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TO: The Honorable City Council

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

DATE: February 13, 2026

RE: Information on City of Detroit Long-Term Financial Obligations

Council Member Mary Waters requested that the Legislative Policy Division (LPD) work with the Office of the Chief Financial Officer (OCFO) to provide information on the City of Detroit's long-term financial obligations and address the following:

- 1. A detailed overview of the City of Detroit's long-standing financial obligations, with special focus on the bond obligations of the City, including their interest rate and maturity date, any vendor payments that might have been cut by the Bankruptcy that are supposed to come back, and pension fund obligations, including increases in contributions needed.**

RESPONSE:

The City has three general types of bond obligations. Unlimited Tax General Obligation Bonds (UTGO), Limited Tax General Obligation Bonds (LTGO), and Revenue Bond Obligations. Debt service on UTGO bonds is paid from a dedicated debt service millage (currently 4 mills) levied on all property owners in the City, since these bonds were authorized by voters pursuant to prior ballot initiatives.¹ Debt service on LTGO bonds is paid from the City's general fund, since the City pledged its full faith and credit when

¹ It is important to note that as of June 30, 2025, the City of Detroit had no general obligation bonds that were authorized and unissued. The electorate approved an amendment to the State Constitution (the Headlee Amendment) on November 7, 1978 that requires voter approval for the issuance of general obligation bonds effective December 22, 1978. The authority to issue bonds approved by the electors continues until revoked by the electors. Source: City of Detroit's Annual Comprehensive Financial Report (ACFR) for the fiscal year ending June 30, 2025, page 90. <https://detroitmi.gov/sites/detroitmi.localhost/files/2025-12/City%20of%20Detroit%20FY25%20ACFR%20FINAL%2012.19.2025.pdf> Consequently, the City would need to seek new voter bond authorization approval to issue new general obligation bonds after the date of this report.

issuing these bonds. Debt service on the Revenue Bonds is paid from scheduled distributions of Michigan Transportation Fund revenue, which was pledged when issuing these bonds.²

The OCFO presents all of these obligations at each quarter end in the OCFO monthly financial report which is sent to City Council and the State Financial Review Commission. Debt details are also presented in Footnote 7 of the audited Annual Comprehensive Financial Report. The OCFO has summarized the outstanding bonds by category in the tables below.

Principal and Interest is paid on these outstanding obligations each year, with the final maturity date identified in the tables below. The Call Option column gives details on when the bonds could be refinanced, if favorable interest rates are available at that future date. MWC, stands for make whole call, meaning that the bond holders can be repaid early, but ensuring that bondholders are fully compensated (made whole) for lost earnings when interest rates drop.

The table below shows that the City of Detroit currently has approximately \$515.5 million in outstanding UTGO bond obligations.

UTGO Bond Obligations:

Series	Principal Outstanding (\$mm)	Tax Status	True Interest Cost	Maturity Date	Call Option	DSA Lien Level
2010	66.6	Taxable	4.72%	11/2/2035	MWC	2 nd
2016A1	10.5	Tax-Exempt	1.93%	4/1/2028	10/1/2026	4 th
2016A2	5	Taxable	3.34%	4/1/2028	MWC	4 th
2018	96.1	Tax-Exempt	4.79%	4/1/2038	4/1/2028	--
2020	66.1	Tax-Exempt	4.60%	4/1/2040	4/1/2030	--
2021A	135	Tax-Exempt	3.37%	4/1/2050	4/1/2031	--
2021B	21	Taxable	3.18%	4/1/2034	4/1/2031	--
2023A	42.2	Tax-Exempt	4.87%	5/1/2039	5/1/2033	--
2023B	6.6	Taxable	7.14%	5/1/2028	MWC	--
2023C	24.3	Tax-Exempt	5.40%	5/1/2043	5/1/2033	--
2024	42.1	Tax-Exempt	3.71%	5/1/2039	5/1/2034	--
Total	515.5					

² In 2017, the City of Detroit issued \$124.5 million in Michigan Transportation Fund (MTF) revenue bonds for the purpose of financing certain road improvement projects throughout the City. As security for the repayment of the MTF revenue bonds, the City pledges its Michigan Transportation Fund distributions received monthly from the State of Michigan. Source: City of Detroit's Annual Comprehensive Financial Report (ACFR) for the fiscal year ending June 30, 2025, pages 84 and 85. <https://detroitmi.gov/sites/detroitmi.localhost/files/2025-12/City%20of%20Detroit%20FY25%20ACFR%20FINAL%2012.19.2025.pdf>

