

Detroit's Fiscal Future: The Post-Pandemic Path

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The Post-COVID world offers lots of uncertainties for cities

- Has the “geography” of where work gets done changed?
 - **Leading up to the pandemic, cities had generally benefited from knowledge worker “agglomeration”.** Productivity was linked to “knowledge spillovers” related to people bumping into each other in the halls.
 - **Did the pandemic upend this model?** Many firms found they could pivot to virtual work and some even found productivity increased. Employees liked the work-life balance and added flexibility of working from home (particularly if they had school aged children in a virtual learning environment).
 - **Follow the money.** Firms in high priced cities started to think about permanently reducing their urban space needs. Potentially large savings if workers are working from home or can be placed at suburban (cheaper) satellite offices.
 - **The open question is what will be the new equilibrium?**

Enter city finances

- For many local governments, the pandemic has been a fiscal “non-event”.
 - **Property tax dependent localities are insulated.** Even if values fall in the hardest hit communities, lags in reassessments and other built-in adjustments have property taxes as a steady performer.
 - **Some communities may even come out ahead.** Suburbs where housing was bid up will see the property tax base grow.
 - Argonne National Lab numbers bear this out.
 - [State & Local Government Revenue Vulnerability Indices | Argonne National Laboratory \(anl.gov\)](#)

Argonne's Local Government Vulnerability Index

The LGRVI measure the vulnerability of local government revenues by estimating monthly changes relative to a January 2020 baseline.

The index measures the cumulative estimated lost revenues from January 2020 to the current period (January 2021) relative to January 2020 revenues.

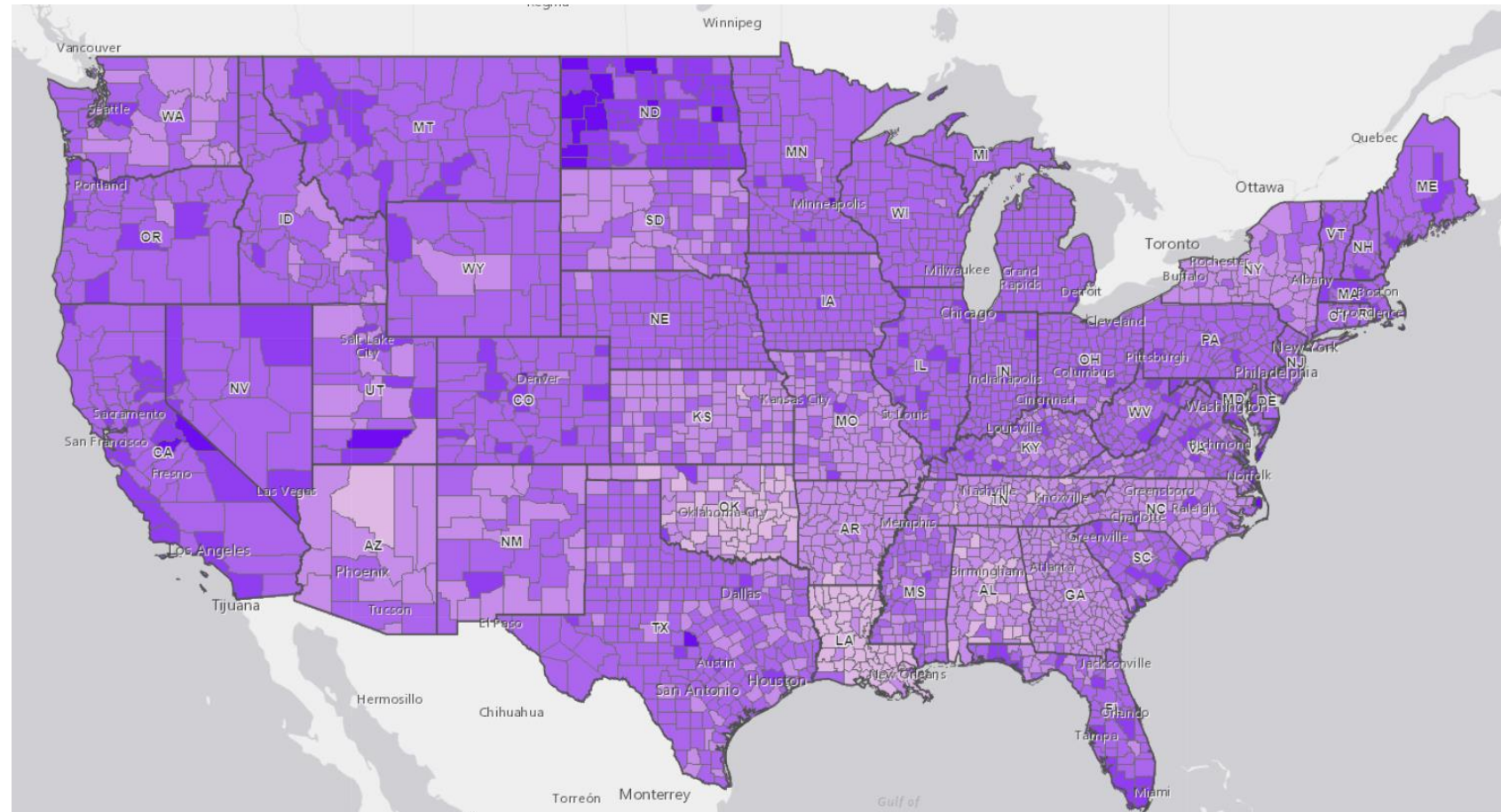
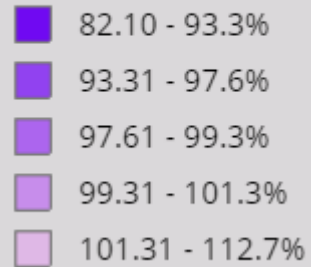
The index is calculated at the county level for five different types of local government: county, city, township, special district and independent school district or educational service agency.

