Planned Sale of $175M Neighborhood Improvement Plan Bonds

Presentation to the Financial Review Commission
December 14, 2020

Overview

- Detroit voters approved Proposal N for Neighborhoods, a $250 M comprehensive plan to address vacant houses in Detroit through rehabilitation or demolition
    - Goal: to preserve 6,000 homes and demolish 8,000 blighted homes
- These investments are affordable under the City's strengthened debt policy
- Detroit plans to launch demolitions and rehabs in January, and the OCFO has put together a financing strategy that allows OCFO to adjust to market conditions
- The Office of Contracting and Procurement (OCP) is conducting fair, efficient procurement that promotes use of Detroit based businesses and Detroit workers in line with City ordinance and executive orders
- The City has developed processes to spend and document bond proceeds to ensure tax compliance

FY 2021 Budget Update

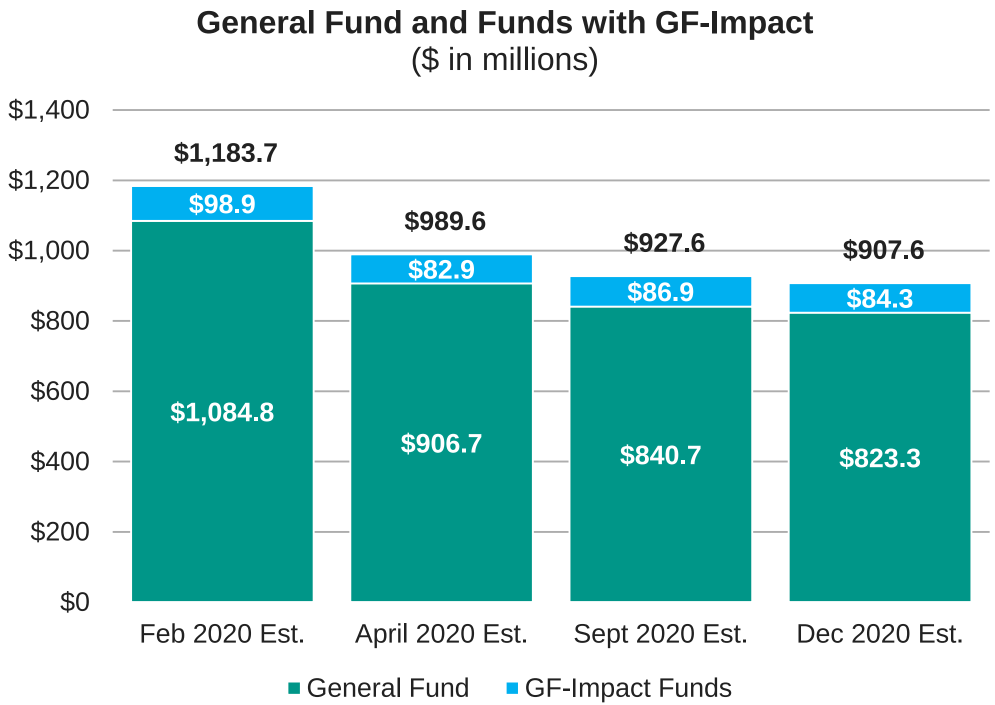
FY 2021 Budget Adopted in May 2020

In April 2020, the Office of Budget projected a $194.1M revenue shortfall for FY 2021 and responded quickly to address it with a revised budget recommendation.

In May 2020, City Council unanimously adopted a balanced FY 2021 Budget, addressing the revenue shortfall and incorporating the recommended budget solutions.

FY 2021 Budget Changes	($ in millions)
Revenue Loss vs. Feb 2020 Revenue Conference	**($194.1)**
Budget Solutions	
Rainy Day Fund Withdrawal	$50.0
Workforce Savings (Executive Branch)	$32.3
Eliminate supplemental Rainy Day Fund deposit	$30.0
Use CARES Act for DDOT fare loss / reduce budget contribution	$30.0
Eliminate supplemental Retiree Protection Fund deposit	$20.0
Reduce Blight Remediation expenditures	$7.0
Savings (Independent Agencies)	$6.7
Shift Affordable Housing to CARES Act CDBG-CV	$5.4
Eliminate FY21 Proposed New Initiatives	$5.1
Eliminate Cash Capital expenditures	$5.0
Savings (Legislative and Judicial Branches)	$2.6
Total Budget Solutions	**$194.1**

