RISK MANAGEMENT

Conclusion
The Mayorõs 2013-2014 Proposed Budget for the Risk Management Fund is reasonable. However, it should be noted that the proposed budget amount has historically been based on an average of five years of payouts for claims, workersô compensation, and lawsuits. This year $20.0 million has been subtracted from that as a cash savings because a healthy fund balance is expected as of June 30, 2013.

Analysis of the Risk Management Fund
The Risk Management Fund is a self-insurance fund established by Section 18-8 of the City Code in 1995 to cover liability to third parties for any loss or damage arising out of negligence, tort, contract or otherwise accruing, payable by the City from and after July 1, 1994. The City may be liable under WorkersôCompensation or Disability Benefits Law, or under any similar laws, or for damage to property or personal injury.

The Risk Management Fund premium included in the Mayorõs 2013-2014 Proposed Budget is compared to the fiscal year 2012-2013 Budget in the following schedule:

	In Millions		
	Mayorõs 2013-2014 Proposed Budget	2012-2013 Budget	Increase (Decrease)
General Fund Premium	$ 33.1	$ 100.0	$ (66.9)
DDOT Premium	18.4	1.6	16.8
Annual Premium	$ 51.5	$ 101.6	$ (50.1)

Current Year Premium
Risk Management Fund revenues are premiums paid by the General Fund and Detroit Department of Transportation (DDOT), earnings from the investment of fund assets, and reimbursements from the State.

The calculation of the Risk Management Fund premium in the Mayorõs 2013-2014 Proposed Budget is based on a five-year running average of actual payouts for damage claims, lawsuits, and other general and administrative expenditures from fiscal year 2007-2008 through fiscal year 2011-2012. The five-year historical average for the General Fund decreased $2.1 million from $41.5 million to $39.4 million from fiscal year 2010-2011 to fiscal year 2011-2012. The five-year historical average for DDOT decreased by $0.3 million during the same time period.

The premiums included in the Mayor's Proposed 2013-2014 Budget are not equal to the premiums calculated using the five-year average method. According to Budget Department personnel, the five-year averages were calculated then $20.0 million was subtracted due to the expectation of a healthy risk management fund balance at June 30, 2013. The Risk Management Fund balance at June 30, 2012 was $35.2 million. An overall decrease in the five-year average premium is due to significantly lower debt service requirements.

Fund Balance

This fund was established to cover the cost of claims and lawsuit payouts and workers compensation costs.

The following table shows the Risk Management Fund balance as of June 30, 2008. The table also includes the actual expenditures, revenues, and fund balance for the fiscal years ending June 30, 2009, 2010, 2011 and 2012, the balance of the Risk Management Fund as of April 17, 2013, the contributions to the fund (excluding debt service costs) included in the Mayor's 2013-2014 Proposed Budget.

		In Millions			
Fiscal Year Ended June 30		City Contributions	Expenditures		Fund Balance[1]
2008				(A)	$ 22.4
2009		$ 62.1	$ 50.1		34.4
2010		58.5	53.7		39.2
2011		52.7	65.1		26.8
2012		48.2	39.8		35.2
2013	(B)	61.9			
2014	(C)	51.4			

(A) The fiscal year ended 2008 Fund Balance was taken from the 2008 Comprehensive Annual Financial Report.
(B) Contributions, expenditures and fund balance as of April 17, 2013.
(C) The proposed budget amount is the only figure available for fiscal year 2013-2014.

Per City of Detroit Ordinance the City's Risk Management Fund is required to maintain a balance of $20.0 million.

Debt Service

In fiscal year 2003-2004, the City issued an additional $98.9 million in self-insurance bonds primarily to fund the fiscal year 2003-2004 Risk Management Fund premium and to refinance the remaining balance of the original $100.0 million self-insurance bond

[1] In previous Office of the Auditor General Analyses of the Mayor's Proposed Budget this chart showed the entire history of the Risk Management Fund beginning with the initial $100 million in bonds, the excess or deficit for each year, and the balance of the funds remaining. It was determined that a more accurate picture of the Risk Management Fund position would be achieved by showing a five-year snapshot of the Risk Management Fund including the City contributions (less debt service requirements) and the expenditures. The Risk Management Fund Balances shown are in agreement with those stated in the City's Comprehensive Annual Financial Statements for the shown fiscal year.

issue. Financing the claims premium, a current operating expenditure, with long-term debt was to be a one-time occurrence. However, in fiscal year 2004-2005 the City again issued $62.3 million in self-insurance bonds to cover the annual premium amount for claims and litigation.

Through these bond issuances the City of Detroit has spent $137.2 million in debt service principal and interest. During fiscal year 2013-2014 the final $13.6 million of debt service of these bonds will be paid.

Future Liabilities
The estimated total future liabilities of the Risk Management Fund included in the Notes to Basic Financial Statements of the June 30, 2011 Comprehensive Annual Financial Report (CAFR) were $172.1 million. The estimated total future liabilities of the Risk Management Fund included in the Notes to Basic Financial Statements of the June 30, 2012 CAFR were $150.4 million. This is a decrease of $21.7 million from the previous year.

