

Preferentials  
6/18/19

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TO: The Honorable Detroit City Council

FROM: David Whitaker, Director  
Legislative Policy Division Staff

DATE: June 10, 2019

RE: Financial Feasibility of Increasing the Percentage of Commercial Land Sales  
Revenue for the Detroit Affordable Housing Development and Preservation Fund

**Introduction**

Council member Gabe Leland requested the Legislative Policy Division (LPD) to provide a report on the financial feasibility of amending the Inclusionary Housing Ordinance to increase the percentage of commercial land sales that currently provides revenue for the Detroit Affordable Housing Development and Preservation Fund.

Specifically, Section 14-12-7 of the Inclusionary Housing Ordinance is entitled "Detroit Affordable Housing Development and Preservation Fund". Section 14-12-7(c) states: "In addition to the deposit of penalties for violations under Sec. 14-12-6, the City's annual budget shall contain an appropriation to the Fund. It is expected that the annual appropriation will be not less than 20% of the net receipts of all commercial property sales during the previous fiscal year"<sup>1</sup>.

**Brief History of Commercial Land Sales**

According to the Housing & Revitalization Department (HRD), the approximate amount of commercial land sales from FY 2015-16, FY 2016-17 and FY 2017-18 is as follows:

<sup>1</sup> It should be noted that Section 14-12-7 (d) of the Inclusionary Housing Ordinance states "Unless specifically stated otherwise in the budget closing resolution, funds not expended within such appropriation during a given fiscal year shall remain in such appropriation and carry forward into the subsequent fiscal year to fund future affordable residential housing projects and other eligible activities".

FY 2015-16:	\$2.9 million
FY 2016-17:	\$2.0 million
FY 2017-18:	\$2.8 million

### **Housing Affordability Fund Appropriation for FY 2018-19**

Since the Inclusionary Housing Ordinance took effect in FY 2017-18, Appropriation 20518 HRD Housing Affordability Fund<sup>2</sup> was established during the FY 2018-19 budget process to contain a budget representing 20% of net commercial land sales. \$468,000 was budgeted in this fund for FY 2018-19 based on what it appears to be 20% of \$2.34 million in net commercial land sales.

### **Housing Affordability Fund Appropriation for FY 2019-20**

For FY 2019-20, the Mayor recommended a budget of \$1,620,000 for Appropriation 20518 HRD Housing Affordability Fund. This budget amount is based on 20% of projected net commercial land sales of \$8.1 million.

According to HRD, each subsequent fiscal year, the previous year's projection will be reconciled against actual sales. This will be the case for the 2020 fiscal year as a major property sale did not close as was projected<sup>3</sup>.

### **City Council's Amendment to Housing Affordability Fund Appropriation for FY 2019-20**

In an effort to increase seed funding for the Housing Affordability Fund, City Council during the FY 2020 budget process reallocated appropriations in the Mayor's proposed General Fund budget for FY 2019-20 in order to increase the budget for the fund.

As a result, Council re-appropriated \$2.0 million to Appropriation 20518 HRD Housing Affordability Fund, which along with the Mayor's recommended budget of \$1,620,000, now contains a budget of \$3,620,000 for FY 2019-20.

### **Analysis of Increasing the Percentage of Commercial Land Sales to the Housing Affordability Fund Appropriation**

To analyze any increase in the percentage of commercial land sales revenue to the Housing Affordability Fund, a brief historical and forecast trend analysis of HRD's General Fund budget needs to be conducted. Table 1 below provides this analysis:

<sup>2</sup> The "HRD Housing Affordability Fund" is synonymous with the "Detroit Affordable Housing Development and Preservation Fund" per Sec. 14-12-7 of the Inclusionary Housing Ordinance.

<sup>3</sup> As one case in point, Council will recall that your Honorable Body recently approved the sale of the Millennium Garage for \$18.7 million, with sale net proceeds projected at \$16.6 million, which means that approximately \$3.3 million would be deposited in the HRD Housing Affordability Fund Appropriation, either in FY 2019 or FY 2020, depending on when the sale transaction is closed. Council will also recall that \$7.1 million of the garage sale proceeds would serve as a part of the funding source for land acquisition associated with the \$2.5 billion FCA auto manufacturing project for the City of Detroit, which is projected to generate approximately 5,000 new net jobs for the City.

