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MEMORANDUM

TO: City Council President Brenda Jones

FROM: David Massaron, Chief Financial Officer, City of Detroit
Arthur Jemison, Group Executive for Planning, Housing and Development

DATE: September 27, 2019

RE: Responses to September 17 Memos on Blight Removal Bond

Please find this memo in response to your September 17 Amended Demolition Bond Terms Memo and your September 17 Additional Questions Memo. I believe we agree in principle with the spirit of many of the terms you have laid out in your Amended Demolition Bond Terms and Agreements.

While I agree that City Council should have the ability to review the program as spending decisions are made, I believe the contract process is the best way to provide City Council with that oversight. With the pilot procurement method we are planning for the winter, Council will see 2,000 or more demolitions at one time twice a year. This should provide Council with the opportunity to review the program every six months and approve the contracts as competitively procured. To comply with federal spend down requirements for tax exempt bonds, an escrow account would not work for bond funds.¹

We agree that the City's investment in foreclosure prevention is critical to our future, and we need to continue to push out the City's programs aimed to help residents stay in their homes. Since 2015, occupied foreclosures have decreased by 94% in part due to the work of the City and philanthropies have done to help people stay in their homes. Under the Mayor's leadership, the City ended the Emergency Manager's practice of placing water bills in the property tax foreclosure system. In partnership with UCHC, we organized volunteers from neighborhoods to knock on doors to offer help to those facing foreclosure. And we led the effort to pass House Bill 5882 that allowed delinquent taxpayers to enter into payment plans to avoid foreclosures; 15,000 signed up first year alone.

In addition to knocking on doors and pushing for legislation to help homeowners, the City has made significant investments in helping people stay in their homes. Today, we are investing \$1.8 million a year in providing homeowners who qualify a 100% property tax exemption, 50% exemption and the disabled vet exemption; if we can continue signing up all homeowners we

¹ In order to issue tax-exempt bonds, a governmental entity must reasonably expect to spend 85% of the bond proceeds within 3 years of the issue date of the bonds. See Internal Revenue Code Section 149(d). In addition to this requirement, the federal tax rules related to yield restriction and temporary periods for tax-exempt bond proceeds require that a governmental entity enter into a binding agreement with a third party to spend at least 5% of the bond proceeds within 6 months of the issue date. See Treas. Reg. Section 1.148-2(e). Moreover, a governmental unit must perform rebate computations every 5 years, unless the bond proceeds are spent within 6 months (or 18 months in certain circumstances). See Treas. Reg. Section 1.148-7. If the bond proceeds are held in escrow until Council approval, there is not sufficient evidence that these spend down requirements will be met, as of the issue date of the bonds.



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believe qualify, the City could invest almost \$12 million a year in this program. Since Fiscal Year 2014-2015, City programs have invested over \$38 million in single family home repair through General Fund, federal lead home repair and CDBG funds, and private philanthropic and loan contributions. This funding supports the Senior Emergency Home Repair, Lead Hazard Reduction, and 0% Interest Home Repair Loan programs managed by the Housing and Revitalization Department. Last year, the City and philanthropies allocated \$2.3 million to Make it Home, an initiative started in 2017 that helps occupants stay in their tax-foreclosed homes. Our work is not necessarily in the lack of funding (for example, the HPTAP is not limited by appropriation), but to continue outreach to homeowners to help them take advantage of the poverty tax exemption and Make it Home. I think we can agree that an investment in foreclosure prevention does not have to be at the expense of leaving our neighborhoods blighted and our neighbors worried about fires or crime from vacant houses next door.

We agree that Detroiters and Detroit-Based Businesses should participate heavily in this program, and our workers should benefit from the City's investment. Through the use of the City's equalization ordinance, the City's contracting process has been much more successful in providing opportunities for Detroit Based Businesses and Minority-Owned Business Enterprises than the federal rules allowed under HHF. Detroit Based Businesses have completed 54% of the demos since January 2018, and Minority-Owned Business Enterprises (MBEs) have completed 50%. Our procurement team and demo team will work this year to explore better use the joint venture and mentoring components of the ordinance. We believe that there are improvements that can be made to our procurement ordinance to ensure that Detroiters are benefiting from these equalization credits, and I pledge to work with Committee Chair Ayers and her committee on proposed improvements over the next nine months. These changes should be made through the procurement ordinance rather than through a bond authorization.

We agree that the City Council should have visibility into the ongoing blight removal program. The City Council and the public currently have access to real-time data about all demolitions, planned, contracted, and completed; included in this data, is the contractor, amount paid to contractor, and planned and actual demolition date. In addition, when OCP submits demo procurements, it will include the certifications that each awardee has obtained, including the Detroit Resident Business certification for businesses with at least 51% of their employees are Detroit residents. The protocols for ensuring efficient environmental mitigation for each demolition is on the detroitmi.gov/demolition website.