The City's Current Risk Management Budgeting Approach
Costs associated with workersôcompensation claims, settlements and lawsuits are charged to the risk fund rather than to the budgets of the departments causing the losses. Therefore, departments are not held financially accountable for their actions or lack of actions resulting in workersôcompensation payments, legal costs, and settlements. Currently, the budget for workersôcompensation, claims, and lawsuits is included in the non-departmental budget. The budget is based on an average of five years of payouts for claims, lawsuits, and workersôcompensation. The ordinance that established the risk management fund requires City departments to contribute to the fund.

Ordinance No. 16-95 states:

> *The Finance Director shall annually make a recommendation for inclusion in the budget…of the amounts to be contributed to the risk management fund by the departments, respectively, to the end that such contributions will be sufficient to carry out the purposes of the risk management fund. …the finance director is authorized to develop and administer guidelines, policies and procedures for risk management by the departments, which guidelines, policies and procedures shall be applied in a nondiscriminatory manner to, and shall be adhered to by, the departments…in as cost effective a manner as possible and to preserve the risk management fund for the purposes for which it has been established.*

The budget should reflect the ordinance requiring each department to make a contribution to the Risk Management Fund based on the historical five-year average for actual payouts for which the department is responsible. Budgeting in this manner would allow the City Council and the Administration to hold each department director more accountable for losses experienced by the City based on the actions, or inactions of the department.

GENERAL FUND SUBSIDY PAYMENTS

Conclusion

The Mayor's 2013-2014 Proposed Budget includes subsidies for the Department of Transportation in the amount of $57.2 million compared to $43.0 million in fiscal year 2012-2013. The proposed budget also includes subsidies for the Detroit Transportation Corporation in the amount of $4.5 million, which is an increase of $4.5 million from fiscal year 2012-2013.

Analysis of General Fund Subsidy Payments

The Mayor's 2013-2014 Proposed Budget includes $64.6 million in General Fund subsidy payments to the following City departments or entities:

	In Millions		
	Mayor's 2013-2014 Proposed Budget	2012-2013 Budget	Increase (Decrease)
Department of Transportation	$ 57.2	$ 43.0	$ 14.2
Detroit Transportation Corporation	4.5	0.0	4.5
Charles H. Wright Museum of African American History	1.3	1.0	0.3
Detroit Zoological Society	0.5	0.5	0.0
Airport	0.6	0.3	0.3
Detroit Historical Society	0.3	0.2	0.1
Detroit/Wayne County Port Authority	0.2	0.2	0.0
Total	$ 64.6	$ 45.2	$ 19.4

We analyzed trends of the General Fund subsidy payments for fiscal years 2008-2009 through 2011-2012, to determine what percentage of the organizations' operational revenue are supported by General Fund subsidies, and which entities rely on the subsidy payments to support operating activities.

The tables included in this analysis show the General Fund subsidy, the entities' total operating (unrestrictive) revenue, and percentage of subsidy to revenue, for fiscal years 2008-2009 through 2011-2012, and the budgeted subsidy for fiscal year 2012-2013. Actual revenue is not available (N/A) for fiscal year 2012-2013.

Detroit Department Of Transportation (DDOT)

One of DDOT's initiatives is to continue reorganization, emphasizing cost savings and increased revenue. From fiscal years 2008-2009 through 2011-2012, the budget for DDOT's General Fund subsidies have averaged $72.6 million annually. On average, 48.5% of DDOT’s operating revenue is supported by subsidy. The Mayor’s 2013-2014 Proposed Budget includes a $57.2 million subsidy for DDOT, which is an increase of $14.2 million from fiscal year 2012-2013 subsidy of $43.0 million. The following table shows the General Fund subsidy, operating revenue and percentage of subsidy to revenue for fiscal years 2008-2009 through 2011-2013.

	Dollars In Millions				
	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
DDOT:					
Subsidy	$ 73.1	$ 73.8	$ 72.6	$ 70.8	$ 43.0
Operating (Unrestricted) Revenue	$ 152.7	$ 152.6	$ 153.6	$ 140.8	N/A
Percentage of Subsidy to Revenue	47.8%	48.4%	47.3%	50.3%	N/A

Detroit Transportation Corporation (The People Mover)

The People Mover is the City's only local rail system and is operated by the Detroit Transportation Corporation (DTC). Currently, the People Mover’s operation is dependent upon receiving the General Fund subsidy. From fiscal years 2008-2009 through 2011-2012 the People Mover’s average annual subsidy was $5.1 million. The General Fund subsidy averaged approximately 52.0% of the People Mover’s operating revenue. The Mayor’s 2013-2014 Proposed Budget includes a $4.5 million subsidy for DTC. The table below shows the General Fund subsidy, operating revenue and percentage of subsidy to revenue for fiscal years 2008-2009 through 2011-2013.

