's rating for general obligation limited tax bonds for the central city in each. (See **Table 33**.) "Ratings actions related to Michigan local governments with concentrated economic

[12] 2007-08 CAFR, pg 68.

Table 33
Metro Areas with Detroit 3 Presence

MSA	State	City Rating	MSA	State	City Rating
Phoenix	AZ	Aa1	Minneapolis	MN	Aa1
Wilmington	DE	A1	Kansas City	MO	Aa3
Atlanta	GA	Aa3	St. Louis	MO	A2
Chicago	IL	Aa3	Newark	NJ	Baa2
Rockford	IL	A1	Buffalo	NY	Baa2
Indianapolis	IN	Aa1	Cincinnati	OH	Aa1
Kokomo	IN	NR	Toledo	OH	A3
Fort Wayne	IN	Aa3	Columbus	OH	Aaa
Bloomington	IN	Aa3	Youngstown	OH	Baa3
Louisville	KY	Aa2	Cleveland	OH	A2
Bowling Green	KY	Aa3	Lima	OH	A3
Baltimore	MD	Aa3	Oklahoma City	OK	Aa1
Detroit	MI	Ba2	Pittsburgh	PA	Baa1
Saginaw	MI	NR	Memphis	TN	A1
Ann Arbor	MI	Aa2	Fort Worth	TX	Aa2
Lansing	MI	Aa3	Virginia Beach	VA	A1
Grand Rapids	MI	Aa3	Milwaukee	WI	Aa2
Flint	MI	NR	Racine/Kenosha	WI	NR/Aa3
Warren	MI	NR			

Source: Moody's Investors Service, U.S. Public Finance, April 2009, Challenges of U.S. Domestic Auto Industry Weigh Heavily on Certain Midwestern State and Local Governments exposure to the auto industry include the downgrade of the general obligation limited tax rating of the City of Detroit to Ba2/negative outlook from Baa3/negative outlook in on (sic) January 2009…"

The Moody's report notes that there is no clear alternative source of future economic growth for Michigan and small cities that have long been home to automobile plants. The 2007-08 CAFR (pgs 68 and 122) notes that "The budgetary challenges, economic uncertainties, accumulated deficit in the General Fund, and ratings downgrades could affect the City's ability to access credit markets and will likely increase the costs of borrowing. …City's access to necessary debt markets has become increasingly challenging. Assuming short-term and long-term debt can be obtained, the cost of such funding is likely to increase, further exacerbating future uncertainties."

Possible Solutions

Over the past decades, as population and economic activity in the city declined, Detroit has faced a series of severe fiscal challenges. In several instances, special "blue ribbon" committees have been formed to develop recommendations for right sizing the city government, and/or to validate proposals for tax increases; these committees provide precedent for Mayor Bing's Crisis Turnaround Team. Though difficult, many of the recommendations from the ad hoc committees have been implemented. Welfare, various inspection and control activities, the Psychiatric Institute, the Detroit House of Corrections, Detroit General Hospital and Recorders Courts are among the functions that have been transferred from the city government to other entities. Notable recent efforts to right size include privatizing the management of the Detroit Institute of Arts, Historical Department, and Zoological Institute. The most recent transfer of authority (though not ownership) placed responsibility for operations and renovation of Cobo Hall and Convention Center under a regional authority with a five-member board, with one board member appointed by each of the following entities: the State of Michigan; City of Detroit; Wayne County; Oakland County; and Macomb County.

Past recommendations have also included tax increases and renegotiation of labor contracts to reduce costs.

As an emergency measure, the mayor has obtained a statutory amendment to increase the maximum amount of limited tax, fiscal stabilization bonds that may be issued from $125 million to $250 million, to be repaid over 20 years. Fiscal stabilization bonds will increase, rather than reduce, the structural deficit. Required future payments, to be made from revenue sharing money the city receives from the state, will add even more pressure on future budgets. That pressure will be exacerbated if the economic base of the city continues to decline.