- County governments
- City governments
- Township governments
- Special district governments
- School district governments
- Total of all governments in county

All local governments

LGRVI - Main Index

LGRVI_MainIndex



Turning to Detroit: Detroit Pre-Pandemic

- City was seen as being on the upswing
- **Significant new investments in the downtown core**—Quicken Loans, Rocket Mortgage, recommitment by automakers.
- Improved amenities, restaurants, hotels, parks and riverfront.
- **Fiscal stability.**
- **Still many neighborhoods not sharing in improvements**, population still declining, concerns over who is benefiting from downtown growth.
- **First wave of the pandemic hits Detroit hard.** High case counts, State-wide lock-down.

Turning to Finances:

Detroit, however, has a somewhat unique revenue structure and history

- Highly diversified revenue structure.
- Bankruptcy and recovery.

A Timeline of Detroit Revenue Options



State Shared Revenue

Wagering Tax

1971

1962

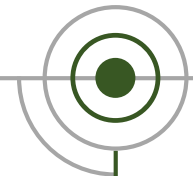
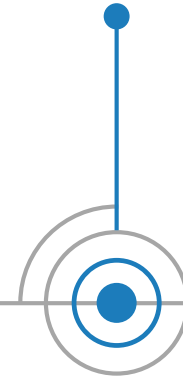
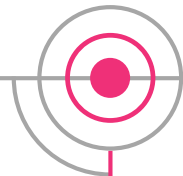
1946