	Dollars In Millions				
	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
The People Mover:					
Subsidy	$ 6.2	$ 6.2	$ 4.4	$ 3.4	$ 0.0
Operating (Unrestricted) Revenue	$ 11.0	$ 10.8	$ 8.7	$ 7.8	N/A
Percentage of Subsidy to Revenue	56.4%	57.4%	50.6%	43.6%	N/A

Charles H. Wright Museum of African-American History (MAAH)

The City has a long-term operating agreement with the MAAH to manage and operate the facility, which also includes management and maintenance of the artifacts collection and presentation of exhibitions and other events. Under the terms of the agreement, the MAAH petitions the City for operating funds each year. For fiscal years 2008-2009 through 2011-2012, the General Fund subsidy comprised an average of 48.9% of the MAAH’s operating revenue. In fiscal year 2011-2012, the MAAH was budgeted to receive $1.5 million from the City for general operations, which accounted for 34.1% of the MAAH's operating revenue. The fiscal year 2012-2013 subsidy was reduced to $1.0 million. The Mayor's 2013-2014 Proposed Budget has increased the subsidy to $1.3 million. The following table shows the General Fund subsidy, operating revenue and percentage of subsidy to revenue for fiscal years 2008-2009 through 2012-2013.

	Dollars In Millions				
	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
MAAH:					
Subsidy	$ 3.9	$ 2.5	$ 1.9	$ 1.5	$ 1.0
Operating (Unrestricted) Revenue	$ 5.5	$ 5.0	$ 4.7	$ 4.4	N/A
Percentage of Subsidy to Revenue	70.9%	50.0%	40.4%	34.1%	N/A

Detroit Zoological Society (Zoo)

The Zoo receives an operating subsidy for insurance and security costs totaling $0.5 million. For fiscal years 2008-2009 through 2011-2012, the General Fund subsidy comprises an average of 2.5% of the Zoo's operating revenue. The table below shows the General Fund subsidy, operating revenue and percentage of subsidy to revenue for fiscal years 2008-2009 through 2012-2013.

	Dollars In Millions				
	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Zoo:					
Subsidy	$ 0.9	$ 0.8	$ 0.8	$ 0.6	$ 0.5
Operating (Unrestricted) Revenue	$ 28.3	$ 37.8	$ 28.9	$34.7	N/A
Percentage of Subsidy to Revenue	3.2%	2.1%	2.8%	1.7%	N/A

Airport

The Mayor's 2013-2014 Proposed Budget includes a subsidy for the Airport in the amount of $0.6 million. For fiscal years 2008-2009 through 2011-2012, the General Fund subsidy comprises an average of 46.3% of the Airport's operating revenue. The subsidy for 2012-2013 was reduced by $0.2 million from fiscal year 2011-2012. The table below shows the General Fund subsidy, operating revenue and percentage of subsidy to revenue for fiscal years 2008-2009 through 2012-2013.

	Dollars In Millions				
	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Airport:					
Subsidy	$ 0.9	$ 0.8	$ 0.8	$ 0.5	$ 0.3
Operating (Unrestricted) Revenue	$ 2.0	$ 1.7	$ 1.5	$ 1.3	N/A
Percentage of Subsidy to Revenue	46.4%	46.5%	52.7%	39.7%	N/A

Detroit Historical Society (Society)

The Society is an independent, Michigan non-profit Corporation. Under an agreement with the City, the Society manages the daily operations of the Detroit Historical Museum, the Dossin Great Lakes Museum, and the Collections Resources Center. The City will contribute $0.3 million to subsidize operational expenses. For fiscal years 2008-2009 through 2011-2012, an average of 11.1% of the Society's operating revenue is from the General Fund subsidy. The table below shows the General Fund subsidy, operating revenue and percentage of subsidy to revenue for fiscal years 2008-2009 through 2012-2013.

	Dollars In Millions				
	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Society:					
Subsidy	$ 0.5	$ 0.4	$ 0.4	$ 0.3	$ 0.2
Operating (Unrestricted) Revenue	$ 2.8	$ 3.2	$ 4.6	$ 6.2	N/A
Percentage of Subsidy to Revenue	17.9%	12.5%	8.7%	5.4%	N/A

Detroit/Wayne County Port Authority (Authority)

The Authority was created to enter into contracts for the acquisition, improvement, enlargement, or extension of port facilities. The Authority has a contract with the City that is renewed annually unless a notice to terminate is requested by either party. The amount of funding is also negotiated annually. From fiscal year 2008-2009 through 2011-2012, the annual General Fund subsidy has been $0.2 million, which averages to approximately 2.3% of the Authority's operating revenue. The table below shows the General Fund subsidy, operating revenue and percentage of subsidy to revenue for fiscal years 2008-2009 through 2012-2013.

	Dollars In Millions				
	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Authority:					
Subsidy	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2
Operating (Unrestricted) Revenue	$ 8.5	$ 8.1	$ 9.1	$ 9.1	N/A
Percentage of Subsidy to Revenue	2.4%	2.5%	2.2%	2.2%	N/A

GENERAL FUND SURPLUS/ (DEFICIT)

Conclusion

The Mayor's 2013-2014 Proposed Budget contains no funding for the prior year deficit of $326.6 million or the estimated current year deficit. Both the City Charter and Michigan State Law require that the prior year deficit be included in budget for the coming year. By not including the prior year deficit in the Proposed 2013-2014 budget the Mayor is essentially not providing a balanced budget and breaking both Detroit and Michigan law. The Mayor's Proposed 2013-2014 Budget is **at least** $326.6 million out of balance.