*Table 1*  
*Brief Historical and Forecast Trend Analysis of HRD's General Fund Budget*

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
	Actual (2)	Actual	Actual	Budget (3)	Budget	Forecast	Forecast	Forecast
Total revenues	3.98	4.84	5.29	4.66	4.14	2.52	2.52	2.52
Total Expenditures	5.57	7.65	11.95	18.80	22.54	18.96	19.05	19.14
NET TAX COST (1)	1.59	2.81	6.66	14.14	18.40	16.44	16.53	16.62

Source: City of Detroit Four-Year Financial Plans

Notes:

- (1) Net Tax Cost represents amount of HRD's budget that needs to be funded by overall General Fund revenues, such as income taxes, state revenue sharing, wagering taxes, etc. that are primarily budgeted in Non-Departmental.
- (2) Actual revenue and expenditure financial information is from the respective fiscal year's City of Detroit Comprehensive Annual Financial Report (CAFR).
- (3) As of June 7, 2019, HRD's actual General Fund budget is: revenues 5.20 M, expenditures 13.99 M with NET TAX COST 8.79 M. This is subject to change as of June 30, 2019 with year-end adjustments/accruals.

Observations:

- HRD's General Fund expenditures gradually increase through forecast FY 2023.
- HRD's General Fund revenues remain relatively flat for FY 2016-2020, then drop by almost in half starting in forecast FY 2021. Consequently, HRD's Net Tax Cost continues to increase.
- From FY 2016-2019, HRD's General Fund revenues included a budget for Sales of City Real Property.
- For FY 2019, HRD's budget for Sales of City Real Property is \$2 million. As of June 7, 2019, the City has generated \$2.81 million in Sales of City Real Property revenue, which represents a \$810,000 surplus in this revenue stream.
- **Starting in FY 2020, HRD's General Fund revenues excludes a budget for Sales of City Real Property due to the volatility of this revenue source with actual sales often not meeting budgeted projections in the past. As a result, revenue from the Sales of City Real Property is not budgeted until actually received, which means that HRD's General Fund budget is no longer reliant on City owned residential and commercial real property sales as in past budgets.**
- However in FY 2020, HRD's General Fund revenues does include a budget of \$1,620,000, which represents 20% of projected net commercial land sales of \$8.1 million to be generated in FY 2019 and to be deposited into Appropriation 20518 HRD Housing Affordability Fund during FY 2020. The \$1,620,000 budget could be understated if the \$3.3 million to come from 20% of the net proceeds from the sale of the Millennium Garage is made available by the end of FY 2019, as explained in footnote 3 above<sup>4</sup>.
- **For the forecast period FY 2021-2023, there is neither a budget for Sales of City Real Property nor a budget for 20% of net commercial land sales to be deposited in the**

<sup>4</sup> During the FY 2020 budget process, HRD indicated that the FY 2020 budget of \$1,620,000 was based on \$2.2 million in net commercial land sales to be generated in FY 2019 plus 20% from a pending large transaction that may or may not close before the end of FY 2019.

**Housing Affordability Fund.** This is why HRD's General Fund revenues drop by almost half for the forecast period<sup>5</sup>.

### **Conclusion**

Based on the above analysis, LPD concludes:

- Currently, HRD retains 80% of net commercial land sales since 20% goes to the Housing Affordability Fund, per the Inclusionary Housing Ordinance.
- Increasing the percentage of net commercial land sales to provide revenue for the Housing Affordability Fund, if enacted immediately, would not adversely impact HRD's General Fund budget for FY 2019 since HRD is currently experiencing a \$810,000 surplus in Sales of City Real Property revenue as of June 7, 2019, almost at the end of FY 2019.
- Increasing the percentage of net commercial land sales to provide revenue for the Housing Affordability Fund would not adversely impact HRD's General Fund budget for FY 2020 and through out the forecast years FY 2021-2023 since there is no budget for Sales of City Real Property revenue during this period. HRD's General Fund budget is no longer reliant on this revenue stream.
- Obviously, increasing the percentage of net commercial land sales to provide revenue for the Housing Affordability Fund would reduce the 80% of these sales to a lower percentage that would not actually inure to the benefit of HRD's General Fund operations during FY 2020-2023. But this would not put the HRD General Fund budget in any jeopardy.

Please let us know if we could be provide any more assistance regarding this matter.

cc: David Massaron, CFO  
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<sup>5</sup> However, there could be a budget for the 20% of net commercial land sales in future budgets during forecast period of FY 2021-2023 if there are actual commercial land sales generated during a previous fiscal year.