1996

Property Tax

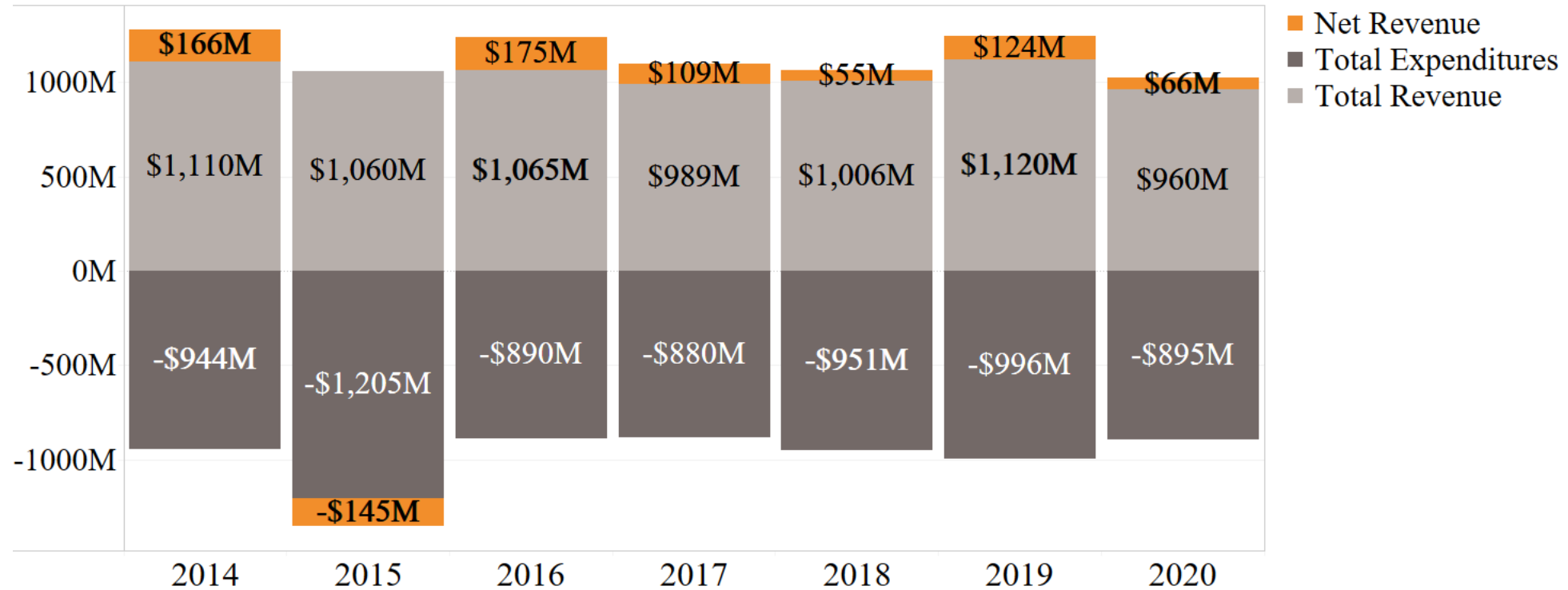
Utility Tax

Municipal Income Tax



Post Bankruptcy Detroit Had Restored Fiscal Stability

Trends for Detroit's revenues and expenditures 2014-2020

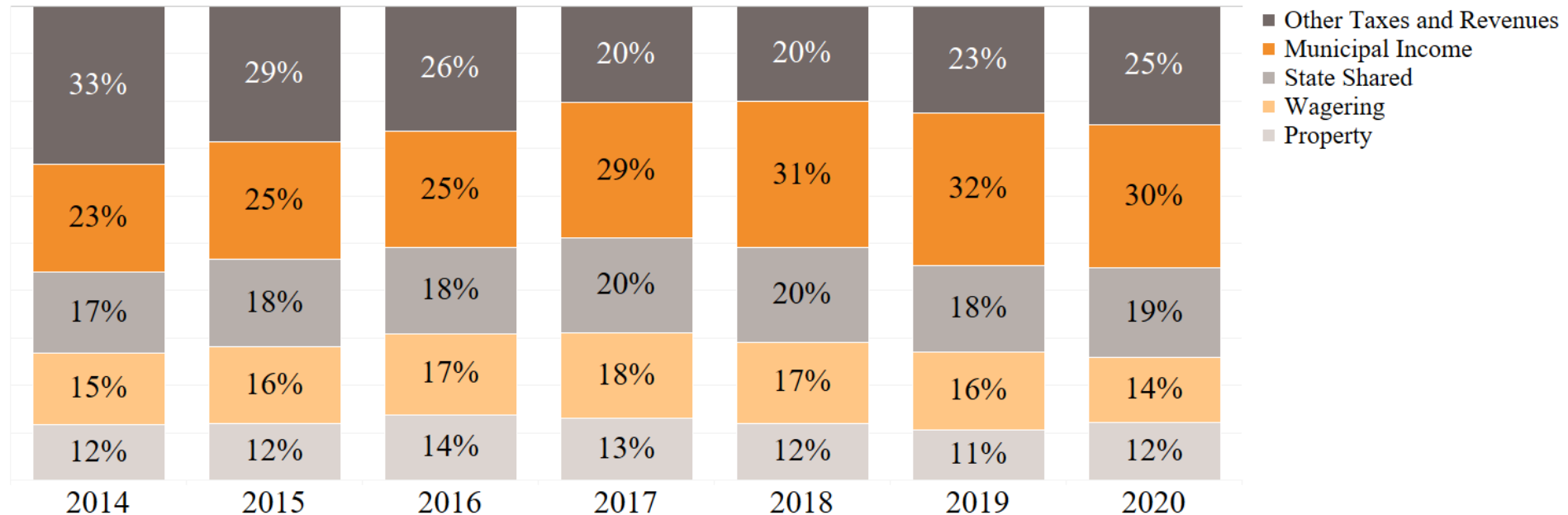


City of Detroit Comprehensive Annual Financial Reports FY 2014-2020.