Authority for Change

The process of evaluating essential city services has been re-engaged by the current administration, and recommendations have been delivered to the mayor. Changes in the structure of city government and in the service delivery system can be effectuated in one of four ways:

- The elected mayor and city council can develop and implement required changes.
- The mayor and city council can implement changes specified in a consent agreement reached with a review team appointed by state officials under the Local Government Fiscal Responsibility Act.
- An emergency financial manager appointed under the Local Government Fiscal Responsibility Act can implement changes, and can renegotiate, but cannot abrogate, contracts.
- If the emergency financial manager recommends, and the state approves, reorganization and restructuring can occur under protection of Chapter 9 of the federal bankruptcy code, which does allow labor contracts to be abrogated. No Michigan municipality has ever filed under federal bankruptcy laws.

The Local Government Fiscal Responsibility Act

There are various threshold events that could trigger a state review of Detroit's financial situation under the Local Government Fiscal Responsibility Act (PA 72 of 1990), including requests from authorized individuals and notification of specified violations:

- The mayor or city council could request a review.
- A creditor with a significant unpaid claim could request a review.
- Registered electors (at least 10 percent of the number of electors who voted for governor) with specific allegations of local government financial distress could request a review.
- The state Senate or House of Representatives could request a review.
- The local government fails to make the minimum required payment to its pension fund.
- The local government fails to make payroll for at least seven days after a scheduled pay date.
- The local government defaults on a bond payment or violates one or more bond covenants.

- The local government violates orders issued under various state statutes related to bonds and notes, the Emergency Municipal Loan Act, the Uniform Budgeting and Accounting Act. The local government fails to file or implement a deficit recovery plan or provide an annual financial audit.
- The local government is delinquent in distributing tax revenues collected for another taxing authority.
- A court has ordered a tax levy without the approval of the governing body.

City officials could request the governor to appoint a review team under PA 72 of 1990, demonstrate that a financial emergency exists, and seek to negotiate a consent agreement containing a plan to resolve the problem. City officials would be held responsible for implementing the plan.

Alternatively, city officials could support the appointment of an emergency financial manager by the local emergency financial assistance loan board. "The emergency financial manager shall be chosen solely on the basis of his or her competence and shall not have been either an elected or appointed official or employee of the local government for which appointed for not less than 5 years before appointment."[13] The emergency financial manager would then develop a financial plan for conducting the operations of city government within the resources available and paying debt service on all outstanding bonds and notes. This could include revising the budget, reorganizing the government, renegotiating (but not abrogating) labor and other contracts, and, unless restricted by the city charter, selling city assets. The emergency financial manager would exercise the authority and responsibilities of the mayor and city council affecting the financial condition of the city.

If the emergency financial manager were to determine that no feasible financial plan could be adopted or that an effective financial plan could not be implemented, he or she could request authorization from the local emergency financial assistance loan board "to proceed under title 11 of the United State Code, 11 U.S.C. 101 to 1330" i.e. to file for bankruptcy.[14]

Only a municipality may file under chapter 9. 11 U.S.C. 109(c). The municipality must be specifically authorized to file under state law, and a municipality cannot be placed in bankruptcy involuntarily. In order to file under chapter 9, a municipality must be insolvent—not paying debts as they become due or unable to pay debts. Under municipal bankruptcy, municipalities may rescind collective bargaining agreements and renegotiate or restructure general obligation bonds. A municipality's assets are not liquidated under municipal bankruptcy, and a municipality under bankruptcy is not subject to strict judicial control. The municipality develops the reorganization plan, and a trustee is not appointed by the court.

PA 72, municipal bankruptcy, and related issues are explored in more depth in the Citizens Research Council's forthcoming publication, *Financial Emergencies in Michigan Local Governments.*

Statutory Changes

Detroit is just one of many local governments in Michigan struggling to adjust to the new economy within which public and private enterprises will operate in the coming years. As these local governments seek to realign service delivery with the declining tax base, state policy makers should consider statutory changes that could remove disincentives, or that could provide incentives, to reorganize local public service delivery systems. Among statutes that could be considered for elimination or modification are the following:

The Public Employment Relations Act (PERA) (Public Act 336 of 1947) grants public employees the right to unionize and gave public employers the duty to bargain with those unions. Section 15 of PERA requires employers and representatives of employees to "...confer in good faith with respect to wages, hours, and other terms and conditions of employment..." This wording has been interpreted to mean

[13] PA 72 of 1990, Art 2, Sec.18.(1); MCL 141.1218

[14] PA 72 of 1990, Art 2, Sec 22 (1); MCL 141.1222

that the duty to bargain extends to the public employers' diversion of work to non-unionized employees or to outside contractors. Thus, local governments currently engaged in the provision of a service must submit to collective bargaining potential actions to provide that service collaboratively with another governmental unit or through non-governmental contractors.

