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TO: The Honorable City Council

FROM: David Whitaker, Director 
Legislative Policy Division Staff

DATE: June 1, 2022

RE: **PROPOSAL N NEIGHBORHOOD IMPROVEMENT BOND FUNDS STATUS AS OF MARCH 31, 2022**

This report is intended to give your Honorable Body an appropriation/cost center level status as of March 31, 2022, of the Proposal N Neighborhood Improvement Bond (Proposal N NIB) funds. On November 3, 2020, the citizens of the City of Detroit approved the bond issuance of not to exceed \$250 million in unlimited tax obligation bonds¹ for the purpose of paying the cost of neighborhood improvements in the City through property rehabilitation, demolition, and blight remediation. The City of Detroit's Demolition Department is responsible for using the Proposal N NIB funds to demolish an additional 8,000 blighted homes and preserve 6,000 homes for future renovation and sale² to improve the safety, value, and health of the neighborhoods in the City.

As your Honorable Body knows, of the not to exceed \$250 bond authorization, the City issued the first \$175 million in Proposal N NIBs in February 2021. This was a very successful bond sale as the City of Detroit received an additional \$30.75 million in bond premium³ on top of the \$175 million with a total bond proceeds of \$205.7 million.

¹ Unlimited tax general obligation (UTGO) bonds are voter-authorized bonds paid off from property taxes based on the City of Detroit's property tax debt millage. In contrast, limited tax general obligation (LTGO) bonds are non-voter bonds and paid for out of the City's general fund and are not paid for out of property taxes based on the property tax debt millage.

² The Demolition Department plans to preserve or stabilize 6,000 homes for future renovation and sale through debris removal, roof repair, and securing of property in the neighborhoods in the City.

³ According to the Office of the Chief Financial Officer, because there was a high demand for the Proposal N NIBs, along with market conditions at that time, the bonds sold at a premium, and the City was able to secure an additional \$30.75 million in

The Legislative Policy Division (LPD) also notes that since City Council approved appropriation 21003 to house the Prop N NIB proceeds in July 2020, these bond proceeds were budgeted in appropriation 21003 Neighborhood Improvement Bonds in February 2021 when the bonds were sold. As a result, the activity in appropriation 21003 Neighborhood Improvement Bonds is not reflected in the FY 2022 budget and FY 2022-2025 four-year financial plan. Consequently, the Prop N NIB proceeds will be balanced forward at the end of each fiscal year until the Prop N NIB proceeds are exhausted.

LPD further notes the Demolition Department uses Prop N NIB proceeds to pay for its operational costs, including staff costs, professional & contractual services costs, operating supplies costs, operation services costs, equipment acquisition costs, and other expenses costs⁴. For FY 2022, the 73 budgeted positions in the Demolition Department will be paid from the Prop N NIB funds housed in appropriation 21003 Neighborhood Improvement Bonds.

For the sake of transparency, Attachment I represents a spreadsheet prepared by LPD showing the Prop N NIB funds activity as of March 31, 2022 in appropriation 21003 Neighborhood Improvement Bonds (main program) discussed above. The spreadsheet further breaks down appropriation 21003 by cost centers (sub-programs): 160010-Demolition Administration; 160020-Residential Demolition; 160040-Demolition Environmental; and 160050-Demolition Compliance.

During FY 2021, the City spent \$5.6 million (\$567,855 on payroll, \$3.6 million on demolition contracts, and \$1.4 million in bond sale expenses) and the remaining amount of \$200.1 million was brought forward to be spent in FY 2022 and beyond. The \$200.1 million we show as brought forward includes \$770,916.45 pending budget adjustment that the OCFO team will post in the current fiscal year.

As of March 31, 2022, of the \$200.1 million that was brought forward to the current fiscal year, the City encumbered \$63.5 million for demolition contracts and spent \$34.3 million: \$31 million on demolition contracts and \$3.3 million on payroll costs for City employees that are performing demolition related work. The remaining \$102.3 million is available as March 31, 2022.