FY 2021 Revenue Updates with new data General Fund and Funds with GF-Impact



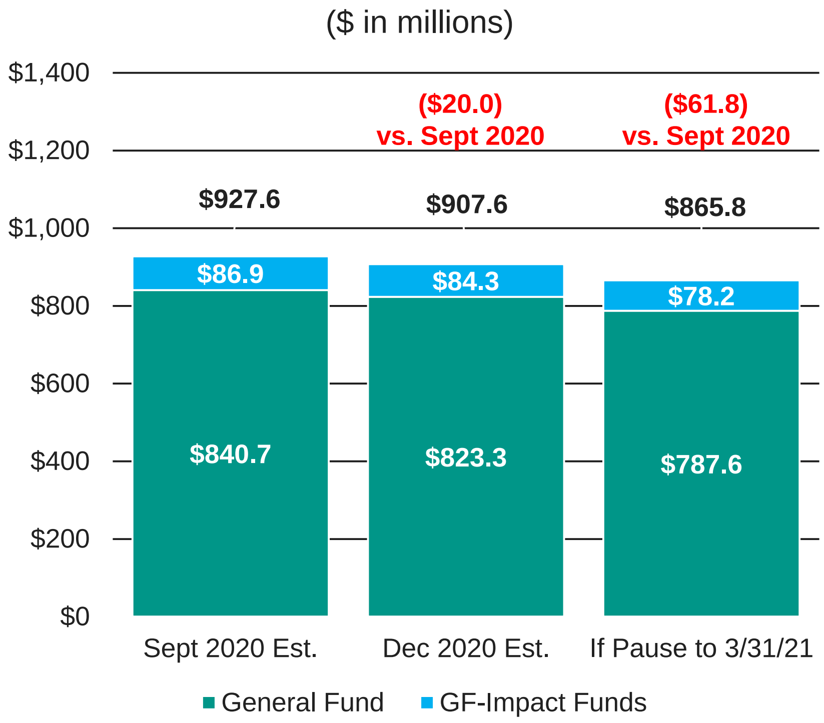
In September, we projected an additional $66M General Fund revenue loss vs. April:

- Additional gaming losses from casinos reopening later and more gradually
- Additional income tax refunds from nonresidents working remotely longer
- Partially offset by $4M gain in other funds

As of December, we project **another $20M revenue loss** based on new data and the State's "six-week pause" to combat the spread of COVID-19

Note: GF-Impact Funds include funds that may require General Fund contributions to offset revenue shortfalls (Construction Code, Transportation, and Airport).

FY 2021 Revenues – Economic Pause Scenarios General Fund and Funds with GF-Impact



Note: GF-Impact Funds include funds that may require General Fund contributions to offset revenue shortfalls (Construction Code, Transportation, and Airport).

The following FY 2021 revenues will be further impacted if the six-week pause is extended:

- Gaming revenue losses due to casino closures
- Parking enforcement due to reduced activity
- DDOT revenue if bus fares remain suspended

Maintaining Balanced Budget in FY 2021

We can address the current revenue shortfalls from the six-week pause:

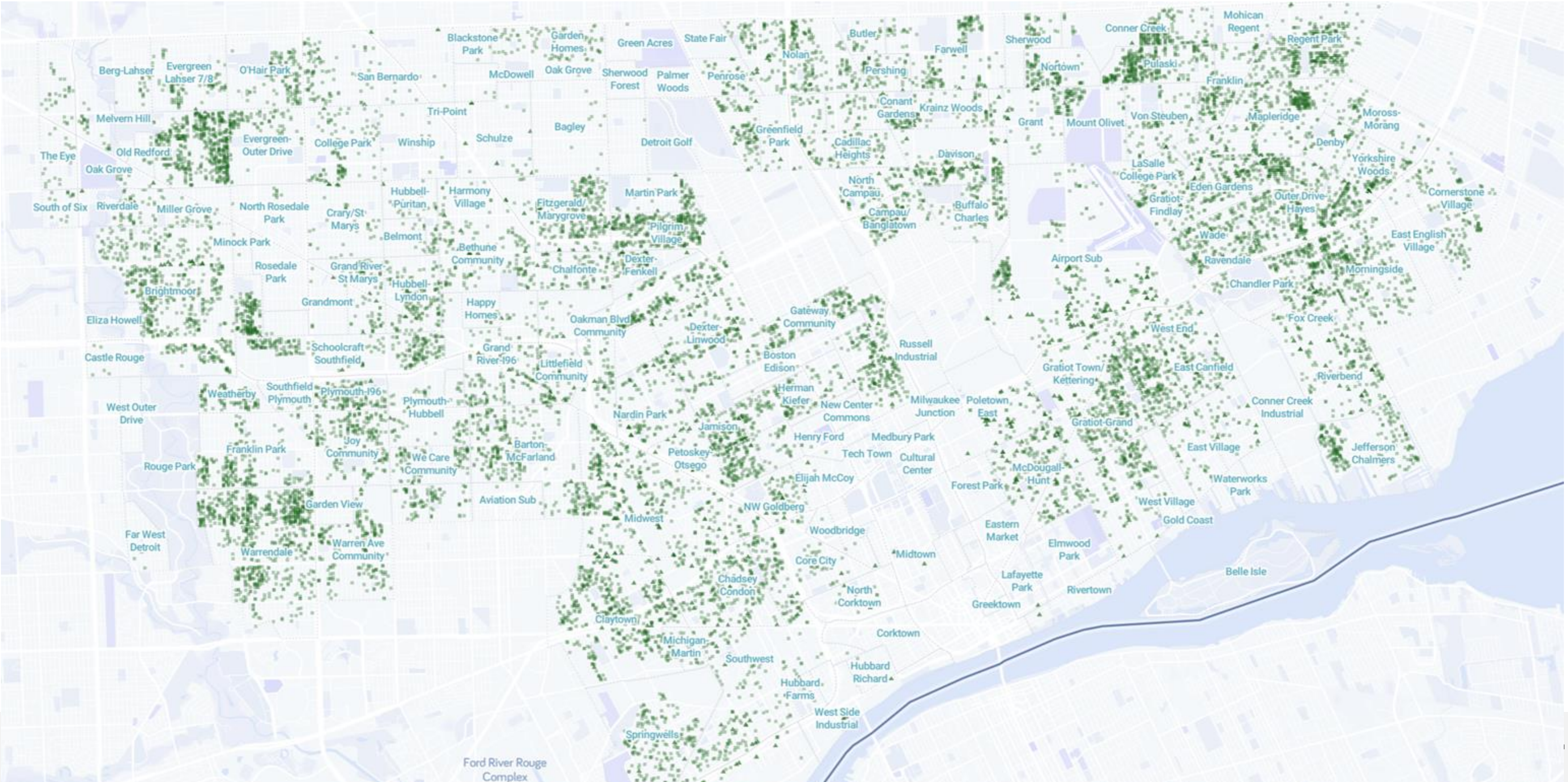
- Position vacancies provide a projected expenditure surplus
- By maximizing budget relief from COVID grants, we have additional resources in FY 2021
- We will continue to monitor and refine revenue projections throughout the year
- We will implement targeted additional cuts and tightening of budgetary controls, as needed

FY 2021 General Fund Budget Changes ($ in millions)	
Sept 2020 Estimate Loss vs. April (Adopted Budget)	**($66.0)**
Budget Solutions	
Projected expenditure surplus	$32.0
Use of FY20 Unassigned Fund Balance	$20.0
COVID Grant reimbursement in FY21 for FY20 spending	$14.0
Total Budget Solutions	**$66.0**

FY 2021 General Fund Budget Changes ($ in millions)	
Dec 2020 Estimate Loss vs. Sept 2020 (3-Week Pause)	**($20.0)**
Budget Solutions	
Renewed Workforce/Other Savings (per CFO Memo 11/19/20)	$7.0
Preserve Transit Operations with Transit CARES funding	$6.5
Eliminate People Mover Subsidy in FY21	$2.5
BSEED Revenue Gain reduces subsidy need	$4.0
Total Budget Solutions	**$20.0**

