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TO: Detroit City Council

FROM: David Whitaker, Director 
Legislative Policy Division

DATE: March 11, 2019

RE: **Report on Bringing all Demolition Administrative Activities Back to the City of Detroit to be Subject to City Council Approval and/or Oversight**

The Legislative Policy Division (LPD) has received requests from Council President, Brenda Jones and Council President Pro-Tempore, Mary Sheffield to provide a report with regard to bringing the demolition activities back to the City of Detroit.

The public demolition activities in Detroit are primarily conducted by the City of Detroit (City) and the Detroit Land Bank Authority (DLBA). The City demolition activities are primarily funded by the City's general fund, Community Development Block Grant (CDBG) dollars and Fire Insurance Escrow dollars. The DLBA demolition activities are generally funded by U.S. Treasury Hardest Hit Fund (HHF) dollars. The City's demolition activities are managed by the Detroit Building Authority (DBA) pursuant to a demolition management contract between the City and the DBA.

The City/DBA Demolition Management Agreement was entered into on August 11, 2015. Pursuant to Section 10 of the agreement the initial term was for two years with an automatic extension of an additional two years if neither party provides a "Notice of Termination". There was no Notice of Termination provided prior to August 11, 2017, the term of the Agreement was therefore extended until August 11, 2019.¹ Pursuant to the language of the Agreement, the term

¹ Section 10 of the Agreement provides that the extended term will terminate in two years unless the parties by joint action terminate the agreement prior to that date by giving written notice of termination to the other Party, at least 30 days before the alternative date of termination. The Agreement could have also been terminated by either party in

will expire on August 11, 2019 unless renewed in writing by the Parties. If the agreement is renewed it would have to come before City Council for approval. If it is not renewed, the management of demolition activities conducted on behalf of the City by the DBA will return to the City for management.

The DLBA demolition activities are a different matter. The U.S. Treasury requires the HHF dollars be distributed pursuant to a Participation Agreement between the U.S. Treasury and the Michigan State Housing Development Authority (MSHDA), the state "Housing Finance Agency" under the Agreement and the Michigan Homeowner Assistance Nonprofit Housing Corporation (MHA), the Eligible Entity" under the Agreement.² Under the Participation Agreement's "Blight Elimination Program" MSHDA/MHA selects a partner that is responsible for property acquisition,³ demolition work and on-going property maintenance. The partner selected by MSHDA/MHA to receive and conduct the blight elimination project for Detroit is the DLBA. The DLBA utilizes the DBA to manage its demolition program under a demolition management agreement. The Term of the DLBA Demolition Management Agreement began on February 2, 2015 and shall expire when terminated by either party with written notice of termination thirty (30) days before the effective date of termination.

As stated the HHF dollars are provided by the U.S. Treasury to be distributed to the eligible entity of the MSHDA/MHA. The MSHDA/MHA has selected the DLBA (a separate legal entity) as their partner to receive the HHF dollars to carry out the blight elimination project. Under this construct, the City cannot remove the demolition activities from the DLBA and bring those activities under direct City control. However, once the HHF dollars have been expended, the demolition activities of the DLBA will not be subject to the terms of the U.S. Treasury Participation Agreement. At that time all demolition activities of the City can be conducted under the management of the City, subject to City Council approval and/or oversight.⁴

If we can be of further assistance, please call upon us.

whole or in part, after giving Notice of Termination to the other Party at least one (1) year before the Termination Date. Since there is only a few months remaining in the extended term this latter provision is not applicable.

² The Participation Agreement is a three party agreement between the U.S. Treasury, MSHDA (a public body corporate and politic of the State of Michigan) as the states "Housing Financing Authority" and the MHA (a domestic non-profit corporation) as the "Eligible Entity". Under the Agreement the MSHDA has designated MHA as the financial institution to receive the HHF Program funds and to act to implement the Services outlined in the Agreement. Under the Blight Elimination Program, MSHDA and MHA selected the DLBA as the partner to exercise the mortgage and note for a maximum of \$25,000 in favor of the MHA for the demolition of each qualified property to be demolished.

³ Under the Participation Agreement the partner (DLBA) must have title to each demolition candidate prior to receipt of HHF dollars. The acquisition of properties, included but are not limited to the DLBA receiving properties from the City's Planning & Development Department (P&DD) as well as properties received from the Wayne County Treasury (foreclosed properties after the City's exercise of its right of first refusal.

⁴ After the HHF dollars have been expended, any demolition activity conducted by the DLBA would most likely be funded by the City. The City could request the DLBA terminate its demolition management agreement with the DBA and the management of any DLBA demolition activity could be operated by the City through the Building Safety, Engineering and Environmental Department (BSEED).