Estimated Deficit - Fiscal Year 2012-2013

The Mayor's estimated deficit for fiscal year 2012-2013 includes the accumulated deficit of $326.6 million from fiscal year 2011-2012, no information was provided for the details of the anticipated operating deficit for fiscal year 2012-2013. The Mayor's Proposed 2013-2014 Budget Executive Summary shows an audited accumulated deficit for 2012-2013 of $348.8 million.

	In Millions
Fiscal Year 2011-2012 Accumulated Deficit	$ (326.6)
Fiscal Year 2012-2013 Operating Deficit (No Details Have Been Provided)	(22.2)
Fiscal Year 2012-2013 Accumulated Deficit	$ (348.8)

The Schedule below documents our estimate for the deficit for fiscal year 2012-2013:

	In Millions
Fiscal Year 2011-2012 Accumulated Deficit	$ (326.6)
OAG Net Operating Deficit	(51.4)
Estimated Fiscal Year 2012-2013 Accumulated Deficit per OAG computations	$ (378.0)

The Office of the Auditor General (OAG) operating deficit amount according to our computations noted in the above schedule is based on the OAG's projected actual revenues for fiscal year 2012-2013 compared to the amounts contained in the adopted budget for fiscal year 2012-2013. The following schedule notes our projected revenues and additional DDOT subsidy:

	(In Millions) Difference
Property Taxes	$ (7.7)
Municipal Income Tax	7.0
Utility Users Tax	(3.8)
State Revenue Sharing	4.7
Casino Wagering Tax	(2.2)
Other Revenues [A]	(29.4)
Estimated OAG Revenue Deficit	$ (31.4)
Additional DDOT Subsidy	(20.0)
Estimated OAG Operating Deficit	$ (51.4)

(A) As of March 2013, the City received $138.6 million in Bond Revenue. Of this amount, $55.8 million was included in the FY 2012-2013 budget. The remaining amount of $82.8 million represents a false surplus in Revenue from Bond Sales and is not included in this amount.

The OAG did not receive the Surplus/Deficit Report that we have received annually in the past that has allowed us to conduct a more detailed analysis. We believe that this report would show a deficit in one or more operating areas that would bring the current year deficit closer to $50 million.

DETROIT DEPARTMENT OF TRANSPORTATION

Conclusion

Based on our analysis, the revenues included in the Mayor's 2013-2014 Proposed Budget for the Detroit Department of Transportation (DDOT) are optimistic. Our analysis of historical data indicates that the State operating assistance is slightly overstated by $3.2 million, Farebox revenue is slightly overstated by $2.1 million, and the General Fund subsidy to the DDOT is understated.

The following table compares the Mayor's Proposed 2013-2014 Budget appropriations and revenues for the Detroit Department of Transportation (DDOT) operations to the fiscal year 2012-2013 Budget:

	In Millions		
	Mayor's Proposed 2013-2014 Budget	2012-2013 Budget	Increase (Decrease)
Appropriations:			
DDOT Operations	$ 113.8	$ 108.9	$ 4.9
DTC Support	4.5	0.0	4.5
Claims Fund	18.3	1.6	16.7
Total Appropriations	$ 136.6	$ 110.5	$ 26.1
Revenues:			
State Operating Assistance	$ 48.4	$ 41.5	$ 6.9
Farebox Revenue	23.1	25.0	(1.9)
General Fund Contribution to DDOT	57.2	43.0	14.2
General Fund Contribution to DTC	4.5	0.0	4.5
Other Operating Revenue	0.6	1.0	(0.4)
Claims Fund Revenue	2.8	0.0	2.8
Total Revenues	$ 136.6	$ 110.5	$ 26.1

The Mayor's Proposed 2013-2014 Budget is $26.1 million more than the fiscal year 2012-2013 budget. The $4.9 million increase in DDOT Operations is mainly due to increases in Vehicle Maintenance and Transportation salaries and wages. The $16.7 million increase in the Claims Fund reflects the Budget Department's anticipation of more claims payments in fiscal year 2013-2014, based on a five-year average of claims payouts.

State Operating Assistance

Act 51, P.A. 1951 restricts State Operating Assistance for urban public transit agencies, with a population greater than 100,000, to an amount up to 50.0% of their eligible operating expenses, as defined by the State of Michigan Department of Transportation (MDOT). An eligible expense reimbursement formula is used to compute the amount of operating assistance that urban transit agencies receive from the State. An adjusted amount of eligible expenses is multiplied by a percentage, determined by the State, to calculate the amount of the distribution to transit agencies.