Starting in the State's FY 2025-2026, the four primary revenue sources for the Michigan Transportation Fund are motor fuel excise taxes, vehicle registration fees, EV and Hybrid surcharges, and marijuana excise tax earmark. Based on Act 51 of 1951, these revenue sources are distributed 39.1% to MDOT (Michigan Department of Transportation), 39.1% to county road commissions, and 21.8% to cities/villages. County and City distributions are based on certified road miles, population, and existing Act 51 formulas. Source: House Fiscal Agency Budget Briefing Transportation, dated January 21, 2026. https://www.house.mi.gov/HFA/PDF/Transportation/Transportation_Subcmte_Testimony_Trans_Funding_Package_1-21-26.pdf

The table below shows that the City of Detroit currently has approximately \$1.03 billion in outstanding LTGO bond obligations.

LTGO Bond Obligations:

Series	Principal Outstanding (\$mm)	Tax Status	True Interest Cost	Maturity Date	Call Option	DSA Lien Level
2014B1	421.9	Taxable	4% - 6%	4/1/2044	Callable at par	--
2014B2	10.0	Taxable	4% - 6%	4/1/2044	Callable at par	--
2016B1	159.3	Taxable	3.23%	11/1/2035	MWC	1 st
2016B2	64.1	Taxable	3.33%	11/1/2032	MWC	3 rd
2018	176	Taxable	5.09%	11/1/2043	MWC	5 th
2024	72.1	Tax-Exempt	2.95%	11/1/2029	Not callable	5 th
JLA Loan	8.1	n/a	1% - 2%	7/1/2039		--
IPAs	43.2	Tax-Exempt	3.24% - 3.86%	8/1/2030		--
Total	1,031.2					

The table below shows that the City of Detroit currently has \$76.5 million in outstanding revenue bond obligations.³

Revenue Bond Obligations

Series	Principal Outstanding (\$mm)	Tax Status	True Interest Cost	Maturity Date	Call Option	DSA Lien Level
2017 MTF	76.5	Tax-Exempt	2.38% - 3.49%	4/1/2032	Callable at par	--
Total	76.5					

Regarding pension fund obligations, the City is also the plan sponsor of the General Retirement System (GRS) and Police and Fire Retirement Systems (PFRS). The legacy plans (Component II plans) of GRS and PFRS were frozen to new benefit accruals at June 30, 2014, but an Unfunded Actuarial Accrued

³ It is important to note that prior to the City's bankruptcy proceedings, the City of Detroit used to carry outstanding revenue bonds associated with the Detroit Water and Sewerage Department (DWSD) on its books. But after the City's emergence from bankruptcy, the City of Detroit no longer carries DWSD revenue bonds on its books. On September 8, 2014, the Great Lakes Water Authority (GLWA) was created under a memorandum of understanding with the county executives of Wayne, Oakland, and Macomb counties and the governor of the State to provide regional water and sewer services. On January 1, 2016, the City leased its regional water and sewer facilities to GLWA for an initial 40-year term, and DWSD receives an annual \$50 million lease payment to be used for the cost of improvements to the local water and sewer system infrastructure located within the City, the payment of debt service on GLWA bonds associated with such improvements, or the City's share of debt service on GLWA bonds. Under the terms of the lease, DWSD also assigned all DWSD bonds and its interest in the revenue to pay off these bonds to GLWA for an initial 40-year period. Any bonds to finance regional system improvements or DWSD local infrastructure are now issued by GLWA and are secured by GLWA's net revenue. At any time GLWA issues bonds that mature after the 40-year lease term, the term of the lease also extends beyond the initial 40-year lease term. Meanwhile, the City, through DWSD, continues to own, operate, and be responsible for the operation and maintenance of all water supply and sewage disposal facilities that provide water and sewage disposal services directly to the City's retail customers. Source: City of Detroit's Annual Comprehensive Financial Report (ACFR) for the fiscal year ending June 30, 2025, pages 115 and 116. <https://detroitmi.gov/sites/detroitmi.localhost/files/2025-12/City%20of%20Detroit%20FY25%20ACFR%20FINAL%2012.19.2025.pdf>

