DEGC

TO: David Whitaker, Director
Legislative Policy Division

FROM: Kevin Johnson, President & CEO
Detroit Economic Growth Corporation (DEGC)

DATE: March 15, 2023

RE: FY 2023-24 Budget Analysis

This memo is in response to questions dated March 14, 2023.

1. **Is the District Business Liaison (DBL) program fully staffed? If not, how many vacancies are in the program and how soon will the vacant positions be filled?**

   There is one vacancy in District 6. This position has been difficult to fill as we require the successful applicant to be bilingual, but we've narrowed down some candidates and expect it to be filled within a month. This is a shining example of the need for the proposed increase that was included in this budget to shore up the DBL program.

2. **In the DEGC's response to question number 5 to LPD's preliminary budget questions for FY 2024 (Attachment IV), the DEGC currently has 74 budget positions, which is 7 more than the 67 budgeted positions in FY 2022. As of March 10, 2023, 68 positions were filled with six vacancies. The DEGC expects to fill the vacant positions quickly. The number of positions is up from prior years due to the expansion of certain programs. However, the personnel makeup of the DEGC fluctuates up and down over the course of the year as new program opportunities arise. Please explain which programs are being expanded with the level of positions the DEGC contains.**

   Comparing this year with the prior, the expansion came in the Detroit Means Business area, Small Business programs, and in the Communications area that supports them. The programs we run are fluid and the need for positions will always come and go. Part of what makes DEGC so valuable is our ability to adapt and to change personnel as necessary.

3. **Attachment II represents the DEGC's operating budget for FY 2023 and Attachment II.A is the operating budget for FY 2022. Questions/requests:**

a. **On the revenue side, please explain the $120,000 increase in DBRA Contract revenue in FY 2023.**

Scheduled work on the DBRA continues to expand between the addition of new Brownfield Plans which continue to accumulate, as well as additional work that DEGC project management and Admin staff have to perform on projects such as District Detroit, Stellantis, Junction McGraw, and Kettering.

b. **On the revenue side, please explain the $140,000 decrease in Other Contracts revenue in FY 2023.**

In the prior year the DEGC received some special funding for additional work on COVID relief programs. This was "one-time" funding and as such did not carry forward into the 22-23 budget.

c. **On the expenditure side, Personnel increases by $90,000 (1.1%) in FY 2023. Is the small percentage increase due to cost-cutting measures being instituted by the DEGC?**

This is a combination of many factors. We realized some cost savings by bringing some work we were contracting for in-house. Personnel will always fluctuate from year to year. We did well to contain the increase to 1% in the budgets from 21-22 to 22-23.

d. **On the expenditure side, Contract Services decreases by $112,500 in FY 2023. Is the decrease due to cost-cutting measures? What is the impact of this decrease on DEGC operations?**

As stated above, we realized some cost savings by bringing some work we were contracting for in-house. We did so without an adverse effect on operations.

4. **Does the DEGC plan on conducting any retail corridor studies to assist in creating more retail activity in FY 2023 and in FY 2024? If so, in which Council district(s) will the studies be conducted? How much will the studies cost?**

The Planning & Development Department (PDD) has approached the DEGC about leading a Schoolcraft Road Retail study in City Council President Pro Tem Tate's district. There have been discussions with the City to determine what amendments need to be made to the DEGC's General Fund contract with the City through the Housing & Revitalization Department (HRD). HRD has been working with the Law department to propose an Amendment to allow for this study (estimated at $75,000). The sequencing of future retail corridor studies has yet to be determined.

5. **Has the economic development climate improved in the City of Detroit from 2022 going into 2023? What reasons are present for an even more robust economic climate in FY 2024?**

Over the past couple of years, Detroit's economic development landscape has significantly improved. The completion of major projects from Detroit's auto manufacturers, including General Motor's investment into their Factory Zero facility, the expansion of Stellantis' Jefferson Avenue operations, and the revitalization of the Michigan Central Station by the Ford Motor Company has signaled a new era of large-scale manufacturing projects in the city. This trend continued in 2022; projects such as the Lear Corporation's M3 Commerce Center facility brought 450 additional jobs to Detroit. Additionally, DEGCs corporate attraction metrics indicate that interest in Detroit remains strong.