Detroit is somewhat unique in that income and wagering tax revenues are highly significant

Detroit's General Fund Tax Revenue Trends

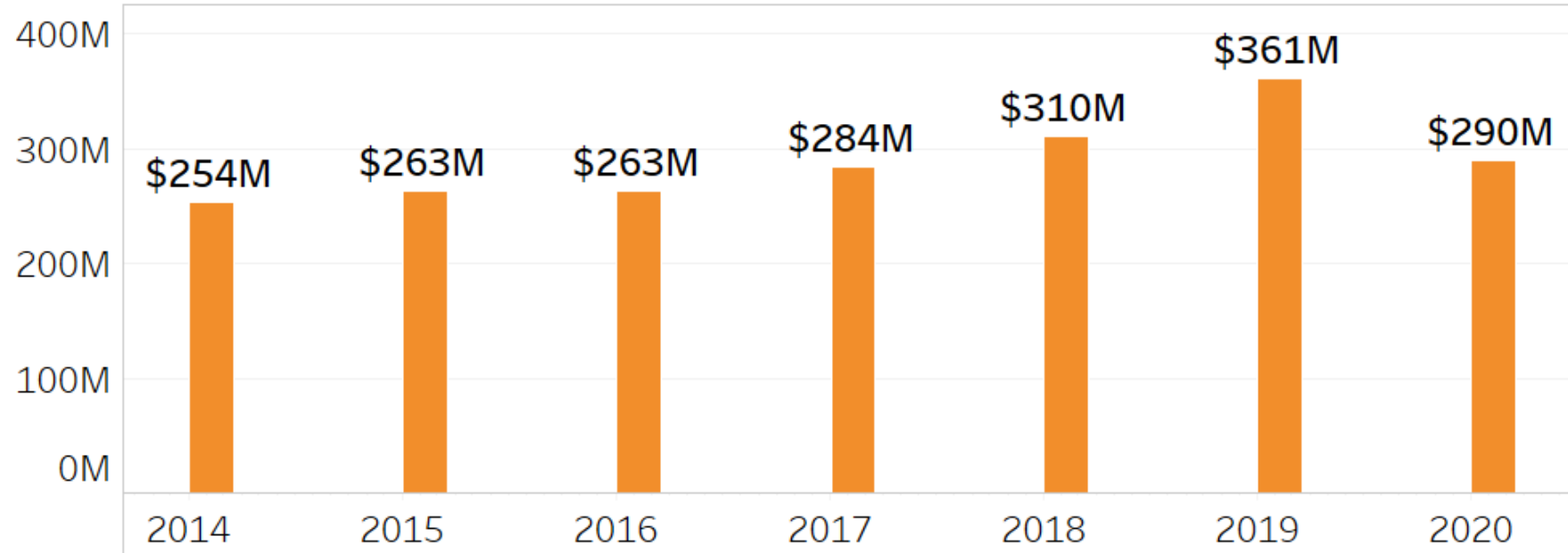
Municipal Income Tax and **Wagering Tax** represented a 48% share of the total general fund revenue in 2019 and 44% in 2020.