Liability of \$1.575 billion remains to be paid by the City over the next 27 years, using the level principal method of amortization. For Fiscal Year 2027, it is estimated that the City will have to fund \$161 million to GRS and PFRS for these legacy obligations. When the Fiscal Year 2027 budget is presented to City Council, the breakdown of this required funding will be presented, but at this time we project that \$77 million will come from a general fund appropriation, \$66 million will come from the Retiree Protection Fund and \$19 million will come from the Foundation for Detroit's Future/DIA pursuant to the Grand Bargain settlement which resulted from the City's bankruptcy case.

2. Additionally, our office would like to know whether there are any outstanding debts owed to vendors from the period of the City of Detroit's bankruptcy, if applicable.

RESPONSE:

There are not any outstanding debts per se owed to vendors from the period of the City of Detroit's bankruptcy. Under the Plan of Adjustment, which became effective on December 10, 2014, the City's prior obligations to creditors/vendors (claimants), were discharged as part of a series of settlements with the claimants. The Plan of Adjustment and related Confirmation Order contained an injunction. As set forth in the injunction, on the effective date, all entities that were or may have been holders of claims against the City, were permanently enjoined from taking actions against or affecting the City or its property with respect to such claims.

However, on the effective date, in accordance with the Plan of Adjustment, the City (1) issued \$1.3 billion of debt, of which \$1.1 billion was delivered to the claimants in satisfaction of their claims, (2) paid \$110.1 million in cash, including \$73.1 million to various classes of creditors in satisfaction of their claims and \$36.5 million to establish a professional fee reserve account to pay the bankruptcy and restructuring professionals, (3) assigned debt service payments on the remaining \$43.3 million of unrefunded UTGO bonds primarily to the income stabilization funds for the City's Retirement Systems, (4) issued settlement credits totaling \$25.0 million to the insurers of the pension obligation certificates; and (5) irrevocably transferred the assets of the DIA having a net book value of \$86.6 million to the DIA, as trustee, to be held in perpetual charitable trust.⁴

Progress on resolution of unsecured bankruptcy claims. After confirmation of the Plan of Adjustment, the City began working on resolving the approximately 3,845 filed proofs of claim by general unsecured creditors in Class 14 in the Bankruptcy Case. Of these, approximately 1,400 were claims related to litigation. The approximately 2,500 other proofs of claim included trade claims, labor-related claims, tax claims, pension-related claims, and others. The City believes that all Class 14 proofs of claim filed in the Bankruptcy Case have been resolved. Creditors in Class 14 are to share pro rata in approximately \$20.6 million in B Notes and the accrued interest (approximately \$9.8 million as of June 5, 2025) on the B Notes, which amount continues to accrue until distributed.⁵

On July 20, 2021, Richard Wershe Jr. filed a lawsuit against the City in the federal District Court seeking monetary damages related to his arrest in 1987 and subsequent incarceration (the "District Court Action"). On January 4, 2022, the City filed a motion with the Bankruptcy Court to enforce the Plan of Adjustment injunction (the "Enforcement Motion"), asking the Bankruptcy Court to require Mr. Wershe to dismiss the District Court Action. Subsequent appeals from Mr. Wershe took place including reaching the U.S. Supreme Court. On January 21, 2025, the U.S. Supreme Court denied Mr. Wershe's petition, ending the

⁴ Source: City of Detroit's Annual Comprehensive Financial Report (ACFR) for the fiscal year ending June 30, 2025, page 114. <https://detroitmi.gov/sites/detroitmi.localhost/files/2025-12/City%20of%20Detroit%20FY25%20ACFR%20FINAL%2012.19.2025.pdf>

⁵ Ibid, pages 114 and 115.

litigation. As a result, this litigation delayed the City's distribution to creditors in Class 14 since some of the proceeds of the B Notes could have been distributed to Mr. Wershe also.⁶

Because the litigation is now resolved, the City began transferring B Notes to Class 14 creditors. The City has successfully transferred over 95 percent of the B Notes slated for distribution to Class 14 creditors and is working with remaining Class 14 creditors to resolve transfer issues. The City anticipates completing B Note distributions and distribution of accrued interest to Class 14 creditors as soon as practicable, with the goal of having this accomplished by the end of calendar year 2025.⁷ As of this report date, LPD is unaware of any final B Note distributions with outstanding Class 14 creditors. We have reached out to the OCFO to obtain this information. Upon receipt, LPD will provide an additional report to inform City Council of the final B Note distributions with outstanding Class 14 creditors.