The Mayor's Proposed 2013-2014 Budget amount for State Operating Assistance is $48.4 million, up $6.9 million from the fiscal year 2012-2013 budget of $41.5 million. Based on the Detroit Department of Transportation's (DDOT) calculations, as of April 23, 2013, DDOT expects to receive $47.9 million in assistance in fiscal year 2013-2014. The actual amount DDOT will receive is based on DDOT's actual eligible expenses. The OAG estimates that DDOT will receive $45.2 million for fiscal year 2012-2013. DDOT received $47.6 million in assistance in fiscal year 2011-2012. Based on our analysis, the Mayor's Proposed 2013-2014 Budget amount for State Operating Assistance is overestimated.

The following table shows budgeted and actual state operating assistance for fiscal years 2008-2009 through 2011-2012, budgeted and estimated state operating assistance for fiscal year 2012-2013, and the Mayor's Proposed 2013-2014 Budget amount for state operating assistance.

		Dollars In Millions					
						Increase/(Decrease) in Actual Revenue	
Fiscal Year		Budgeted Revenue	Actual Revenue	Budget Amount	Budget Percentage	From Prior Year	
2008-2009		$ 52.3	$ 51.5	$ (0.8)	(1.5)%	$ (3.6)	(6.5)%
2009-2010		51.9	53.0	1.1	2.1	1.5	2.9
2010-2011		51.9	53.8	1.9	3.7	0.8	1.5
2011-2012		52.0	47.6	(4.4)	(8.5)	(6.2)	(11.5)
2012-2013	(A)	41.5	45.2	3.7	8.9	(2.4)	(5.0)
2013-2014	(B)	48.4	N/A	N/A	N/A	N/A	N/A

(A) The amount shown in the table as actual revenue for fiscal year 2012-2013 is an estimated amount.
(B) The proposed budget is the only amount available for fiscal year 2013-2014.

Farebox Revenue

The Mayor's 2013-2014 Proposed Revenue for DDOT farebox is $23.1 million, down $1.9 million from the fiscal year 2012-2013 budgeted amount of $25.0 million. In the most recent completed fiscal year (2011-2012), DDOT collected $13.7 million in farebox revenue. DDOT projects that decreased farebox revenue will be the result of the implementation of limited bus routes and service.

DDOT projects 34.0 million persons to ride buses in fiscal year 2013-2014, and 32.0 million in fiscal year 2012-2013. The actual number of passengers was 32.8 million in fiscal year 2011-2012.

Based on historical data and estimated farebox collections for fiscal year 2012-2013, the Mayor's Proposed 2013-2014 Budget for farebox revenue is optimistic. The OAG estimates that the DDOT will collect $21.0 million in fiscal year 2012-2013.

The following table shows budgeted and actual farebox revenue for fiscal years 2008-2009 through 2011-2012, budgeted and estimated farebox revenue for fiscal year 2012-2013, and the Mayor's Proposed 2013-2014 Budget amount for farebox revenue.

Fiscal Year		Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget Amount	Actual Over/(Under) Budget Percentage	Increase/(Decrease) in Actual Revenue From Prior Year Amount	Increase/(Decrease) in Actual Revenue From Prior Year Percentage
		Dollars In Millions					
2008-2009		$ 30.0	$ 19.1	$ (10.9)	(36.3)%	$ (2.6)	(12.0)%
2009-2010		30.1	15.6	(14.5)	(48.2)	(3.5)	(18.3)
2010-2011		30.1	16.8	(13.3)	(44.2)	1.2	7.7
2011-2012		30.0	13.7	(16.3)	(54.3)	(3.1)	(18.5)
2012-2013	(A)	25.0	21.0	(4.0)	(16.0)	7.3	53.3
2013-2014	(B)	23.1	N/A	N/A	N/A	N/A	N/A

(A) The amount shown in the table as actual revenue for fiscal year 2012-2013 is an Office of the Auditor General estimate, based on actual year-to-date farebox revenue as of March 31, 2013 annualized through the end of the fiscal year 2012-2013.
(B) The proposed budget is the only amount available for fiscal year 2013-2014.

General Fund Contribution – DDOT

The Mayor's Proposed Budget for the General Fund Contribution (Subsidy) to the DDOT is $57.2 million for fiscal year 2013-2014, an increase of $14.2 million from the fiscal year 2012-2013 budgeted amount of $43.0 million. The average subsidy to the DDOT in the most recent completed five fiscal years (2007-2008 through 2011-2012) is $86.2 million.

Based on past subsidies, overestimates of farebox revenue and state operating assistance in the 2013-2014 budget, and underestimates of claims payments and overtime in the 2013-2014 budget, the Mayor's Proposed 2013-2014 Budget for the subsidy to the DDOT is underestimated.

The following table shows budgeted and actual General Fund contributions to DDOT for fiscal years 2007-2008 through 2011-2012, the budgeted and estimated general fund contribution to the DDOT for fiscal year 2012-2013, and the Mayor's Proposed 2013-2014 Budget amount for the general fund contribution to DDOT.