Finally, we agree that affordable housing is extremely important in Detroit, and the Administration is fundraising for the Affordable Housing Leverage Fund (AHLF). AHLF is expected to deploy \$250 million into the preservation of 10,000 units of existing affordable housing and the development of 2,000 units of new affordable housing. That said, we also believe that each community should have a say in the future use of public property in their neighborhood. Rather than dictating the use of future public land, the City will engage in neighborhood planning to understand the short-term, mid-term and long-term goals of each community, and what land uses will best lead to those goals.



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- 1. Please provide a detailed report on how the administration plans to ensure that there are no additional taxes assessed to the residents of the City of Detroit. Please include in the report “all” possible scenarios in which the taxpayers could be assessed or taxed at any time as a result of the bond.**

To ensure no increases in the debt millage levy will be needed, we first considered a baseline scenario that included the following assumptions:

- \$225 million in Blight Bonds (75% tax-exempt/25% taxable) are issued in two tranches over a period of three years; and
- Approximately \$444 million in Capital Bonds (100% tax-exempt) are issued in five tranches over a period of ten years

Under this scenario, projected annual debt millage tax revenues – at the current rate of 9 mills – are sufficient to pay the estimated annual debt service for the life of the bonds. This scenario, which we consider most likely in terms of size, timing, and tax status, is demonstrated in “Scenario 1 (BASE CASE)” of the attached document.

We knew it was important to “stress test” this baseline scenario to ensure further that no increase in debt mills will be needed. Therefore we considered two additional “stress test” scenarios: (1) one in which all of the blight bonds are taxable (which would mean higher interest costs to the city) and (2) one in which the city’s property tax base experiences a 25 percent decrease in state equalized values.

Scenario to Consider Impact of 100 Percent of Blight Bonds being Taxable

If a municipal bond is tax-exempt, then the interest paid on the bond is exempt from federal income tax. This results in lower interest costs for the municipal government that issued the bonds. Whether a bond is tax-exempt or taxable depends on whether the issuer meets a number of requirements in the federal income tax code and regulations. As we continue to work with bond counsel to determine what portion of the Blight Bonds are tax-exempt, we thought an important stress test was to see the impact of a determination that 100 percent of the Blight Bonds are taxable.

Under this scenario, which is demonstrated in “Scenario 3 (to consider impact of all taxable Blight Bonds)” in the attached document, the debt millage levy needed to pay annual debt service for the life of the bonds would NOT increase. The primary impact would be that the amount of Capital Bonds issued over the ten-year period would need to decrease from approximately \$444 million to approximately \$409 million.

Scenario to Consider Impact of Recession

Another important stress test that we performed was to consider the impact of a recession. Under this scenario, we considered the impact of a 25 percent decrease of state equalized values, beginning in tax year 2020, over a three-year period (i.e., a decrease in taxable value of over \$465 million). The primary impact under this scenario would be that the amount of Capital Bonds issued over the ten-year period would need to decrease from approximately \$444 million to approximately \$385 million. The debt millage levy needed to



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pay annual debt service for the life of the bonds would NOT increase. See “Scenario 4 (to consider impact of recession)” in the attached document.

a. Will there be any increases to the cost of services, licenses or any other departmental operations that impact City of Detroit revenues?

The UTGO bonds would be paid from debt millage revenues dedicated to pay principal and interest on UTGO bonds of the City. There are no planned increases to the cost of licenses associated with this proposal. The proposed project (demolitions and renovations) may have an impact on the cost of services provided by the City that are associated with operations and maintenance once the projects are complete. The impact could be both increases in costs (e.g., the costs for cutting grass may increase due to an increase in properties needing grass cutting) and decreases in costs (associated with a reduction in crime and fires).

2. Please provide a report on how the City of Detroit plans to accommodate the additional debt obligations as a result of the bond issue with the upcoming pension obligation payments.

UTGO bonds are paid from the City's debt millage, not from the General Fund. The debt millage can solely be used to repay UTGO bonds, and so there is no relationship between this borrowing and paying for the City's pension obligations.

a. What revenues will be utilized to make bond payment obligations?

UTGO bonds are repaid solely from the debt millage and does not use any general funds.

b. How much of existing tax revenue is budgeted for debt retirement?

All of the funds raised from the debt millage (9 mills currently) is required by law to be used for debt service on the City's UTGO debt previously authorized by the voters. In FY2020, \$64.5 million is budgeted for UTGO debt service.

3. Why has the administration elected to move forward with the bond issue prior to the expenditure of the \$150M committed out of the city's bankruptcy Plan of Adjustment?