Additional Information

In addition to the information provided above to respond to Council Member Waters' questions on the City's outstanding debts, LPD felt it was also important to provide information on the City's legal debt margin and pertinent information based on the City's debt policy, as provided below.

Legal Debt Margin

The City is subject to a legal debt limit according to State law ("Home Rule City Act", Act 279 of 1909, as amended). General purpose debt cannot exceed 10% of the City's total state equalized valuation. Under this calculation, as of June 30, 2025, the City still has issuing capacity of \$2.1 billion, as illustrated in the table below. The Home Rule City Act also allows cities in Michigan to issue financial recovery bonds to help address severe financial emergencies. The City of Detroit has \$687.4 million in outstanding financial recovery bonds (which include "B" notes that established the General Retirement System VEBA and the Police and Fire Retirement System VEBA coming out of bankruptcy) as of June 30, 2025. Per the Home Rule City Act, the City's financial recovery bond debt cannot exceed 20% of the City's total state equalized valuation plus 5% of hospital debt limitation. Under this calculation, as of June 30, 2025 the City still has issuing capacity of \$4.4 billion to issue other finance recovery bonds and other general purpose debt, as illustrated in the table below.

Legal Debt Margin Subject to State Limitation

SEV Fiscal Year 2024-2025	<u>\$16,807,716,384</u>
Add: Assessed Value Equivalents, Section 4a(9) of Act	
279	<u>\$12,532,228,948</u>
	<u><u>\$29,339,945,332</u></u>
General Purpose Debt Limit (10% x \$29,339,945,332)	<u>\$2,933,994,533</u>
Less Outstanding Debt:	
General Obligation Bonds (Unlimited Tax)	<u>(520,325,000)</u>
General Obligation Bonds (Limited Tax)	<u>(253,240,996)</u>
Limited Tax Long-term Notes and Installment Contracts	<u>(44,460,536)</u>
General Purpose Debt Margin	<u>2,115,968,002</u>
General Purpose Debt Limit (10% x \$29,339,945,332)	<u>2,933,994,533</u>
Additional Hospital Debt Limit (5% x \$29,339,945,332)	<u>1,466,997,267</u>
General and Hospital Debt Margin	<u>4,400,991,800</u>
Financial Recovery Debt Limit (20% x \$29,339,945,332)	<u>5,867,989,066</u>
Less Outstanding Unlimited Tax and Limited Tax Debt	<u>(773,565,996)</u>
Less Outstanding Financial Recovery Bonds	<u>(687,395,723)</u>
Financial Recovery Bonds Debt Margin	<u>4,407,027,347</u>

⁶ Ibid, page 115.

⁷ Ibid, page 115.

City Debt Policy

Beyond the legal debt margin, the City has established its own debt policy and limitations. Debt Service across all funds cannot exceed 15% of governmental fund expenditures. Based on the FY 2026 adopted budget and current debt service for FY 2026, debt service will not exceed 8.9% of expenditures. General fund debt service is also not to exceed 10% of general fund expenditures. Currently, debt service is projected to be 5.4% of general fund expenditures. These metrics are displayed in the table below.

DEBT AFFORDABILITY METRICS	Target Level	Max Level	FY2026 Pro Forma
All Funds Debt Service to Governmental Funds Expenditures	10%	15%	8.9%
General Fund Debt Service to General Fund Expenditures	8%	10%	5.4%
OTHER DEBT METRICS	Target Level	Max Level	FY2026 Pro Forma
All Funds Debt to Governmental Funds Revenue	120%	N/A	91%
All Funds Debt to Full Value	<10%	N/A	5%

Please let us know if we can be of any more help.

cc: Auditor General's Office
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John Naglick, Chief Deputy CFO / Finance Director / Controller
Regina Greear, Chief Deputy CFO
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