Over the first three months of 2023, overall business attraction leads increased from an average of 4.5 per month in 2022 to 6. Our organization is working to ensure that available manufacturing space keeps pace with continued demand. Projects such as the redevelopment of the former AMC headquarters will mean that Detroit is well-positioned to take advantage of further economic development opportunities, particularly in the mobility sector through 2023 and beyond.

DEGC's Request for Information (RFI) reporting during the last six months of 2022 highlights an overall positive trend in inquiries for available sites capable of supporting mobility, EV (Electric Vehicle), and advanced manufacturing. Overall economic development metrics are also on the rise heading into 2023.

For the eight-month period from January – August 2022 committed development totaled 2,589,937 square feet and 3,533 jobs which represented just over $1.7 billion in total investment. Those figures have more than doubled in the past six months. From September 2022 – February 2023 development commitments included 7,830,528 square feet of space, 13,572 jobs and a total planned investment of over $3.6 billion. This is inclusive of a transformational project being proposed by District Detroit.

Small businesses across Detroit continue to make moderate gains toward recovery from the challenges and limitations of the pandemic. Most Small Business Administration COVID Economic Injury Disaster Loans have entered repayment status which impacts monthly balance sheets. Retail and hospitality businesses in the CBD are continuing to recover as telework diminishes and hybrid workers return to the office.

The small business outlook is still unclear with some industries and nearly all new developments seeing significant cost increases and buildout costs rising. Without the sophisticated fiscal policy and tools larger businesses use to mitigate some impacts of inflation, small businesses tend to suffer acutely from both the disease of inflation and curative interest rate increases. Detroit Means Business is in the early stages of collecting data on the trends impacting small businesses and identifying specific at-risk businesses. For these reasons, DEGC's work with small businesses, including but not limited to District Business Liaisons, Motor City Match and Detroit Means Business, remains critical to advancing a sustainable future for both new and existing small businesses.

Overall, the DEGC is optimistic about the economic development climate in Detroit. Our organization will continue to focus on our strategy of attracting new opportunities by: (i) fostering the growth of high value-added industry clusters, (ii) enticing businesses that utilize skilled workers, advanced infrastructure, and innovation, (iii) capitalizing on Detroit's strategic location for increased international trade between the US and Canada and (iv) creating an atmosphere where new and existing small businesses can grow and thrive.

6. **As more Class A office space may be coming online with Bedrock Hudson's and Monroe Block office developments, and the District Detroit office developments, if approved by City Council, does the**

DEGC foresee a cannibalization of Class B and C office space potentially occurring in the downtown Detroit office market?

The DEGC is encouraged by the development of additional office space downtown. Additional development will create an even stronger mosaic of space, suited for many needs, that will ensure that our downtown can attract a range of businesses from established companies to startups and smaller firms. While average daily worker numbers are down from pre-pandemic levels, there has been a steady uptick in the number of employees in the district over the past 15 months.

Bedrock's Hudson's and Monroe Block development and District Detroit are not expected to cannibalize existing Class B and C office space, but instead will provide additional options within the downtown district. According to CoStar market data, Detroit's central district leads the Detroit-metropolitan area in leasing demand and over the next 10 years we foresee a sustained need for Class B and Class C space. These offerings tend to attract new and smaller entrepreneurs who are looking for functional spaces that provide modest rents or coworking options, as they continue to grow their businesses. Additionally, new developments will take advantage of post-pandemic trends for Class A facilities. In order to attract and retain talent, companies that are in the process of returning to the office are expanding into next generation offices. Businesses are seeking space that offers increased amenities, outdoor environments, and other state-of-the-art features found in the newer offices proposed by Bedrock and District Detroit.

