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**MEMORANDUM**

**To:** Council President Mary Sheffield  
**From:** John Naglick, Jr., Chief Deputy CFO/Finance Director and Steven Watson, Deputy CFO/Budget Director  
**Date:** April 6, 2023  
**Re:** Response to Non-Departmental/Capital Budget/Debt Service FY24 Budget Questions

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Please find below responses to your questions sent on March 24, 2023, regarding the proposed Fiscal Year 2024 Proposed Budget for Non-Department/Capital Budget/Debt Service.

- 1. The Administration is budgeting for approximately \$85 million in Debt Repayment expenditures each year for the next 4 years. What is the current total of debt associated with these repayments? Is any of the debt being carried by the City high interest debt and is it possible refinance the debt or pay off the debt sooner to save the City money by avoiding paying the high interest rates?**

The \$85 million debt repayment relates to the City's outstanding Limited Tax General Obligation (LTGO) debt. The City's current outstanding LTGO debt is \$1.03 billion as of April 1, 2023, and is comprised of the 2014 Exit Financing Bonds, 2014 Financial Recovery Bonds (B-Notes), 2016 Refinancing Bonds, 2018 Bonds, and the 2019 Michigan Strategic Fund Loan for the purposes of demolition of the Joe Louis Arena Site, as well as a budgeted amount for future Installment Purchase Agreements which are a short-term debt instrument for vehicle purchases. The outstanding LTGO debt is at relatively low interest rates, for the most part 5% or lower. The City has diligently worked to refinance when possible, including the 2016 refinancing bonds which achieved significant cost savings on prior LTGO debt. In the current market environment, interest rates are very high and would not make refinancings attractive; however, the City is always looking at opportunities for interest rate savings with help from our banking partners. The next bonds that will become callable will be the 2014 Exit Financing Bonds in October 2024, and the City will monitor the markets to assess whether there could be interest cost savings from a refinancing at that time.

- 2. Debt service and legacy pension expenditures increase from \$145 million to \$187 million from the FY 2023 Adopted Budget to the Proposed FY 2024 Budget. A large portion of that increase appears to be attributable to Employee Benefits expenditures of \$125 million annually. What is**

**the City's plan to meet this additional debt service and legacy pension expense? What does the \$125 million Employee Benefits debt service expenditure represent?**

This is primarily attributable to the legacy pension payments, which the City must now begin making in FY 2024. The largest portion is categorized as employee benefits here, with another portion showing as "other expenses" because it represents a transfer to DDOT where a portion of the legacy pension liability resides. These expenses are offset by drawdowns from the Retiree Protection Fund, which will give the City a period to ease into the full pension payments from the General Fund.

- 3. The City issued UTGO Bonds for the Neighborhood Improvement Plan's demolition activity in accordance with the voter-approved Proposal N which authorized the sale of \$250 Million in bonds. Is the City meeting its targets with respect to the timeline for spending these funds? How much have has the City expended in Proposal N funding to date and how much was spent with Detroit Headquartered and Detroit Resident businesses? What percentage of the jobs associated with Proposal N expenditures have gone to Detroiters?**

The City has spent \$93 million of Proposal N Funding as of April 1, 2023, meaning cash that has gone out the door to pay invoices. Additionally, more than \$80 million has been obligated for work to be conducted. At this pace, the City is on track to meet its spending targets.

Information about the vendors utilized and jobs associated with Prop N will be provided under separate cover when received from the Office of Contracting and Procurement and the Office of Civil Rights, Inclusion, and Opportunity.

- 4. There was over \$42 million budgeted for Capital Projects in FY 2023 and for FY 2024 there is a little over \$18 million which represents Prior Year Surplus. What is the source of the \$18 million prior year surplus and how will these funds be expended in FY 2024? Why is there an overall reduction in Capital Projects between the current fiscal year and the next budget cycle?**

- GSD Parks Amenities Replacement – \$1 million
- GSD Joe Louis Greenway - Maintenance Equipment - \$1 million
- GSD Fleet Management - \$10 million
- Eastern Market Shed Repairs - \$350k
- PDD Neighborhood Planning and Master Plan Codification- \$1.35 million
- DPD Taser Replacements Year 1 - \$2.55 million
- Fire Department Radio Replacement - \$980k
- HRD Property Acquisition and Housing Capital - \$1 million
- DAH Digitization and Document Management - \$90k

These capital projects are funded from the City's General Fund unassigned fund balance.

\$61.5 million in additional capital projects was authorized by Council through the FY 2023 Supplemental Appropriations and Transfers to address immediate capital needs and to implement projects during the upcoming construction season. As a result, a smaller number of capital projects were added to the proposed FY24 budget.

5. **A number of city-owned facilities such as police stations, fire houses, general services workplaces and yards, parking lots and restrooms at parks, etc... housing our employees are in serious need of capital improvements. Does the City currently have a work plan and timeline to address these capital needs? Has there been assessment of the total need and if so, will the Administration provide that information to City Council?**

While the Capital Agenda is not a capital improvement plan and does not appropriate City funds, it does provide a nonbinding work plan and timeline to address the City's capital needs. Additionally, the General Services Department previously worked with a vendor to do a full condition assessment of all City-owned facilities. These reports can be sent to City Council.

cc: Honorable Detroit City Council  
City Clerk  
Jay B. Rising, Chief Financial Officer  
Tanya Stoudemire, Chief Deputy CFO/Policy & Administration Director  
Malik Washington, City Council Liaison