Fiscal Year		Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget Amount	Actual Over/(Under) Budget Percentage	Increase/(Decrease) in Actual Revenue From Prior Year Amount	Increase/(Decrease) in Actual Revenue From Prior Year Percentage
		Dollars In Millions					
2007-2008		$ 79.7	$ 104.1	$ 24.4	30.6%	$ 27.3	35.5%
2008-2009		85.1	79.3	(5.8)	(6.8)	(24.8)	(23.8)
2009-2010		80.0	80.0	0.0	0.0	0.7	0.9
2010-2011		55.3	77.0	21.7	39.2	(3.0)	(3.8)
2011-2012		43.3	90.6	47.3	109.2	13.6	17.7
2012-2013	(A)	43.0	62.0	(19.0)	(44.2)	(28.6)	(31.6)
2013-2014	(B)	57.2	N/A	N/A	N/A	N/A	N/A

(A) Amounts shown as actual revenue for fiscal year 2012-2013 are Budget Department estimates.
(B) The proposed budget is the only amount available for fiscal year 2013-2014.

DDOT Operations
The Mayor's Proposed 2013-2014 Budget includes $14.6 million in overtime. As of April 23, 2013, the DDOT spent $10.1 million on overtime pay. Based on estimated overtime prorated for fiscal year 2012-2013, overtime is reasonable.

The DDOT indicated that the department is allowed to hire bus drivers and mechanics to fill the positions of employees who are on workers' compensation, long-term disability, and leave of absence. These are the reason the DDOT believes the budget for overtime is sufficient.

Based on our analysis, the Mayor's Proposed 2013-2014 Budget amount for DDOT overtime is reasonable.

Net Operating Losses
The pattern of the DDOT's net operating losses is well documented, as are the public policy reasons underlying continued subsidies to transit operations. The following schedule details the DDOT's actual and expected net operating losses over recent years. The data for this schedule was obtained from the City's Comprehensive Annual Financial Report (CAFR) for fiscal years ended June 30, 2008 through June 30, 2012, Budget Department data for fiscal year ending June 30, 2013 and the Mayor's Proposed 2013-2014 Budget.

		In Millions			
Fiscal Year		Operating Revenue (A)	Operating Expense (B)	Net Operating Loss	Transfers from the General Fund
2007-2008		$ 27.2	$ 212.6	$ 185.4	$ 97.8
2008-2009		30.0	206.7	176.7	73.1
2009-2010		30.1	201.0	170.9	73.8
2010-2011		30.1	209.0	178.9	72.6
2011-2012		30.0	206.3	176.3	87.1
2012-2013	(C)	25.9	(D)130.5	104.6	(D) 39.8
2013-2014	(E)	23.7	(E)156.6	132.9	57.2

(A) Operating revenue consists primarily of farebox revenue.
(B) Operating expenses do not include the subsidies.
(C) Operating revenue for fiscal year 2012-2013 is a budget estimate.
(D) Operating expense and subsidy for fiscal year 2012-2013 are the budget amounts.
(E) Operating revenue, operating expense, net operating loss, and transfers from the general fund are the Mayor's Proposed 2013-2014 Budget amounts.

The fiscal years 2012-2013 and 2013-2014 budgets for operating expense do not include expenses that will be funded with federal capital grant revenues. The DDOT does not include revenue from federal capital grants in its operating budgets, nor does DDOT include amounts in its appropriation that will be funded with federal capital grant revenue.

Financial Trend Analysis
The OAG analyzed the DDOT farebox revenue and operating expenses for fiscal years 2009-2010, 2010-2011, and 2011-2012. Amounts for fiscal year 2012-2013 were annualized. The revenue and expense data were analyzed to determine if trends indicate that the DDOT is increasing its revenues and reducing its costs. The trend for farebox revenue indicates the revenue is relatively stable, but a decrease in revenue is expected because of limited routes and service. The trend for salaries and wages is rising because of overtime pay. The trend for operating expenses is increasing. In summary, the trends indicate operating revenues are falling and expenses are rising.

The Southeast Michigan Council of Governments is expected to change the distribution funding formula which has favored Detroit. The effects of the formula change include DDOT potentially losing over $15.0 million in federal transit funding. The change in the formula could affect the operating funding as well.

Specifically, DDOT would lose $7.0 million in capital funding while Suburban Mobility Authority for Regional Transportation (SMART) gains $7.0 million despite DDOT servicing more than twice the number of passengers as SMART. In addition, DDOT could lose over $7.0 million due to the change in the distribution funding formula which directly affect operating funds the city currently receives from the State of Michigan Comprehensive Transportation Fund.

Cost Saving Initiatives
DDOT will continue to implement its cost reduction initiatives for fiscal year 2012-2013 including facility improvements to make maintenance more efficient, ensuring that all buses have operable wheelchair lifts, monitoring ADA services for improvement, and improving customer service. The DDOT's revenue initiatives for fiscal year 2012-2013 include online sales of passes and tightening controls over fares and collections.

DDOT also will continue its main cost reduction initiatives for fiscal year 2013-2014 which includes reorganizing to improve management and supervision, improving efficiency of operations by managing resources, updating processes and technology, and instituting Just In Time inventory management. Revenue initiatives for fiscal year 2013-2014 include increasing the number of pass sale outlets, developing marketing and sales strategies to increase sales in sluggish or declining markets, developing a mailing list for direct mail passes, and installing pass vending machines at the Rosa Parks Transit Center to provide passengers convenient access to passes.