City of Detroit Comprehensive Annual Financial Reports FY 2014-2020.

**The Other Taxes and Revenues Category represents the sum of additional revenue streams in Detroit's General Revenue Fund not specifically listed.*

Detroit's **Municipal Income tax** revenue increased by **42%** from 2014 - 2019 and decreased by **20%** from 2019 - 2020.



City of Detroit Comprehensive Annual Financial Reports FY 2014-2020.



Largest single source of revenue in the General Fund.

Resident

2.4%



Detroit levies the **highest** income tax rates of any of the cities in Michigan that levy a local income tax.

Nonresident

1.2%

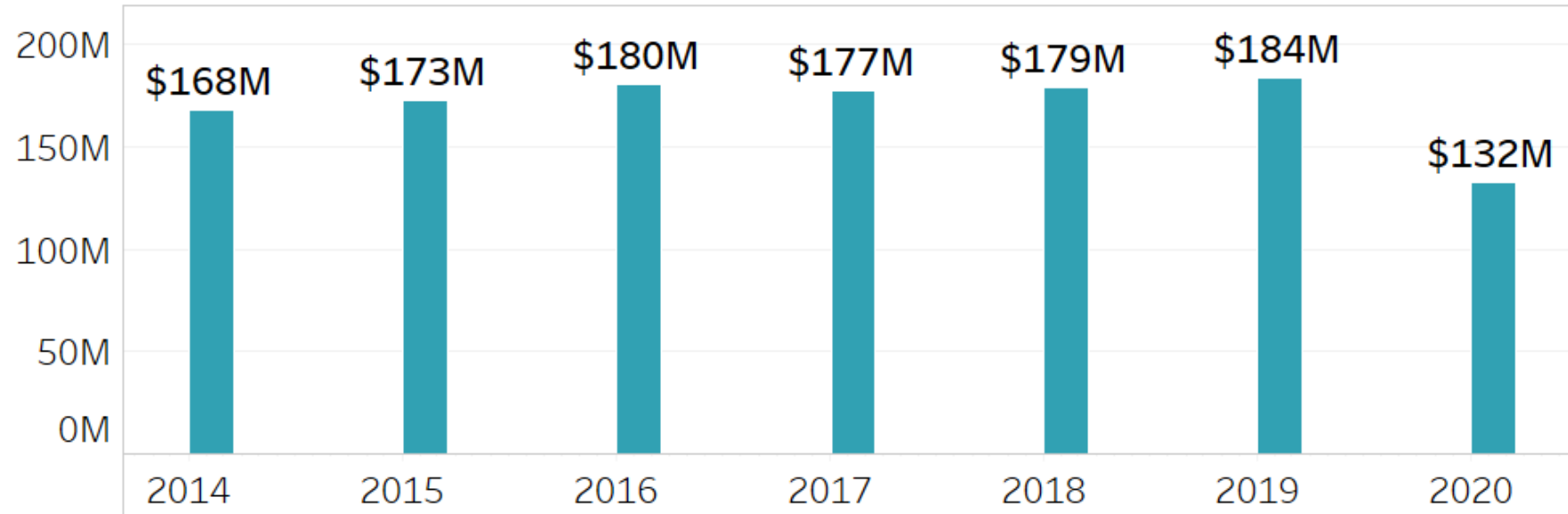


Nonresident income tax also **applies to athletes** and **entertainers** and their **staff** performing, competing, and otherwise “working” at venues in the city.

Corporation

2.0%

Wagering tax revenue decreased by 28% from 2019 - 2020, potentially impacted by the Covid-19 pandemic.



City of Detroit Comprehensive Annual Financial Reports FY 2014-2020.

Third
Largest Source of Revenue



July 1999
Three casinos opened in the Detroit



January 2021
Michigan officially launched online sports betting, taxed at 8.4% of adjusted sports betting receipts with distinctions for tribal vs. nontribal operators.