As part of PERA, the Compulsory Arbitration of Labor Disputes in Police and Fire Departments Act (PA 312 of 1969) provides a substitute for strikes by providing for compulsory, binding arbitration for police, fire, emergency medical, and emergency dispatch personnel. The impetus for providing this substitute was the potential harm to persons or property that may occur if public safety employees leave a jurisdiction without police or fire protection. In cases when public employers and public safety unions reach an impasse in the bargaining of a collective bargaining agreement, either side may call for compulsory binding arbitration. When that occurs, the last, best offers are submitted to a three-member arbitration panel to choose between the economic issues and to make awards.

The primary problem with the binding arbitration process, as expressed by public employers, is that it places important budgetary decisions in the hands of a third party that does not have to balance the cost of public safety departments against other municipal needs. In Detroit, 49 percent of the budgeted positions in the General Fund, accounting for 57 percent of the wages and benefits budgeted in FY2010, are potentially determined through binding arbitration.

Detroit has had almost twice as many collective bargaining agreements decided by an arbitrator through the Public Act 312 process as has the city with the second highest number. While it could be argued that the City of Detroit could do more to settle collective bargaining agreements with its public safety workers without subjecting the process to binding arbitration, it could also be argued that the binding arbitration process must reflect not only the value of these workers, but also the difficulty of balancing municipal budgets in this challenging economic environment.

Michigan has provisions in 77 laws and the state Constitution that authorize the joint provision of services by local governments. Unfortunately, many of these laws are of greater benefit to regions where services are being initiated for the first time than they are for communities hoping to achieve budgetary savings by collaborating on a regional basis or contracting to have the services provided to their residents.

The Urban Cooperation Act (PA 7 of 1967, Extra Session) provides for the joint exercise of any power, privilege, or authority that each public agency has the power to exercise separately, and provides that "No employee who is transferred to a position with the political subdivision shall by reason of such transfer be placed in any worse position with respect to workmen's compensation, pension, seniority, wages, sick leave, vacation, health and welfare insurance or any other benefits that he enjoyed as an employee of such acquired system." (Section 5(g)ii)

The Intergovernmental Transfer of Functions and Responsibilities Act (PA 8 of 1967, Extra Session) authorizes two or more political subdivisions to contract with each other for the transfer of functions or responsibilities to one another or any combination thereof and provides that "No employee who is transferred to a position with the political subdivision shall by reason of such transfer be placed in any worse position with respect to workmen's compensation, pension, seniority, wages, sick leave, vacation, health and welfare insurance or any other benefits that he enjoyed as an employee of such acquired system." (Section 4(d)ii)

The Emergency Service Authorities Act (PA 57 of 1988) allows local governments to provide joint public safety protection. The ability to benefit from this act in the provision of police and fire services is limited by the provision that: "...employees of a municipal emergency service whose duties are transferred to an authority formed under this act shall be given comparable positions of employment with the emergency service established by the authority, and shall maintain their seniority status and all benefit rights of the position held in the municipal emergency response service before the transfer." (Section 10(l))

The Metropolitan Transportation Authorities Act (PA 204 of 1967) provides authorization for local governments to collaborate for the provision of mass transportation services. Like the previous mentioned acts, this act provides: "No employee of any acquired transportation system who is transferred to a position with the authority shall by reason of such transfer be placed in any worse position with respect to workmen's compensation, pension, seniority, wages, sick leave, vacation, health and welfare insurance or any other benefits that he enjoyed as an employee of such acquired transportation system." (Section 13(2))

Property Tax

The interaction of property tax limitations that have been overlayed upon one another will restrict the city from benefiting from future investment and growth in the property tax rolls. The 1978 Headlee Amendment to the Michigan Constitution requires that, if the existing property tax base in a unit of local government increases faster than the rate of inflation, the maximum authorized tax rate must be reduced or "rolled back" by a commensurate amount so as to produce the same property tax levy as would have been obtained from the old base.

