



GRETCHEN WHITMER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RACHAEL EUBANKS  
STATE TREASURER

## **DETROIT FINANCIAL REVIEW COMMISSION**

### **RESOLUTION 2020-6**

### **APPROVING AND AUTHORIZING THE CITY'S REQUEST TO ISSUE \$250 MILLION IN UTGO NEIGHBORHOOD IMPROVEMENT BONDS**

WHEREAS, Public Act 181 of 2014, the Michigan Financial Review Commission Act (the "Act"), allows for the creation of the Detroit Financial Review Commission (the "Commission") within the Michigan Department of Treasury; and

WHEREAS, the Commission granted a waiver to the City pursuant to Section 8 of the Act on June 29, 2020 in Resolution 2020-03 and is currently in a period of decreased oversight; and

WHEREAS, both the Act and the conditions of waiver approved by the Commission in Resolution 2018-13 contemplate continued monitoring of the City's financial status, even though the Commission is no longer providing day to day oversight of the City's finances; and

WHEREAS, one such condition is found in Section 8(3) which requires the Commission to rescind the waiver if the City issues municipal securities without authorization of the commission.

WHEREAS, at the Detroit City Council meeting on July 21, 2020, the City requested, and the City Council approved, authorization to issue \$250 million in UTGO bonds to continue to pay the cost of neighborhood improvements in the City through property rehabilitation, demolition and blight remediation activities (the "2020 UTGO Neighborhood Improvement Bonds").

WHEREAS, the issuance of the 2020 UTGO Neighborhood Improvement Bonds was approved by the voters in the general election held on November 3, 2020, as Proposal N.

NOW THEREFORE, be it resolved by the Detroit Financial Review Commission as follows:

1. That the City's request to issue the 2020 UTGO Neighborhood Bonds, as presented to the Commission on December 14, 2020, is hereby approved and authorized.
2. That the minutes of the Detroit Financial Review Commission meeting at which this Resolution is adopted take notice of the adoption of this Resolution.
3. This Resolution shall have immediate effect.



# **Planned Sale of \$175M Neighborhood Improvement Plan Bonds**

Presentation to the Financial Review Commission  
December 14, 2020

# Overview

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- Detroit voters approved Proposal N for Neighborhoods, a \$250 M comprehensive plan to address vacant houses in Detroit through rehabilitation or demolition
  - Goal: to preserve 6,000 homes and demolish 8,000 blighted homes
- These investments are affordable under the City's strengthened debt policy
- Detroit plans to launch demolitions and rehabs in January, and the OCFO has put together a financing strategy that allows OCFO to adjust to market conditions
- The Office of Contracting and Procurement (OCP) is conducting fair, efficient procurement that promotes use of Detroit based businesses and Detroit workers in line with City ordinance and executive orders
- The City has developed processes to spend and document bond proceeds to ensure tax compliance