SOLID WASTE MANAGEMENT FUND

Analysis of Solid Waste Management Fund

The Solid Waste Management Fund is a Special Revenue Fund. The City of Detroit uses the Solid Waste Management Fund to account for local revenue collected for curbside rubbish pick-up and discard. The total revenues for the Solid Waste Management Fund contained in the Mayor's 2013-2014 Proposed Budget is $2.3 million more than the amount budgeted for fiscal year 2012-2013. A review of the Solid Waste Management Fund Budgetary Comparison Schedule included in the Comprehensive Audited Financial Reports from fiscal years 2007-2008 through 2011-2012 show that the revenues cover the related expenditures. The following schedule compares the total Solid Waste Management Fund revenues in the Mayor's 2013-2014 Proposed Budget to the fiscal year 2012-2013 budget:

	In Millions		
	Mayor's 2013-2014 Proposed Budget	2012-2013 Budget	Increase (Decrease)
Solid Waste Fees	$ 39.0	$ 36.1	$ 2.9
Other Sales and Charges for Services	2.2	2.8	0.6
Ordinance Fines and Forfeitures	0.1	0.1	0.0
Other Revenues	0.1	0.1	0.0
Total	$ 41.4	$ 39.1	$ 2.3

Revenue Consensus Report

Financial Stability Agreement (FSA) Section 3.1, in conjunction with Section 8-213 of the City Charter, requires that a revenue estimating conference take place as part of the budget process. The conference focused on developing a consensus of estimated General Fund revenues for fiscal year 2013-2014 with the conference members[1] using a conservative approach in developing the estimated revenue amounts. The revenue estimating conference did not develop consensus revenue amounts for the risk management fund and enterprise agencies that require a General Fund subsidy as required by the FSA and the City Charter. The revenue estimating conference determined that the Solid Waste Fee consensus amount for fiscal year 2013-2014 is $39.0 million.

[1] The conference members consisted of individuals from the Office of the Auditor General, City Council's Fiscal Analysis Division, the Finance Department and the Budget Department.

EMERGING ISSUES

REGIONAL TRANSIT AUTHORITY (RTA)

Senate Bill No. 909 created a regional transit authority (RTA). The RTA is seeking to coordinate, orchestrate and improve transit for Macomb, Oakland, Washtenaw and Wayne counties including the city of Detroit. Part of the growing list of responsibilities for the RTA is overseeing the existing transit providers. They are SMART (The Suburban Mobility Authority for Regional Transportation), DDOT (Detroit Department of Transportation), AATA (Ann Arbor Transit Authority, DTC (Detroit Transit Corporation is the People Mover) and the upcoming M1 Light rail, which starts construction this summer. The RTA will operate the upcoming four Bus Rapid Transit lines, which will run down Woodward, Gratiot, M-59 and to the airport and beyond.

<u>Loss of Grant Funds for the Detroit Department of Transportation (DDOT)</u>

DDOT lost $7.0 million in federal funding for fiscal year 2013-2014. The Southeast Michigan Council of Governments (SEMCOG), who the governor has designated as the temporary guardian of federal funds after the Legislature created the RTA, voted to change the 65%-35% funding formula that has favored Detroit since the 1970s. The old formula was based on ridership. SEMCOG's proposal would change the ratio to 51.5% for SMART and 48.5% for DDOT, with 1% for the Detroit People Mover.

NEIGHBORHOODS

<u>Property Tax Assessments</u>

The State Tax Commission voted to launch an investigation into whether the City is overtaxing property owners through inflated assessments. While the chief assessor welcomes review and plans to cooperate, if it is found that assessments are high, it could decrease property tax revenue for the 2013-2014 fiscal year.

<u>Improving Neighborhoods</u>

According to Nancy LeaMond, executive vice president of AARP's state and national group, gone are the days when retiring meant packing up and moving to adults-only communities in Arizona or Florida. Surveys by her organization indicate that 84 percent of baby boomers plan on staying in their current homes as they age, she says, some because they want to and other because they can't afford to move.

There is a growing trend across America by urban planners to address the growing challenge to design a community that includes an aging population. Planners do not want to alienate and isolate aging taxpayers. As Detroit tries to repopulate its neighborhoods city planners need to study the demographics of the population to make Detroit an age-friendly community. Some examples of potential changes would be wider sidewalks, cohesive transit networks, mixed-use villages and creating communities that incorporate hospitals, nursing homes and other elder facilities into the community.

Preventing Vacant Property Deterioration

Detroit has an abundance of vacant properties. The city must find a way to maintain the vacant properties so that they do not become blighted, thereby increasing the cost of rehabilitating and re-integration into the market. Vacant property maintenance demonstrates that properties are being attended to which serves to deter vandals and other criminals. Below are strategies for making sure that homes are not set upon the path to blight.