Michigan's Constitution also requires that the assessed value of every property be a uniform proportion, not to exceed 50 percent, of the "true cash value," referred to as state equalized value (SEV). State law sets SEV at the constitutional maximum. Thus, the assessment process in Michigan involves determining "true cash value" and dividing it by two. Another constitutional amendment, Proposal A of 1994, superimposed a modified acquisition value method of determining the taxable value of property on the property assessment system. Annual increases in the taxable value (TV) of individual parcels of existing property are limited to the lesser of five percent or inflation. When ownership of a parcel of property is transferred, the parcel is reassessed "at the applicable proportion of current true cash value." Additions and modifications to existing property and new property are placed on the tax rolls at 50 percent of current true cash value. Assessors continue to record the SEV of each parcel of property for purposes of assigning a taxable value equal to 50 percent of the true cash value.

All else being equal, the cap on assessments holds the growth in tax base for most local governments to the rate of inflation. However, when ownership of enough properties, or of a few high priced properties, is transferred, and taxable value reverts from the capped value to state equalized value, the tax base of some local governments grow at rates faster than inflation. Headlee tax rate rollbacks are triggered and reduced tax rates are applied to all properties. The net result has been that the growth in property tax levies was held to rates below the growth in inflation.

In the current environment, property assessments and taxable values are falling. When the housing market does turn around and property values begin to appreciate, the interaction of the Headlee tax rate rollbacks and the cap on assessments will forestall recovery in the tax bases of local governments and prolong the effects of the recession. There have been projections that the taxable values of local governments in the metropolitan Detroit area will not recover their 2007 or 2008 values until well into the next decade – 2025 or beyond.

While both the Headlee tax rate rollbacks and the cap on assessments occur because of constitutional provisions, the interaction between these tax limitations is determined by statute. The statutes define property tax base "growth" to include both inflationary growth in properties and "pop ups" that cause property values to increase at rates greater than the rate of inflation. A statutory remedy would suggest that pop ups not be included in the growth of the property tax base.

Charter Reform

The Detroit Charter Commission, members of which were elected in November 2009, should remove city charter provisions that prohibit efficiencies and downsizing. This includes protections for specific departments, limits on privatization, and other provisions.

Charter Departments

The 1997 Detroit City Charter provides for a multitude of departments, offices, and commissions, with the powers of each of those entities enumerated in detail. In order for the city's executive and legislative leadership to seek efficiencies in the provision of government services, they must have sufficient latitude to streamline, consolidate, and eliminate services when necessary.

The city charter commission could better enable the executive and legislative branches to organize service delivery in the most efficient and effective manner. A charter provision could authorize departments and commissions to be created or eliminated by executive and/or legislative action. This would include eliminating special charter protections for the following departments that are included in the present charter:

- Health Department
- Arts Department
- Council of the Arts
- Historical Department
- Zoological Park Department
- Recreation Department
- Department of Transportation
- Human Rights Department
- Consumer Affairs
- Senior Citizen Department
- Department of Environment
- Elections Department
- Public Lighting Department
- Water and Sewerage Department
- Auditor General
- Ombudsman

Additionally, the charter commission could examine whether the city charter creates unnecessary duplication. For instance, the 1997 charter provides for both a City Planning Commission and a Planning Department. Other examples might include:

- Budget Department separate from Finance Department
- Department of Elections separate from City Clerk
- Public Lighting Department separate from Department of Public Works

The omission of any or all of these departments from a new city charter does not necessarily mean that the services or departments will be eliminated. Rather, those departments will no longer be required and the executive and legislative leadership will have the latitude necessary to organize city services in the most efficient manner possible, within available resources.

Pension Reform

Like most governments in America, Detroit is challenged to fund pension and other post-employment benefits for current and retired workers. The 1997 Detroit City Charter provided for continuation of the four defined benefit pension plans in existence when the charter was adopted. The inclusion of these pension provisions in the charter may unduly restrict the ability of the city to structure reforms to manage the cost of these plans. Omitting pension plan provisions from the charter will not cause the defined benefit plan to cease operations. The plans would continue and the benefits promised would maintain the security afforded them by Article IX, Section 24 of the 1963 Michigan Constitution. Removing the specific pension plan provisions from the city charter would give the city the flexibility to negotiate changes and manage plans in the most efficient manner.

