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**TO:** Detroit City Councilmember Mary Waters

**FROM:** David Whitaker, Director   
Legislative Policy Division

**DATE:** July 21, 2023

**RE:** **Memorandum from Councilmember Mary Waters on Understanding City of Detroit Debt Situation**

Councilmember Waters has requested the Legislative Policy Division (LPD) to provide answers to questions regarding the City of Detroit Debt Situation. Councilmember Waters questions with responses are as follows:

**Question #1:** What is the current total debt that the City of Detroit has in general obligation bonds?

**Response to Question #1**

General Obligation Bonds are bonds issued on the Full-Faith and Credit of the issuing authority<sup>1,2</sup>. The City of Detroit has outstanding two types of General Obligations Bonds: Unlimited Tax General Obligation (UTGO) Bonds, whose repayment is made from a dedicated debt millage on property taxes and Limited Tax General Obligation (LTGO) Bonds, that are repaid from general city revenues. The City issues General Obligation Bonds to provide for the acquisition and construction of major capital facilities and equipment<sup>3</sup>. General Obligation Bonds were also issued for financial recovery costs and quality-of-life initiatives<sup>4</sup>.

<sup>1</sup> As defined in the City of Detroit FY 2024- 2028 Adopted Capital Agenda, General Obligation Bonds are bonds for whose payment, the full faith and credit of the issuer has been pledged. Commonly, but not always, these bonds are payable from property taxes and other general revenues.

<sup>2</sup> Also see page 1 of the COD Investor Presentation dated June 30, 2023: Unlimited tax general obligations ("UTGO") of the City, payable from the general funds of the City and secured by a pledge of the full faith, credit and resources of the City; the City is authorized and required by law to levy and collect a dedicated ad valorem tax ("Debt Millage") upon all taxable property in the City, without limitation as to rate or amount, to pay the principal of and interest on the Bonds when due.

<sup>3</sup> Page 78 of the City's Annual Comprehensive Financial Statements as of June 30, 2022.

<sup>4</sup> Page 78 of the City's Annual Comprehensive Financial Statements as of June 30, 2022.

Per the Office of the Chief Financial Officer (OCFO), as of June 30, 2023, the City has \$1,492,139,693 in General Obligation (GO) debt outstanding (UTGO \$457,970,000 and LTGO \$1,034,169,693).

**Question #2:** When will all the current general obligations bond debt will be paid in full?

**Response to Question #2**

As of June 30, 2023, the city has seven (7) series of UTGO debt outstanding with various maturity dates<sup>5</sup>. Some UTGO/LTGO bonds are issued with terms that the bonds are callable (payable on demand) at various times during the life of the bonds<sup>6</sup>. Most UTGO bonds are long-term debt issued for 20 to 30 years, befitting the nature of the asset being acquired or improved. LTGO bonds have a shorter term of less than 20 years (exception: B Notes issued in bankruptcy have a 30-year term). The most recent UTGO bonds sold, the 2021 Neighborhood Improvement Bonds mature April 1, 2050<sup>7</sup>. For the seven (7) series of LTGO outstanding, the longest maturity date is June 30, 2044 (Distributable State Aid Fifth Lien Bonds)<sup>8</sup>. Currently, April 1, 2050, is longest maturity date for all GO bonds outstanding.

**Question #3:** What current interest rates are being paid out on general obligation bond debt?

**Response to Question #3**

As noted above, there are fifteen series of UTGO and LTGO debt outstanding to date. Each has assigned interest rates ranging from a low of 1.00% (LTGO Michigan Strategic Fund Capital Improvement Bond for the Joe Louis Arena demolition in 2019) to a high of 8.369% (UTGO Recovery Zone Economic Development Bonds in 2010)<sup>9</sup>. Some series have multiple interest rates based upon on how the bonds were packaged for sale. In addition, interest rates may be lowered due to credit enhancements. Distributable State Aid (DSA) UTGO and LTGO bonds were sold with the city’s annual State Revenue Sharing payments pledged as collateral. The city’s income tax revenues were pledged and secured the LTGO B Notes. Please see below the interest rate data provided by OCFO.<sup>10 11</sup>