# **FY 2021 Budget Update**



# FY 2021 Budget Adopted in May 2020

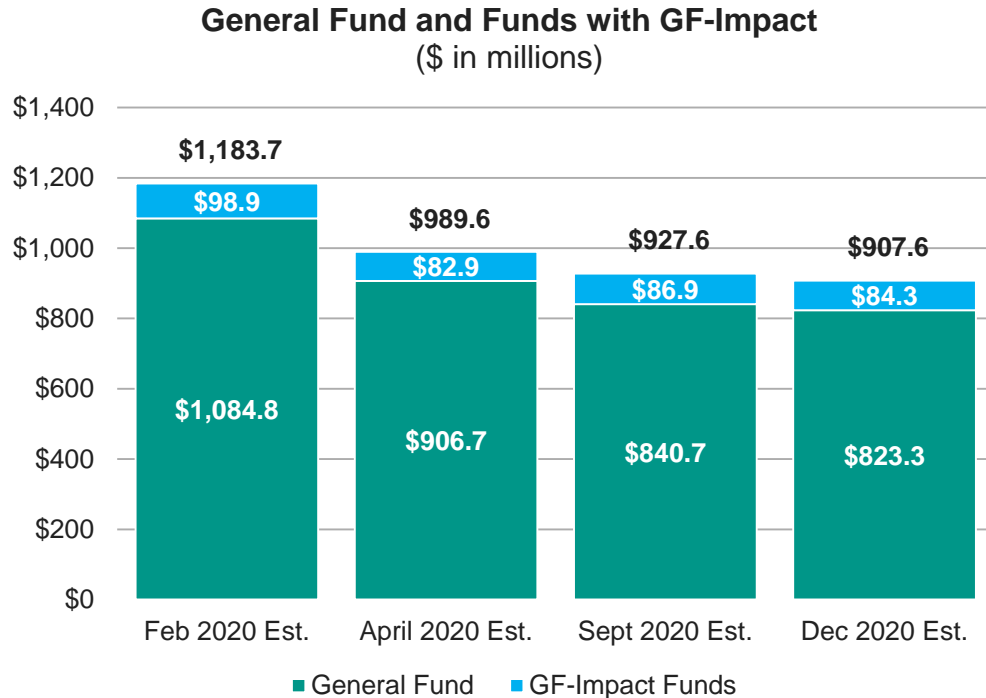
In April 2020, the Office of Budget projected a \$194.1M revenue shortfall for FY 2021 and responded quickly to address it with a revised budget recommendation.

In May 2020, City Council unanimously adopted a balanced FY 2021 Budget, addressing the revenue shortfall and incorporating the recommended budget solutions.

| FY 2021 Budget Changes                       | (\$ in millions) |
|--|------------------|
| Revenue Loss vs. Feb 2020 Revenue Conference | (\$194.1)        |
|  |                  |
|  | \$50.0           |
|  | \$32.3           |
|  | \$30.0           |
|  | \$30.0           |
|  | \$20.0           |
|  | \$7.0            |
|  | \$6.7            |
|  | \$5.4            |
|  | \$5.1            |
|  | \$5.0            |
|  | \$2.6            |
|  | <b>\$194.1</b>   |

# FY 2021 Revenue Updates with new data

## General Fund and Funds with GF-Impact



In September, we projected an additional \$66M General Fund revenue loss vs. April:

- Additional gaming losses from casinos reopening later and more gradually
- Additional income tax refunds from nonresidents working remotely longer
- Partially offset by \$4M gain in other funds

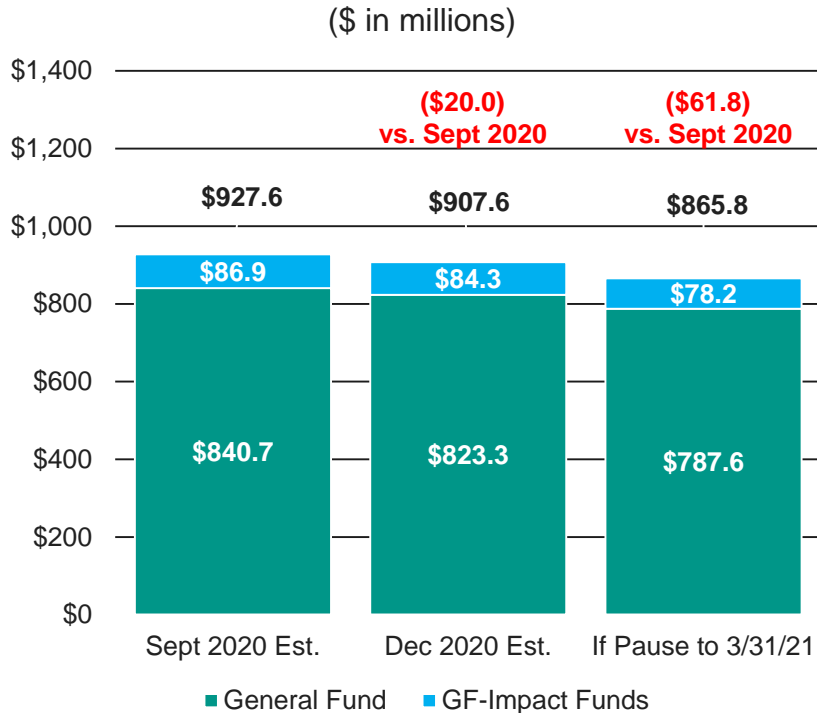
As of December, we project another **\$20M revenue loss** based on new data and the State’s “six-week pause” to combat the spread of COVID-19

Note: GF-Impact Funds include funds that may require General Fund contributions to offset revenue shortfalls (Construction Code, Transportation, and Airport).