Neighborhood Improvement Plan Bonds

21,000 buildings demolished since 2014



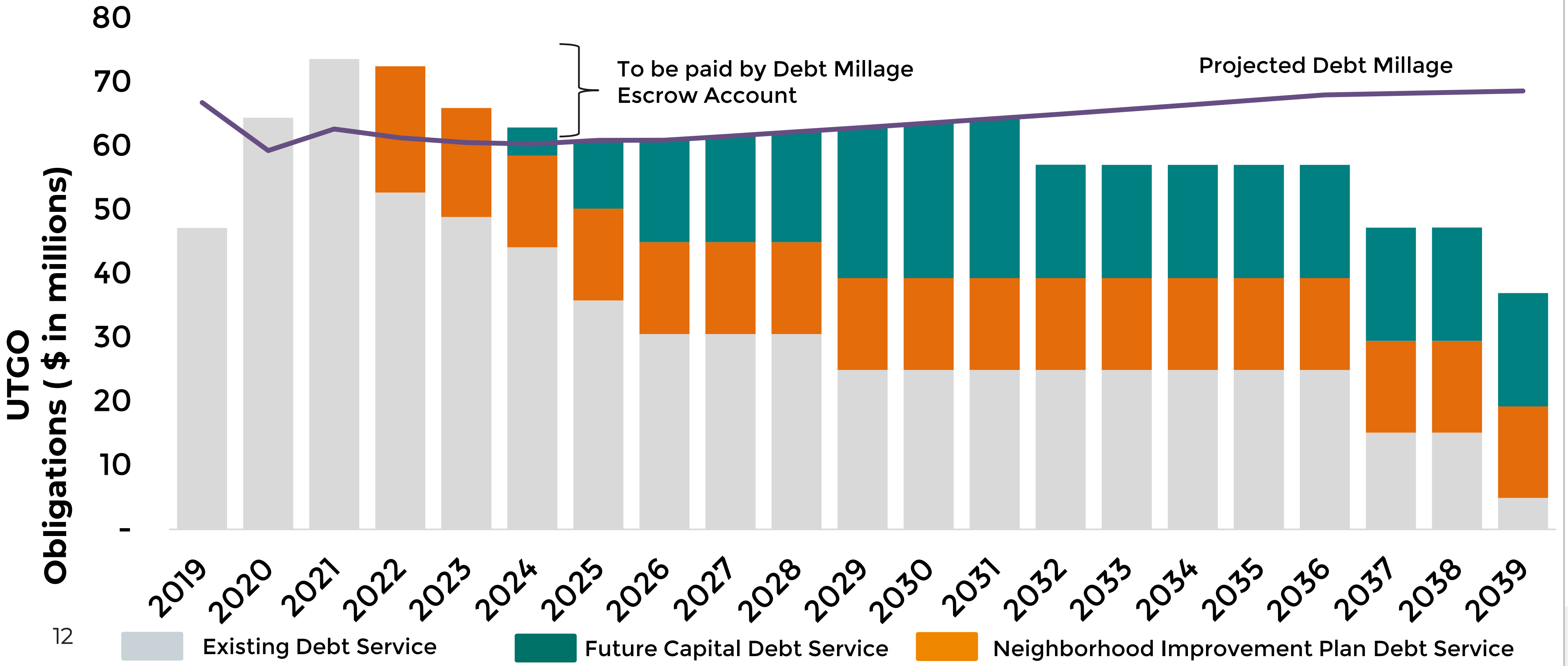
29,000 fewer vacant structures since 2014

- **21,000 structures demolished** through combination of the Hardest Hit Fund (HHF) and City funding
- **8,000 vacant homes saved** with renovation underway or completed through DLBA sales programs

Neighborhood Improvement Plan Goals

- **Preserve 6,000 vacant houses** through rehab, creating affordable housing opportunities and jobs for Detroit residents and businesses
- **Demolish 8,000 vacant houses,** further reducing dangerous residential blight and raising property values for neighbors
- **Stimulate growth of Detroit-based companies** employing Detroiters in construction-related industries
- **Avoid raising taxes** for Detroit residents, while delivering revitalization effort to a broader range of neighborhoods
- **Improve Demolition Program Accountability** by returning operations to City government