Article 11 of the Charter of the City of Detroit specifies the composition of the city's two retirement boards. The city's pension boards should include taxpayer representatives, financial experts from banks, and others who are not self-interested pension system members. The purpose of the boards should be to protect the assets of the funds and to pay earned benefits when due, not to maximize benefits for members. State legislation could be drafted and adopted that would define the composition of the city's pension boards and that would specifically protect that composition from local collective bargaining agreements, acts of the local government, and Act 312 arbitration rulings.

Consideration should be given to freezing the defined benefit plans and to shifting existing members, and all new hires, to defined contribution plans.

Detroit could join the more than 700 municipalities that participate in the Municipal Employees' Retirement System (MERS). MERS is a statewide voluntary organization, created in 1945 by the state legislature, which gained independence from state government in 1996. The MERS Retirement Board is comprised of three employer and three employee members, two expert consultants, and one retiree member; professional staff manage the system.

Privatization

The 1997 Detroit City Charter created new provisions ostensibly authorizing the city to privatize city services. The process created in Section 6.307 of the Detroit City Charter, for the most part, laid out best practices for a meaningful examination of the costs and benefits of privatizing services. However, interwoven in that section is language that does more to hinder privatization than to facilitate it. The most glaring hindrance is created in subsection 7 requiring a super-majority (2/3) vote by city council to approve the privatization of any city services.

Possible Structural Changes

While the current financial crisis could be resolved by receipt of $300 million to $400 million from the state or federal government, this is both highly unlikely to occur and insufficient to avoid future deficits. The city government must realign the services it provides with the city's tax base.

The Crisis Turnaround Team has made a series of recommendations that includes privatizing management of the city's airport, closing Mistersky Power Plant, and consolidating staff functions, but the focus of the team's attention was directed to the crucially important goal of improving the existing operations of city government. The following suggestions, many of which have been made by previous blue ribbon committees, would redefine the role and scope of Detroit city government.

Because it used to be a relatively wealthy unit of government, and, more recently, because it has a high-needs population, Detroit officials have chosen to provide a wide array of services. For example, the city provides a public health function that, elsewhere in Michigan, is provided by county governments. Detroit City Airport is a city-owned and subsidized facility; the separate Wayne County Airport Authority may be in a better position to determine whether there is a viable regional role for the Detroit facility. Where city and county functions overlap or are duplicative (assessing, property tax collection, purchasing, elections, road maintenance, land bank, etc.), every effort should be made to combine those functions to reduce costs to both units, or for the city to reevaluate whether it is required to provide the service at all.

The city has retained control of functions, such as public transportation in the city (subsidized by the general fund for $80 million in the current fiscal year) that would be more effective for residents if provided on a regional basis. Most employed Detroit residents now work outside of the city.

The city has only one asset that could be "monetized" at a rate sufficient to make a major contribution to resolving the accumulated deficit: the Water and Sewerage Department, which wholesales services to suburban communities. Because this is a self supporting function, transferring the function would not contribute to resolving the city's general fund structural operating problem. However, the sale of all or part of the assets of the department to a regional authority could provide much needed revenues. State enabling legislation could authorize the creation of a regional water and sewerage authority with bonding capacity. The city could agree to sell its interest in the Detroit Department of Water and Sewerage to the authority for an amount sufficient to resolve the accumulated and current deficits, and representative of the investment the city has made in the system. Provisions in the sale agreement could require that rates in Detroit could be no more than 80 percent of the lowest rate charged in any suburb, or the system would revert to Detroit ownership. The authority could sell revenue bonds that would be the source of the payment to the city, and could include the annual debt service on the bonds in the annual charges to customers. Currently outstanding debt would also have to be addressed, and perhaps defeased.

The effect of this would be higher water and sewerage rates for all residents and businesses in the service area, to pay debt service on bonds sold to purchase the system from the city.