# FY 2021 Revenues – Economic Pause Scenarios

## General Fund and Funds with GF-Impact



The following FY 2021 revenues will be further impacted if the six-week pause is extended:

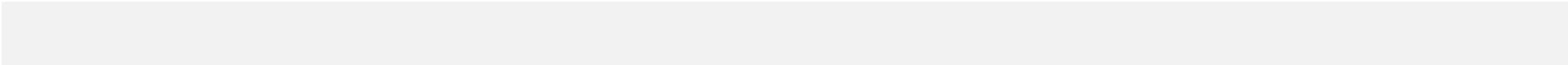
- Gaming revenue losses due to casino closures
- Parking enforcement due to reduced activity
- DDOT revenue if bus fares remain suspended

Note: GF-Impact Funds include funds that may require General Fund contributions to offset revenue shortfalls (Construction Code, Transportation, and Airport).





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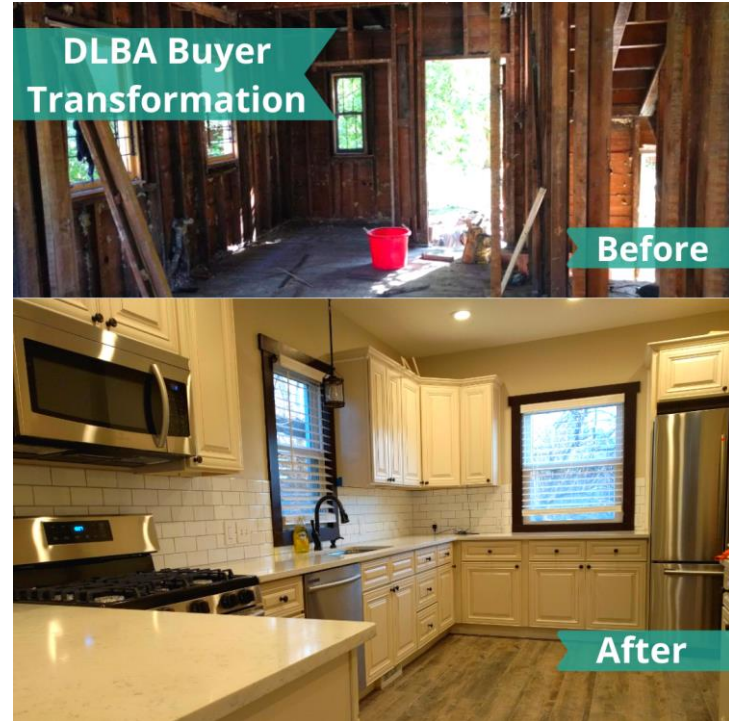
# Neighborhood Improvement Plan Bonds





# 29,000 fewer vacant structures since 2014

- 21,000 structures demolished through combination of the Hardest Hit Fund (HHF) and City funding
- 8,000 vacant homes saved with renovation underway or completed through DLBA sales programs