The Plan of Adjustment assumed that the City would use \$50 million a year from prior year budget surplus to support blight removal. Of this, \$30 M would be for residential demolition, \$10 M for commercial demolition and \$10 M for other blight removal activities. These dollars are only available if the City runs a budget surplus, and if City Council includes this funding to support blight removal each year in the budget process, consistent with prior years. If we rely solely on budget surplus, at this pace, it would take the City 13 years to address all residential blight.

4. Please provide details on what budget the Office of the Chief Financial Officer plans to locate the additional \$30M in a one-time allotment toward demolition.



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a. What will be the impact on the department's budget?

We believe this question is referring to the one-time \$50 M acceleration of demolition funding recommended for this winter. At this point, all HHF funding and City FY2020 Residential Blight Funds have been committed and will be completed this fiscal year. To continue demolitions in April-June 2020 and to start abatement for demolitions to be done July-September, 2020, the City needs \$50 million in additional appropriation this winter. When the FY2019 CAFR is complete, we will propose a \$50 million amendment to the FY2020 Budget funded from unassigned fund balance.

\$20 million from one-time, non-recurring FY2019 income tax revenue	\$20 million
Advance FY2021 residential blight appropriation to FY2020	\$30 million
Total one-time FY2020 residential blight appropriation	\$50 million

5. What is the total cost per home that the administration plans to spend on demolition?

The budget includes an average of \$20,000 for 17,000 demolitions/renovation incentives, as well as a 10% contingency. The contingency will provide for demolitions that may cost more than \$20,000 due to more complicated asbestos removal, etc. or additional demolitions/rehabs.

6. What is the administration's plan for departmental oversight over demolition contractors to ensure that adequate environmental mitigation is taken to protect the health and safety of the City of Detroit resident?

The Detroit Building Authority (DBA) and Buildings Safety Environmental Engineering Department (BSEED) are the two city entities providing oversight of demolition contractors. BSEED is responsible for ordinance enforcement, wrecking board (vetting new contractors), issuing permits and conducting inspections like open hole and final grade inspections. The DBA is charged with enforcing the scope of work, including the provisions protecting public health and safety. Currently about 95% of all demolitions have a DBA Field Liaison on site during the demolition process to ensure the proper 'triple wet' method is applied to the structure, meaning water is directed to holes in the roof for 5 minutes (start and end time is recorded) prior to knock, then water must be used during the demolition and loadout. This is done to mitigate fugitive dust. The DBA also manages the pre-demolition process of surveying the property for hazardous materials, like asbestos, then ensuring the asbestos has been properly removed prior to demolition.

7. Please provide the Office of Contracting and Procurement's criteria for the demolition contracts related to the Demolition Initiative.

- a. What measures are in place to ensure that the distribution of contract dollars are evenly awarded to qualified bidders to ensure that the same contractors are not awarded the majority of the demolition contracts,**



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specifically non-DetroitBased/Headquartered businesses and contractors with low Detroit resident employment ratios?

OCP will continue to competitively bid all demolition contracts. The Detroit Business Certifications will be used in equalization, providing Detroit contractors and contractors with a majority of Detroit employees a competitive edge in the procurements.

All companies will have to be Prequalified for adequate wrecking licenses, tax clearances, etc.

During the bid process, all companies will submit the number of crews (capacity) to be considered. The max number of crews for any one company will be 6. This will prohibit the larger companies receiving most of the awards. Work will also be set aside for small companies.

OCP will monitor performance on compliance as will the Demolition Team.

8. Please provide a report including, but not limited to, the following:

a. The Detroit Land Bank Authority's current rate of sale.

So far this year, the Land Bank's sales have averaged more than 200 homes and 300 side lots each month.

b. Barriers and obstacles related to the Detroit Land Bank Authority's ability to currently increase property sales.

The Detroit Land Bank Authority has built an intricate infrastructure to smoothly and efficiently see property from acquisition through to re-occupancy. Over the past five years, the organization has built an experienced team with a diverse, supportive network of property preservation vendors, title companies, and renovation contractors; and land bank leadership is confident that this infrastructure can meet the sales targets outlined in the proposal. The DLBA expects to meet the sales target within five years by maintaining its current monthly sales rate.

i. How the Detroit Land Bank Authority plans to alleviate those barriers to ensure renovation of 8,000 homes following the bond issue.

Land Bank staff does not anticipate facing insurmountable organizational barriers to meeting the sales targets outlined in the proposal, and so if resident demand meets expectations and the organization's budgetary needs are met, the land bank can meet the identified sales targets. The DLBA's Compliance program will help ensure all homes sold by the land bank are renovated and reoccupied.



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c. How the Detroit Land Bank Authority plans to strategically leverage property sales and legal action to ensure the renovation of 8,000 homes throughout the City of Detroit.