The city must reengage the discussion with Windsor or other entities about sale of the revenues from the

Detroit Windsor Tunnel. Although the city receives only about $60,000 annually from the operations of the Detroit Windsor Tunnel, there does appear to be some potential for monetizing this particular asset.

Detroit should consider “piggybacking” municipal income tax collection on the state effort. PA 478 of 1996 states “For the 1996 tax year and each year after 1996, a city that imposes a city income tax pursuant to this act may enter into an agreement with the department of treasury under which the department of treasury shall administer, enforce, and collect the city income tax on behalf of the city.” The city and state should initiate a process to determine whether there are changes to income tax statutes and/or procedures that could lower the cost of a process for combined collections.

The City of Detroit directly provides a range of staff and operating services that elsewhere are provided on contract. These include garbage collection, legal services, information technology, ambulance service, public lighting, and other functions. While the challenges presented by union contracts cannot be ignored, the potential savings that could result from routinely bidding out defined functions should guide management.

The executive branch of city government has initiated a process for consolidating city agencies and functions in order to save executive, support, and overhead costs and to reduce duplication of effort. Efforts to “compact the organization chart” cannot be allowed to stop at the investigation stage; implementation of a rational consolidation plan is essential to balancing expenditures with revenues.

The city government does not have the capacity to provide a full range of services to 138 square miles. The city must define where redevelopment will be concentrated and supported to maintain viable neighborhoods, simplify its processes for sale of tax reverted parcels in areas that are to be redeveloped, and make more effective use of its land bank to accumulate large parcels that can be withdrawn from active use.

Most importantly, the city should consider ways to concentrate residents in viable neighborhoods that can be provided with adequate city services. By actively encouraging residents of sparsely populated neighborhoods to move to more viable neighborhoods, the city may be able to mothball large areas, reducing the demands on city government. While the city would still be responsible for providing minimal services to mothballed areas, it is hoped that could be accomplished with less manpower and infrastructure. There is no assumption that implementing a population concentration strategy will be easy: former efforts to clear land for redevelopment resulted in legal challenges, large settlements, and long delays. However, the purpose of this proposed relocation effort is different, and will not result in redevelopment for someone else’s enrichment. Several recent developments may support an unprecedented effort to reconcentrate residents in viable areas: the previously mentioned Detroit Residential Parcel Survey; the Neighborhood Revitalization Strategic Framework prepared by the Community Development Futures Task Force (an acknowledgement by neighborhood community development organizations of the necessity of change in the response to vacant land); and interest expressed by foundations in providing financial support for reinventing Detroit.

None of the proposals presented here, nor many others that could be made to reduce the cost of city government, can be implemented easily.

Summary

The FY2010 budget, with its $280 million prior years deficit, was "balanced" by the inclusion of three revenues that are highly unlikely:

Detroit Windsor Tunnel Securitization	$100 million
Parking System Securitization	$100 million
Public Lighting System Securitization	$75 million

It appears that the remaining appropriations and revenues were best estimates at the time the budget was developed, in the later part of 2008 and the beginning of 2009. Unfortunately, the national economy in general, and the Michigan economy in particular, have continued to deteriorate since that time. This has affected the revenues of, and pressures on, all states and all local governments. Disproportionate impacts of foreclosures, auto company layoffs, and other factors suggest the economic deterioration has been particularly severe in Detroit.

Although a range of estimates has been cited, the city administration has reported that the current year, general fund, operating deficit is in the range of $80 million to $100 million. Using a more probable estimated accumulated deficit number and adding in the effects of further declines in state revenue sharing, the projected year end accumulated deficit could be in the neighborhood of $450 million on a general fund total of $1,602.3 million. The situation is clearly not sustainable.

Detroit city government must be restructured; the organization chart must be more compact. This will require strong leadership and clear lines of authority. The new structure must reflect both the reduced tax base and the limited ability of state government to provide shared revenues. Restructuring will necessitate process improvements, load shifting, load shedding, privatizing, concentrating service delivery on an area smaller than 138 square miles, and other strategies. The most recent "crisis turnaround team" has recommended closing facilities, privatizing services, improving and centralizing processes, renegotiating contracts, improving debt collection, restructuring debt, and other actions. It remains to be seen whether the city's elected officials will be able to implement these recommendations.