<u>EDC</u>

7. **Please explain the need for the contribution of $275,000 for the EDC, which includes the $20,000 contribution for the DNMDC.**

From the 1980s into the 2000s, the general operations of the EDC were partially funded at a level of $300,000 by the City. Beginning in 2011, the amount was reduced to $255,000 (plus $20,000 for the DNMDC) and has remained at this level. This is approximately 10% of the EDC's operating budget. The EDC is a very large entity, and the staff spends thousands of hours on EDC projects every year that have no or limited funding source for staffing costs. These projects include the I-94 Industrial Park, Jefferson Village, Eastern Market, East Riverfront, Springwells Industrial Park, the Tiger Stadium redevelopment, and Gap Financing Loan Fund. In addition, the operations of the EDC require significant resources to manage the authority properly. EDC must pay insurance, audit, legal, and other administrative costs.

The $20,000 contribution for DNMDC is necessary for insurance, audit, and administrative costs.

8. **Attachment VI shows that there is approximately $1.6 million in unspent Casino Development Fund (CDF) dollars that formerly were allocated amongst the National Retail, Non-Affiliated/Resident Retail and Resident Real Estate programs, but now are consolidated into one category called "Loan**

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Funds". These dollars were reprogrammed to the "Loan Funds" category so that the use of these dollars is no longer restricted to specific geographical areas of the City, particularly downtown Detroit, but now to general areas of the City so that these dollars can be expended throughout the City of Detroit? Please briefly describe the criteria for the expenditure of these funds and how they could potentially help Detroiters. Please provide a timeline of when these dollars will be spent.

The casino loan program is a citywide program that provides funding for the construction buildout of a project, and or fixtures, furniture, and equipment. Loans are generally limited to a maximum of $200,000 or 40% of project costs, whichever is less.

In addition to the criteria described above (which also includes Detroit small businesses), a proposed loan from the Fund must undergo a standard underwriting process, including but not limited to an examination of project sources and uses, review of collateral and other security for loan, and review of project viability. With the 2020 inclusion of Detroit small businesses and the lifting of the geographic restrictions for the program, these funds are able to be deployed into neighborhoods where traditional financing and capital are less accessible.

In the last year, loans of this nature were made out of a federally funded program. The loans were made from that program because it had a time restriction and we wanted to utilize that program to its full potential. Now that those funds have been exhausted, we have $150,000 closed and waiting to be disbursed from the CDF. We have another $400,000 awaiting board approval. There is yet another $400,000 in the review process. At this rate we should have it all disbursed within a year.

9. **On page 11 of the EDC's annual financial statements as of June 30, 2022, please explain why Reimbursable project costs revenue went from $9.7 million in FY 2021 down to $3.6 million in FY 2022, a $6.1 million reduction.**

This line item fluctuates from year to year based upon what activities the EDC is performing and the timing of inflows and outflows. In the fiscal years ending in 2020 and 2021 the amounts received were around $10M due to funding for COVID relief grants that the EDC was processing and construction projects the EDC was managing. As those projects subsided, the reimbursable project revenue decreased to be more in line with the level it had been in the fiscal years ending in 2018 and 19.

DBRA

10. **Has the number of brownfield redevelopment projects this fiscal year increased or decreased as compared to last year?**

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To date, there have been six brownfield plans approved this fiscal year. In the prior fiscal year, there were a total of ten brownfield plans approved. We anticipate that the total approved for this fiscal year will be slightly higher.

The amount of TIF plans that we manage increases annually. We currently have over 80 brownfield plans that require tracking, reimbursement and reporting to the state.

11. Attachment VIII represents DBRA's operating budget for FY 2023 and Attachment VIII.A is the operating budget for FY 2022. Questions/requests:

a. On the revenue side, please explain the $500,000 reduction in Special Projects revenue in FY 2023.
b. Correspondingly on the expenditure side, please explain the $540,000 reduction in Special Projects expenditures in FY 2023. Please explain the impact this will have on DBRA operations.

Occasionally the DBRA has been asked to perform additional environmental studies or unscheduled work. For both parts of this question, the reductions are due to less special activity being performed in 22-23. The amount of special activity (and the funding required for it) fluctuates from year to year and it basically has no effect on the DBRAs operations as it is extra funding in and extra funding out.

Sincerely,

Kevin Johnson,
President and CEO