Land Bank staff will work closely with City counterparts to formulate and employ a holistic, layered approach to property sales and nuisance abatement action. The DLBA believes this bond proposal represents a considerable investment in the city's neighborhoods and is likely to have a strong, positive impact on property values. These changes, coupled with an effort to coordinate the efforts of nuisance abatement action, demolition, renovations, strategic amenity investments, and sales within a neighborhood, will increase resident interest in Land Bank-owned homes. (Saskia)

d. How the Detroit Land Bank Authority strategically plans to increase property sales from the current rate of sales to ensure that revenue is collected to support the renovation of the 8,000 homes.

The sales strategy underlying the bond proposal relies on land bank purchasers and existing property owners to undertake most of the proposed renovations. As such, staff do not believe these renovations will be dependent on an increase in land bank property sales or DLBA revenue. The Land Bank and City would undertake a comparatively small number of targeted renovations, but staff anticipates bond proceeds covering the financing gap for those projects. The Land Bank does not need to increase monthly sales in order to meet the sales goals underlying the proposal.

e. How will the 8,000 homes be selected?

Currently, the Detroit Land Bank Authority uses a combination of on-the-ground home inspections, neighborhood-level data, and resident feedback to decide which properties in DLBA inventory will be salvaged and sold. Through the property-by-property review and selection process, staff emphasizes responding to resident inquiries and prioritizing properties with the greatest likelihood of successful reuse. The DLBA foresees using a similar approach for targeting privately-owned homes with nuisance claims in the future.

f. How will the Detroit Land Bank Authority ensure that renovations will be spread evenly through the City of Detroit?

Most of the renovations of houses will operate on a "subsidized sale" model such as the one used by Rehabbed & Ready program. In that model, the house may be renovated for \$120,000 but sold for \$100,000 in the interest of increasing comparable sales which positively impacts appraised values.

This program has been an operations for three years with great success. Selling over 60 houses with an average subsidy amount of approximately \$20,000. The program will be widened and staffed up further to achieve a larger number of rehabs.



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So far it has only been able to operate in the strongest areas of the city because those areas had the benefit of prior demolitions. After the demolition is executed we expect that all neighborhoods should be able to receive rehabs on that basis.

g. Will the Detroit Land Bank activities require an increase in funding from the general fund?

The four year budget does not include a budget increase for the Land Bank from the General Fund. In fact, it projects a decrease in future years. Any change from that would require City Council approval in the budget process.

9. How can the bond proceeds be used to make improvements to properties owned by individual residents?

Our bond lawyer has advised that the use of bond proceeds to make improvements to properties on individual residents homes would be prohibited under the Michigan Constitution.

a. List, specifically, all renovation incentives as a result of the bond initiative for the 1,000 homes that would otherwise be demolished.

The full range of incentives will be finalized based on market response; however it will likely include activities ranging from:

- Simple enhancements to the property to prepare it for sale such as water line improvements, minor roof repair, removal of trash from houses, quieting of title, etc.
- Expansion of programs such as rehabbed & ready, which would for example rehabilitate a house for \$115,000; and then sell that house for \$100,000 as a way to improve appraised values
- New “house swap” programs modeled on Bridging Neighborhoods where requested by communities , which would allow exchange of houses in different parts of the city.

The use of the incentives programs will originate from the neighborhood planning process such as the upcoming Gratiot & 7 mile plan or the East Warren Cadiex Plan.

10. Please provide a copy of the Wayne State, Harvard and University of Michigan study demonstrating a reduction of crime based on demolitions in the areas.

Attached.

11. With the influx of new skilled trades jobs that will be created as a result of the Mayor’s Blight Elimination Strategy and the massive database of ready to work Detroiters created as a result of the FCA employment initiative, what is the



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administration's plan to ensure that Detroiters are trained, prepared, qualified and hired by demolition contractors?

Detroit at Work is increasingly being recognized as Detroit's staffing agency. A key component of recruiting new employer partners is to connect directly with them on their talent requirements, hiring practices, staffing timeline, and any federal, state, city, or philanthropic funding that might be available to support the initiative.

Detroit at Work has a talent database of 39,000+ Detroiters who expressed an interest in FCA jobs. More than 12,000 have completed a formal work-readiness event. We maintain regular contact with all of our job-seeker customers, and have already referred several to non-FCA opportunities that match their interests.

Detroit at Work proposes that, in the early stages of the Demolition project, our staffing team would provide an overview of our employer services to all Demo contractors at a Detroit at Work kickoff meeting. We would then meet with contractor companies individually to understand their staffing needs and timeline, and would construct individual or shared recruitment (as appropriate), training and placement strategies to meet the needs of the Demo provider community.

Detroit at Work has historically funded and led several programs that have produced job-ready talent for construction and construction-related fields. Demo and blight removal are just two of the programs that have already produced Detroit talent that could fill the needs of Demolition contractors.