



Coleman A. Young Municipal Center  
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## **MEMORANDUM**

**TO:** Irvin Corley, Jr., Executive Policy Manager, Detroit City Council Legislative Policy Division

**FROM:** David Massaron, Chief Financial Officer, City of Detroit

**DATE:** September 16, 2019

**RE:** Blight Bond Responses

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**1. Please provide the State law that supports a demolition bond sale.**

- Pursuant to the Home Rule City Act, 1909 PA 279, as amended (the “HRCA”), “each city in its charter may provide for the . . . issuing bonds for the borrowing of money, for any purpose within the scope of the powers of the city.” MCL 117.4a. The City has general powers to conduct blight removal, including demolition, under the state’s blight remediation statute, 1945 PA 344.
- In accordance with HRCA, the City Charter provides that “[t]he City may borrow money for any purpose within the scope of its powers, may issue bonds or other evidence of indebtedness therefore and may, when permitted by law, pledge the full faith, credit, and resources of the city for the payment of those obligations.” Detroit City Charter, Sec. 8-501.

**2. Please explain why voter authorization is needed to do this bond sale under the specific State law. Any legal opinion you have on this would be great.**

In order to levy a dedicated millage for the bonds issued, the City must submit a ballot question to the voters:

- Pursuant to the Headlee Amendment to the Michigan Constitution, taxes for the payment of any City obligations would be limited to existing taxing power (i.e., the City’s charter limit, which would be insufficient to pay debt service on these bonds); however “taxes imposed for the payment of principal and interest on *bonds approved by the electors* or other evidences of indebtedness approved by the electors . . . may be imposed without limitation as to rate or amount . . .” Mich. Const. art. IX, sec 6. This is the source of the ballot question requirement.
- The Unlimited Tax Election Act, 1979 PA 189, implements the above-quoted provision of the Headlee Amendment, setting forth the basic procedures and content requirements for an unlimited tax general obligation ballot measure. MCL 141.164-.165. The General Property Tax Act, 1893 PA 206, as amended, also sets forth certain content requirements for the ballot question. MCL 211.24f.



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**3. Please provide bond sizing scenarios developed by the OCFO/financial advisor on this bond sale.**

Attached.

**4. This is related to question 2, but it's been indicated in the past that this bond sale can be done within the existing debt millage. That may be true, but how does this affect the ability to sell g.o. bonds for future capital projects? I know there's the unused bond authorization that can be used for a bond sale for capital projects in a couple of years. But I'm wondering would debt service be paid down quick enough to allow for a g.o. bond sale for capital projects in seven years or so, given the normal five year capital improvement program. Obviously, it's going to be harder to rely on surplus dollars in the future for demolition given other fiscal challenges we have (pension spike, labor contracts, etc.).**

We agree that it is critical that we maintain capacity to borrow for capital projects into the future. As you can see from the scenarios we provided in answer three, we continue to have capacity to borrow into the future. In our proposed scenario of borrowing 75% tax exempt and 25% taxable, we will have nearly \$450 million in borrowing capacity for capital over 10 years. We believe this is sufficient to meet our needs and capacity to complete projects.

**5. Based on a conversation with Tanya a couple of months ago, I believe she said the City could run out of demolition surplus money in September 2019, even including the blight remediation dollars Council approved via the FY 2020 budget. I believe she said all demolition surplus dollars will be encumbered by September. Is that the case?**

That is correct. In order to prevent a slowdown in the demo pipeline, we will propose to accelerate \$50 million in blight funding this winter. Following completion of the CAFR, this will be made possible by a one-time large tax payment in FY19 and acceleration of \$30 million of the FY2021 blight appropriation.

**6. Based on the response to question 4, is there currently only about \$13 million in unassigned surplus that could be used for demolition?**

That is correct. We will wait until completion of the CAFR to confirm that we have sufficient unassigned surplus to meet this need.

**7. I understand that current g.o. bond dollars can only be used for demolition that's associated with an economic development project. To your knowledge, are there any current g.o. bond dollars that can be used for this purpose?**



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There are no remaining UTGO bond funds that could be used for this purpose. None of the authorizations for the 2018 UTGOs would encompass demolition activity.

**8. What's the status of HHF dollars being used for demolition?**

As of August 23, there were 1,152 remaining HHF demolitions left to knock.

**9. To the best you can, please explain how any available demolition surplus dollars and the demolition bond sale would address the demolition needs of the City. Please provide any projections on the level of inventory that could be added in the future even with the level of demolition to be financed from any existing and demolition bond sale dollars. At what point does the City reach a more manageable level of demolition without having to use a lot of surplus dollars and don't have to sell bonds to cover demolition?**

We project there are about 27,200 remaining abandoned houses as of today which we believe we can address over the next five years.

- 3,000 should be demolished over the next 9 months with remaining HHF funding, existing Residential Blight funding for FY2020, and a portion of the proposed accelerated blight funding discussed in question 5.
- 16,000 can be demolished over five years with the proposed bond funding and \$30 million in annual residential blight appropriations from surplus as called for in the City's Plan of Adjustment.
- 8,000 can be addressed through the Detroit Land Bank's sale and NAP lawsuit programs. We project 1,000+ of these will require an average of \$15,000-\$20,000 incentive per house for renovations to allow these houses to be saved rather than demolished.

In accordance with the POA, with City Council approval, the City will continue to appropriate \$50 m a year from available surplus for blight; \$30 m will be for residential demo, \$10 m will be dedicated to commercial demo and \$10 M to other blight activities.

**10. What plans will be in place to ensure local Detroit based companies to do the demolition?**

As part of the pilot procurement process this year, based on the feedback we have heard from contractors, we are deploying these inclusion strategies:

- Set maximum of 7 crews for large companies
- Push to prequalify all prospective companies this summer
- Provide site visits to new companies
- Set aside special packages for small companies



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- Remove pollution liability insurance for all residential demolitions
- Reduce bonding requirements to 25% and solely require E-Bonds
- Explore joint ventures/mentoring

**11. What plans will be in place to educate Detroiters and help them be job ready to help out with the demolition program?**

Over the past two years, DESC has supported a blight removal training program and is able to provide ongoing employment assistance to interested graduates of this program. In regard to current and upcoming programs, DESC currently works with a training provider who offers a pre-apprenticeship carpentry program, and they are always looking to partner with more providers through their ongoing Funding Opportunity Announcements.

**12. Would any of these dollars be used for board ups to help keep residential and commercial buildings as much as possible?**

Through blight funding, GSD has boarded up residential and commercial buildings. GSD projects there are 1,900 structures left to board up, and they are using FY2020 Blight funds to do so. As part of the budget going forward, the City plans to have two crews for reboards.