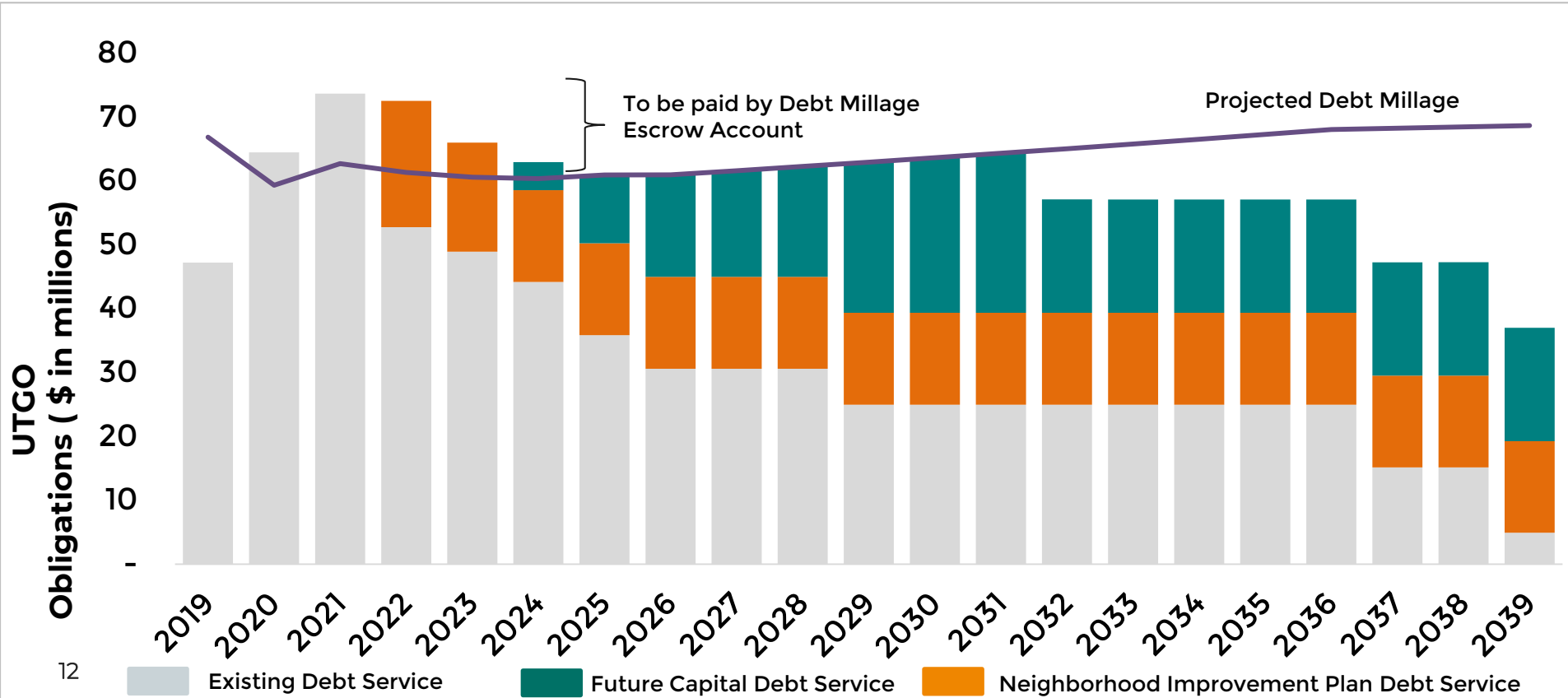


# Neighborhood Improvement Plan Goals

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- **Preserve 6,000 vacant houses** through rehab, creating affordable housing opportunities and jobs for Detroit residents and businesses
- **Demolish 8,000 vacant houses**, further reducing dangerous residential blight and raising property values for neighbors
- **Stimulate growth of Detroit-based companies** employing Detroiters in construction-related industries
- **Avoid raising taxes** for Detroit residents, while delivering revitalization effort to a broader range of neighborhoods
- **Improve Demolition Program Accountability** by returning operations to City government