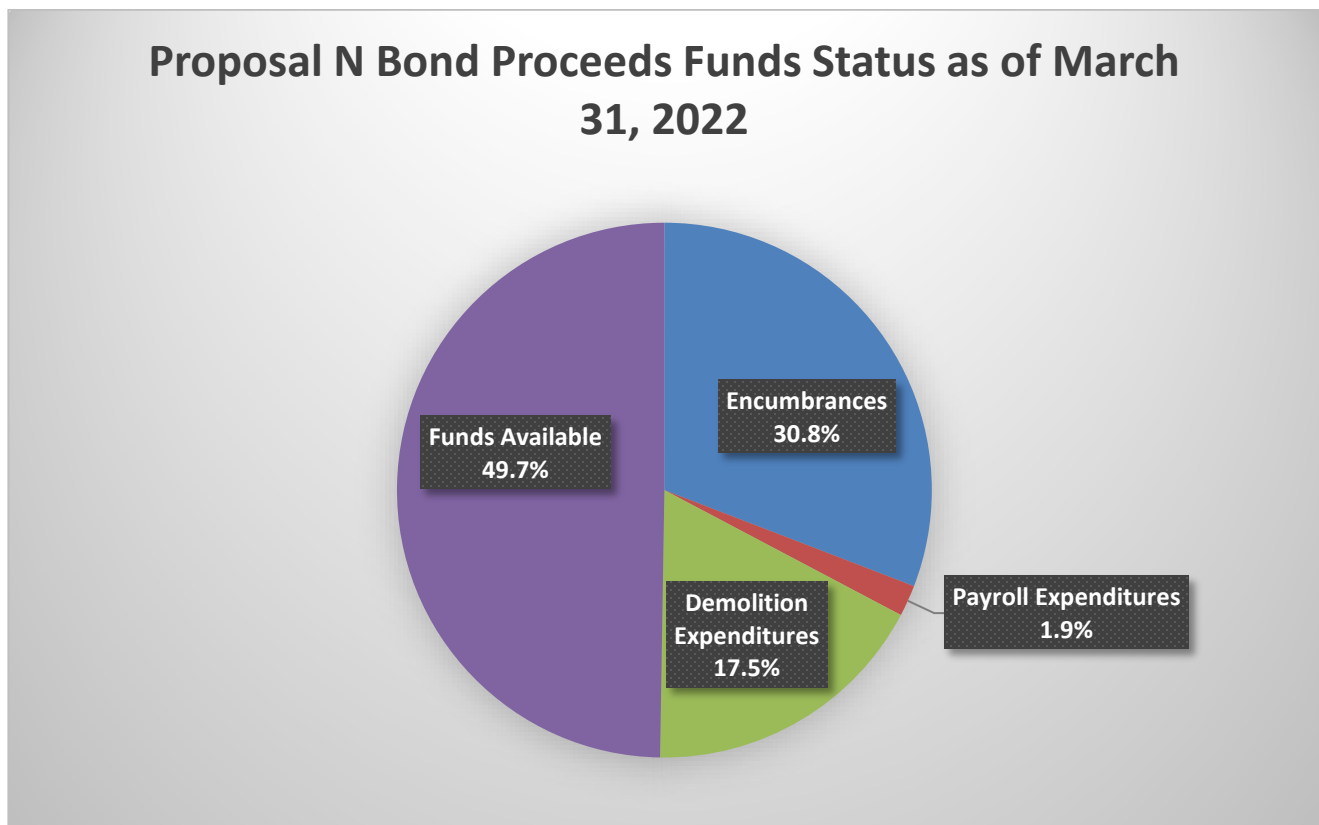
Below schedule summarizes funds status as of March 31, 2022, and it includes activities for both fiscal years 2021 and 2022:

bond proceeds as a bond premium. It is important to note that the City is only responsible to pay off the par amount of the bonds of \$175 million with a coupon interest rate of 5% over the 30-year life of the bonds to the bondholders. The bondholders were willing to pay the City the premium of \$30.75 million since the bonds were effectively priced to yield a bond interest rate of approximately 3.3% at time of the bond sale.

⁴ The Office of the Chief Financial Officer has received a legal opinion from the City of Detroit's bond counsel (Miller Canfield) on the legality of using Prop N Bond funds for the Demolition Department's operations. A copy of the opinion was provided to City Council.

Cost Center	Cost Center Description	Total Budget	FY 2021 Actual Expenditures	FY 2022 Activity		Funds Available
				Encumbrances	Actual Expenditures	
160010	Demolition Administration	7,690,167	265,738	2,450	1,568,959	5,853,021
160020	Residential Demolition	188,794,644	3,642,293	63,455,693	30,804,665	90,891,993
160040	Demolition Environmental	737,250	42,286	287	257,158	437,518
160050	Demolition Compliance	7,090,500	259,831	8,283	1,679,390	5,142,997
351380	2018 UTGO Bonds	1,436,228	1,416,427	-	-	19,801
Grand Total		205,748,790	5,626,576	63,466,712	34,310,171	102,345,330

Below graph summarizes funds status in percent terms as of March 31, 2022, and it includes activities for both fiscal years 2021 and 2022:



Please refer to attachment I for cost center level detail for encumbrances, actual expenditures, and funds available as of March 31, 2022.

Please let us know if we can be any more assistance.

Attachments

cc: Auditor General's Office
Jay Rising, Chief Financial Officer
John Naglick, Chief Deputy CFO-Finance Director
Tanya Stoudemire, Chief Deputy CFO – Policy & Administrator Director
Steven Watson, Deputy CFO/Budget Director
LaJuan Counts, Executive Demolition Director-Demolition Department
Steven Morris, OCFO Agency CFO
Meagan Elliott, Director of Grants Management
Valerie Agolli, Debt Manager, OCFO
Donnie Johnson, Business Analyst, Office of Budget
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