<b>General Obligation Bonds</b>	<b>Interest Rates</b>
UTGO 2021-A	4.00% to 5.00%
UTGO 2021-B	1.817% to 3.644%
UTGO 2020	5.00% to 5.50%
UTGO 2018	5.00%
LTGO DSA 1 <sup>st</sup> Lien (2016 B1)	1.94% to 5.00%
UTGO DSA 2 <sup>nd</sup> Lien (2010)	5.429% to 8.369%
LTGO DSA 3 <sup>rd</sup> Lien (2016)	1.39% to 3.61%
UTGO DSA 4 <sup>th</sup> - Lien 2016 A1	4.00% to 5.00%
UTGO DSA 4 <sup>th</sup> - Lien 2016 A2	1.69% to 3.66%
LTGO DSA 5 <sup>th</sup> Lien (2018)	4.920% to 5.020%

<sup>5</sup> Page 82 of the City’s Annual Comprehensive Financial Statements as of June 30, 2022.

<sup>6</sup> Typically, call provisions on bonds are exercised by the issuer (in this case the City of Detroit) when overall market interest rates have fallen. In a falling rate environment, the issuer can call back the debt and reissue it at a lower coupon payment rate. In other words, the City can refinance its debt when interest rates fall below the rate being paid on the callable bond. Source: <https://www.investopedia.com/terms/c/callprovision.asp>

<sup>7</sup> Page 82 of the City’s Annual Comprehensive Financial Statements as of June 30, 2022.

<sup>8</sup> Ibid

<sup>9</sup> Ibid

<sup>10</sup> See the city’s Annual Comprehensive Financial Statements- Notes to the Financial Statements- Note 7- Long Term Debt for a schedule of General Obligation Bonds outstanding as of June 30<sup>th</sup> each fiscal year.

<sup>11</sup> It is important to note that as of the date of this report, the City of Detroit is in the process of issuing another \$75 million in UTGO Neighborhood Improvement Bonds for the purpose of property rehabilitation, demolition, and other blight remediation activities, and another \$25 million in UTGO Capital Improvement Bonds for the purpose of funding transportation and recreation projects. Since the issuance of these bonds are still pending, the interest rates and maturity dates associated with these bonds are not yet finalized.

LTGO Exit 2014A	3.40% to 4.50%
LTGO B-Notes 2014 B-1	4.00% to 6.00%
LTGO B-Notes 2014 B-2	4.00% to 6.00%
LTGO MSF (JLA) Loan	1.00% to 2.00%

**Question #4:** What is the City of Detroit’s current credit rating?

**Response to Question #4**

The city of Detroit has received several upgrades to its General Obligation Bonds credit rating in the past few years in recognition of its improved financial condition. According to the OCFO, the city’s GO bonds are rated **Ba1 Positive outlook** from Moody’s Investor Service<sup>12</sup> and **BB+ Positive outlook** from Standard & Poor’s.<sup>13</sup> Although the city’s GO bonds credit ratings are still below investment grade (1-level), the city is poised to recapture its investment grade rating in the foreseeable future. The Outlook rating: positive/stable or negative reflects the likelihood that a rating may be revised upward, downward, or unchanged in the near future (6 to 24 months). In both instances, the alphabet rating and the outlook rating, the city has achieved marked improvement in its GO bond ratings over the past ten years.

**Question #5:** How many revenue bonds has the City of Detroit taken out in the last 10 years?

**Response to Question #5**

The city has issued one revenue bond for general city purposes (excludes Detroit Water and Sewerage Department (DWSD) and enterprise agencies) in the past ten years. Revenue bonds are repaid from revenues generated from operations. Per the OCFO, the 2017 Michigan Transportation Fund (MTF) bonds are repaid (by a trustee) from the pledged and assigned monthly distribution of the State MTF allocation to Detroit (state transportation funds). The bonds were issued at \$124.5 million, with \$96.4 million remaining outstanding to-date.