What happened during the pandemic?



General Fund Primary Revenue Sources

Revenue Source	2019 ⁱ		2020		2019 - 2020 Changes	
	\$ (Thousands)	% of Total	\$ (Thousands)	% of Total	\$ Change (Thousands)	% Change
Municipal Income Tax	361,039	32%	290,017	30%	(71,022)	-20%
Other Taxes & Revenues	253,279	23%	239,655	25%	(13,624)	-5%
State Shared Revenue	202,633	18%	181,745	19%	(20,888)	-10%
Wagering Tax	183,815	16%	132,404	14%	(51,411)	-28%
Property Tax	119,526	11%	116,617	12%	(2,909)	-2%
Total General Fund Revenue²	1,120,292		960,438		(159,854)	-14%

Source: City of Detroit, 2019 and 2020 Comprehensive Annual Financial Reports

ⁱ Detroit's fiscal year begins on July 1.



Trying to predict a new normal

- CFO's office has built in a permanent 10% reduction in non-resident income tax payments assuming hybrid work will be the future.
- Projection that city revenues will not return to pre-pandemic levels until FY24.
- Will this have spillover impacts—commercial property in less demand, less need for restaurants and other amenities that support day-workers, as amenities decline does living in the downtown become less attractive?
- Structural pressures—City is still losing population. State and federal programs tied to population size may get trimmed.
- Paying for pensions. The Grand Bargain that got Detroit out of bankruptcy gave the city some breathing room before having to make pension payments. That comes to an end in 2023. Potentially 20% of city revenues.

American Recovery Plan to the rescue--\$826 million, 5th highest total going to a US city?

- The Mayor's Proposal
 - \$400 million back fill lost revenue
 - \$400 million for selected "investments" (Detroit Future Fund)

American Recovery Plan 101

The result: Detroit is receiving the 5th largest amount of any city in America



Detroit Will Receive \$826 Million

\$413 Million received this May

\$413 Million in May, 2022

Must be fully spent by 2024, or goes back to federal government

If City Council acts to accept and appropriate the funds by June 30, we can put it to work for Detroiters starting next fiscal year July 1st.

The Mayor's Proposal

What can the funds be used for?



- 1) Offsetting budget shortfalls for the next three years – through 2024.
We can use these funds to fix our budget problems for the next three years.**
- 2) New Investments to Address Negative Impacts Caused by Covid:
The Detroit Future Fund**

Offsetting Fiscal Damage

Offsetting Potential Deficits through 2024: \$400 Million



- **The 2014 Bankruptcy 10 Year Plan of Adjustment spelled out the city's service obligations through 2024.**
 - **Last year, we made major Covid budget reductions that need to be restored:**
 - Most city offices closed or restricted
 - 1,000 city workers partially laid off
 - \$50 million of blight/clean-up funds were slashed
 - **Future Revenues are very much at risk, especially income tax.**
 - Income tax revenues projected thru 2024: **\$1.4 billion**
 - Potential 25% loss from office reductions: **\$350 million**
 - **Need to reserve \$400 Million from ARP funds to protect against layoffs or reductions for the next three years**
-

Addressing portions of the economy most impacted by COVID

One Proposal: How the Detroit Future Fund can help households, nonprofits, and small business



1) Fight Intergenerational Poverty	\$100 Million
2) Restore Neighborhoods	\$100 Million
3) Parks, Recreation & Cultural facilities	\$100 Million
4) Improve Public Safety	\$ 50 Million
5) Reduce Digital Divide	\$ 50 Million
6) Small Business Assistance	<u>\$ 26 Million</u>
Detroit Future Fund Total	\$426 Million

Conclusion

- ARP will keep Detroit stable over the next several years. This will buy time until the nature of the new economic equilibrium becomes clear.
- Issue for Detroit is it has little independence in adjusting tax bases if conditions change. State has most of the authority and seems unlikely to allow for revenue enhancements. (Example, a proposal was made to eliminate the non-resident income tax during the recent session of the state legislature)
- Broader issue—What are the lessons that can be learned from aggressive Federal intervention to stabilize state and local government revenues?