# Planned investments will not raise taxes



# Borrowings within Affordability Caps

|  | As of June 30, 2020<br>(Unaudited) | As of June 30, 2021*<br>(Includes Planned<br>NIP Borrowing) | Impact of Planned<br>Neighborhood<br>Improvement<br>Borrowing |
|--|------------------------------------|---|---|
| <b>DETROIT DEBT POLICY: DEBT AFFORDABILITY LIMITS</b>  |                                    |   |   |
| <b>General Fund Debt Service as % of General Fund Expenditures</b><br>(Maximum Cap: 10%. Target: 8% or less) | 8.93%                              | 9.52%   |   |
| <b>Overall Debt Service as % of Governmental Expenditures</b><br>(Maximum Cap: 15%. Target: 10% or less)     | 12.01%                             | 13.96%  |   |
| <b>S&amp;P scorecard for this sub-factor</b>   | 4                                  | 4   | No impact   |
| <b>TRACKING OF DEBT METRICS:</b>   |                                    |   |   |
| <b>Debt as % of Full Value</b><br>(Target: 10% or less)  | 9.40%                              | 9.29%   |   |
| <b>Moody's scorecard for this sub-factor</b>   | Baa                                | Baa   | No Impact   |
| <b>Overall Debt as a % of Governmental Funds Revenue</b><br>(Target: 120% or less)                           | 142.92%                            | 166.32%   |   |
| <b>S&amp;P scorecard for this sub-factor</b>   | 4                                  | 4   | No Impact   |

\*Based on estimated debt service for NIP Bonds

# Underwriter selection and flexibility in borrowing timing

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- To enter the bond market in the first quarter 2021, Bank of America Securities and Siebert Williams Shank were selected as co-senior managers from competitive RFP.
- In the event that market conditions are not optimal in early 2021 for a public offering, the RFP requested backstop bond purchase agreements (BPA):
  - Bank of America Securities offered \$50 million backstop BPA to terminate on the earlier of March 1st or the execution of a BPA for a public offering.
  - Huntington Bank offered a \$50 million BPA that can be executed anytime over a six month period. Prior to execution of the BPA, the fixed interest rate quoted resets every 60 days until the City decides to lock in the fixed rate on the bond.
- The OCFO may seek City Council approval to accelerate \$50 million in appropriations in advance of the bond issuance. We will use cash on hand to be reimbursed by the bond sale or, if necessary, the backstop BPA prior to the end of the fiscal year.



# OCP to complete fair procurement which supports inclusion

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OCP will conduct quarterly procurements with about 1,300-2,500 properties each. To ensure the fidelity of the process, OCP has set up the following controls:

- Unless authorized by Chief Procurement Officer/Buyer, no other City official, employee or contractor may speak for the City regarding this negotiation until award is complete
- Vendors will be prequalified through an RFQQ based on their capacity and equipment
- OCP will avoid disclosure of bids to competing offers during the process of evaluation
- The process for bid tabulation and evaluation is clearly described in the RFP
- RFP Evaluations and Bid tabulations will be done by OCP and the Demo Dept.
- OCP Compliance and Audit Division will audit the bid tabulation and equalization credit results to ensure compliance with the City's Procurement Ordinance
- Each quarter, City Council will review a single set of contracts to be voted up or down

# OCP to complete fair procurement which supports inclusion

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- OCP and CRIO are engaging with new Detroit demolition and rehab vendors through virtual outreach events, social media, a CRIO certification blitz, and a “Girl Scout Tour” at Home Depots and other hardware stores
- In accordance with the Procurement Ordinance and Executive Order 2020-5:
  - Equalization credits will be applied with goal of 50% packages being won by Detroit Certified Companies
  - 30% of the packages will be set aside for small/micro businesses
  - A contractor will meet the Workforce Target if Detroit residents account for more than 51% of the hours worked and the contractor pays for its Detroit employees to be trained under a DOL approved apprenticeship program

# Documentation and tax compliance

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The OCFO will issue tax exempt bonds to support demolition contracts and taxable bonds to support rehabilitation contracts and operating costs associated with the demolition and rehabilitation programs

- Detroit will use Oracle as the system of record to track costs as necessary for tax compliance
  - Tax exempt Demolition contract payments will be tracked by parcel ID
- Through a tax compliance certificate, DLBA will provide land sales documentation
- OCFO Debt Management group will measure total sales proceeds against the 5% percent threshold
- Detroit will recycle proceeds associated with sales of properties improved with tax exempt bonds into eligible activities

# Closing and Questions

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