**Question #6:** How many general obligation bonds have been taken out in the last 10 years?

**Response to Question #6**

According to the OCFO, there has been a total of nine (9) issuances of Limited Tax General Obligation Bonds – LTGO and eight (8) issuances of Unlimited Tax General Obligation Bonds- UTGO in the past 10 years. Some issuances included refunding of existing bonds to achieve better financing terms for the city and to reduce future years debt service obligations. In December 2018, the city redeemed a portion of the Financial Recovery Bonds- 2014- B1-B2 (B- Notes, purchased and canceled) and fully redeemed the 2014-C (C- Note) issued in bankruptcy. The city’s enterprise agencies- DWSD, Detroit Department of Transportation (DDOT), Airport and Detroit Public Library (DPL) currently reimburse the General Fund for their allocated portion of the redeemed B and C Notes. The city also refunded the Financial Recovery Bonds- Quality of Life bonds issued during bankruptcy (April 2014) during this 10-year period.

<sup>12</sup> Moody’s Credit Rating Scale: Moody’s long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Such ratings reflect both the likelihood of default and any financial loss suffered in the event of default. Moody’s investment grade rating scale ranges from Aaa to Baa3. Moody’s non-investment grade rating scale is from Ba1 to C. <https://ratings.moody’s.io/ratings#rating-scale>

<sup>13</sup> <https://www.spglobal.com/ratings/en/about/intro-to-credit-ratings>. Standard and Poor’s Credit ratings are forward looking opinions about an issuer’s relative creditworthiness. S&P has two rating categories: investment and speculative. S&P’s investment grade rating scale ranges from AAA to BBB. S&P’s speculative (below investment) grade rating scale is from BB to D (default)

**Question #7:** Does the City of Detroit publicly post real and personal property values on the CFO’s website?

**Response to Question #7**

The city’s total Taxable Valuation required to determine the amount of property taxes to be assessed for the fiscal year is included in the OCFO budget documents found on the city’s OCFO website.<sup>14</sup> This information is contained in the City of Detroit Tax Statement, required under Section 17-2-10 of the City Code. For FY 2024, the city’s total taxable valuation is as follows:

<b>City of Detroit Taxable Valuation</b>	
Real Property	\$ 5,796,675,023
Personal Property	\$1,537,340,690
<b>Total Taxable Valuation FY 2024</b>	<b>\$ 7,334,015,713</b>

Additionally, per the OCFO, the city reports the aggregate data to the County as part of the equalization process, and anyone can find information on citywide values using the following link: <https://www.waynecounty.com/departments/mb/equalization/county-equalization.aspx>.

Also per the OCFO, to look up individual property data, property owners can look up their property taxes at: <https://guestpay.divdatkiosknetwork.com/account/search>. It is also possible to look up a parcel information through the BSA portal using the following link: <https://bsaonline.com/?uid=155>.

This concludes the responses to Councilmember Waters’ questions regarding the city’s debt situation. LPD thanks the OCFO for providing information to help with the responses. If LPD can be of additional assistance, please contact us.

- cc: Auditor General’s Office
- Jay Rising, Chief Financial Officer
- John Naglick, Chief Deputy CFO-Finance Director
- Tanya Stoudemire, Chief Deputy CFO-Policy & Administration Director
- Steven Watson, Deputy CFO-Budget Director
- Kevin Bain, Debt Manager
- Malik Washington, Mayor’s Office

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<sup>14</sup> See page A34 of the Fiscal Year 2024-2027 Four-year Financial Plan for the FY 2024 Tax Statement. <https://detroitmi.gov/departments/office-chief-financial-officer/ocfo-divisions/office-budget/four-year-financial-plans>