- ***Vacant property registration*** ï this requires the lien holders to register any unoccupied foreclosed property with the city and then to maintain the property, incurring fines if they fail to do so.
- ***Community Vacant Inventory Identification*** ï the city can utilize community members and municipal workers, to identify vacant and abandoned properties and to report code violations. A close example is the ñEyes on Southfieldò program which provides guidance and a central hotline for community members to report housing code violations to the city.
- ***Decorative Boarding*** ï Paint boards so that the property looks occupied. The board is painted like a window, with a lamp or some other decorative feature behind it.

SENSIBLE WAYS TO SAVE MONEY AND RAISE REVENUE

Raising Revenue

The Municipal Parking Contractor has submitted the following as a revenue enhancement opportunity:

Elimination of $10 discount on newly issued parking tickets ï it is no longer cost effective for MPD to continue offering the $10 discount on newly issued parking tickets as the division is not covering the cost of issuing the ticket. For FY11, PVB issued 261,847 tickets and had estimated operational costs of $7,500,000 making the cost per ticket issued $28.64. Approximately 36% of parking violators pay off the windshield when a ticket is newly issued. The average collection per windshield ticket paid is $13.25, heavily driven by the volume of overtime meter tickets issued. MPD loses about $15.39 for this segment of the portfolio.

In the past it made sound business sense to offer the $10 discount as annual ticket issuance was over 500,000. For FY02 ticket issuance was 535,927 and assuming todayφs PVB operational costs of 7,500.000 the average cost per ticket issued would be $13.99 which is almost equal to todayφs average collection per windshield ticket paid. Clearly stated the drop in annual ticket issuance has severely impacted revenue from parking tickets and the ability to offer any form of a payment discount.

Implementation of a legal collections program ï The Michigan Combined Laws (MCL) and minimum procedure for civil infraction processing allows for more aggressive collections on defaulted parking cases. The City has not elected to pursue options like tax intercept, garnishment of wages and property levies. The use of these collection sanctions could drive another $2.0 - $2.5 million in annual gross collections back to the City of Detroit.

Parking Tickets

According to a list of worst parking violation offenders provided by the contractor, as of March 20, 2013, the top ten individuals owe $110,700 in fines and a combined 1,817 outstanding parking tickets.

Current Michigan Law states that a driverφs license will not be renewed if your driving record shows three or more unpaid parking tickets. Under the current law people only have to pay their parking tickets once every four years to renew their driverφs license. If the law where changed so that drivers could not renew their vehicle tags for their car each year if they have three or more parking tickets, more people would be encourage to pay parking tickets every year. EI-19

Taxes on Athletes

Nonresident athlete taxes ï rarely collected 20 years ago are now significant sources of revenue for municipalities and states and can cause serious headaches for entertainers, athletes and accountants at tax time. Any employee who travels with the team, which includes coaches, broadcasters, equipment mangers and scouts are subject to the same tax requirements.

Of the 24 states that house professional sports teams, 20 collect income tax on their home and visiting teams. And nearly a dozen cities, including Pittsburgh, Philadelphia, Cleveland and Cincinnati, impose “jock taxes” and fees on teams and players to address budget shortfalls and to help pay for arenas and stadiums built with the taxpayers’ wallet.

In Pittsburgh, where a Non-Resident Sports Facility Usage Fee was imposed in 2005, athletes and entertainers pour in an average of $3.7 million annually with a 3 percent fee on all income earned while performing in any venue built or maintained with public money. The teams pay the city directly and withhold the fee from their employees’ paychecks.

The fundamental underlying law for these cities and states is: “If you work here, you earn here, you pay here.” Anybody who works outside of their state of residency should also pay nonresident taxes. It’s much easier and more lucrative, for cities and states to enforce these laws on entertainers and sports franchises because it is easy to determine where these athletes play and how much they earn.

Saving Money

- *Use transparency to cut waste* – publish contracts over a certain dollar amount online. Different departments within the city may be using the same organization to buy similar goods and/or services through different, expensive contracts which online transparency would expose offering the opportunity to maximize discounts through volume purchases.
- *E-auctions for surplus goods* – this is becoming a popular way for municipalities to sell goods. Using an online auction allows more people to participate in the auction and if the item is popular the competition (bidders) can drive up the price. Online auctions can also be a cost effective alternative to having employees conducting auctions.
- *Encourage direct debit and e-billing for city services (and taxes)* – handling cash and checks can be expensive. Sending out e-billings reduces mailing cost and eliminates paper bills. The city can even offer discounts or incentive schemes to encourage residents to use the e-billing service.
- *Open a coffee shop in the library* – lease space to a coffee shop. This can generate revenue and encourage more readers to come to the library. Coffee shops have increasingly become the norm in commercial bookstores but not in municipal libraries.
- *Earn more from private advertising* – include private advertising in mailings, on the city’s website, and other high visibility areas.
- *Cut printing cost* – stop producing brochures; publish online only unless residents ask for a hard copy.
- *Ask employees for sensible cost savings ideas* – employees will be the most informed and actually the most enthusiastic about cutting waste.