Planned investments will not raise taxes



Borrowings within Affordability Caps

	As of June 30, 2020 (Unaudited)	As of June 30, 2021* (Includes Planned NIP Borrowing)	Impact of Planned Neighborhood Improvement Borrowing
DETROIT DEBT POLICY: DEBT AFFORDABILITY LIMITS			
General Fund Debt Service as % of General Fund Expenditures (Maximum Cap: 10%. Target: 8% or less)	8.93%	9.52%	
Overall Debt Service as % of Governmental Expenditures (Maximum Cap: 15%. Target: 10% or less)	12.01%	13.96%	
S&P scorecard for this sub-factor	4	4	No impact
TRACKING OF DEBT METRICS:			
Debt as % of Full Value (Target: 10% or less)	9.40%	9.29%	
Moody's scorecard for this sub-factor	Baa	Baa	No Impact
Overall Debt as a % of Governmental Funds Revenue (Target: 120% or less)	142.92%	166.32%	
S&P scorecard for this sub-factor	4	4	No Impact

***Based on estimated debt service for NIP Bonds**

Underwriter selection and flexibility in borrowing timing

- To enter the bond market in the first quarter 2021, Bank of America Securities and Siebert Williams Shank were selected as co-senior managers from competitive RFP.
- In the event that market conditions are not optimal in early 2021 for a public offering, the RFP requested backstop bond purchase agreements (BPA):
    - Bank of America Securities offered $50 million backstop BPA to terminate on the earlier of March 1st or the execution of a BPA for a public offering.
    - Huntington Bank offered a $50 million BPA that can be executed anytime over a six month period. Prior to execution of the BPA, the fixed interest rate quoted resets every 60 days until the City decides to lock in the fixed rate on the bond.
- The OCFO may seek City Council approval to accelerate $50 million in appropriations in advance of the bond issuance. We will use cash on hand to be reimbursed by the bond sale or, if necessary, the backstop BPA prior to the end of the fiscal year.

OCP to complete fair procurement which supports inclusion

OCP will conduct quarterly procurements with about 1,300-2,500 properties each. To ensure the fidelity of the process, OCP has set up the following controls:

- Unless authorized by Chief Procurement Officer/Buyer, no other City official, employee or contractor may speak for the City regarding this negotiation until award is complete
- Vendors will be prequalified through an RFQQ based on their capacity and equipment
- OCP will avoid disclosure of bids to competing offers during the process of evaluation
- The process for bid tabulation and evaluation is clearly described in the RFP
- RFP Evaluations and Bid tabulations will be done by OCP and the Demo Dept.
- OCP Compliance and Audit Division will audit the bid tabulation and equalization credit results to ensure compliance with the City's Procurement Ordinance
- Each quarter, City Council will review a single set of contracts to be voted up or down

OCP to complete fair procurement which supports inclusion

- OCP and CRIO are engaging with new Detroit demolition and rehab vendors through virtual outreach events, social media, a CRIO certification blitz, and a “Girl Scout Tour” at Home Depots and other hardware stores
- In accordance with the Procurement Ordinance and Executive Order 2020-5:
    - Equalization credits will be applied with goal of 50% packages being won by Detroit Certified Companies
    - 30% of the packages will be set aside for small/micro businesses
    - A contractor will meet the Workforce Target if Detroit residents account for more than 51% of the hours worked and the contractor pays for its Detroit employees to be trained under a DOL approved apprenticeship program

Documentation and tax compliance

The OCFO will issue tax exempt bonds to support demolition contracts and taxable bonds to support rehabilitation contracts and operating costs associated with the demolition and rehabilitation programs

- Detroit will use Oracle as the system of record to track costs as necessary for tax compliance
  - Tax exempt Demolition contract payments will be tracked by parcel ID
- Through a tax compliance certificate, DLBA will provide land sales documentation
- OCFO Debt Management group will measure total sales proceeds against the 5% percent threshold
- Detroit will recycle proceeds associated with sales of properties improved with tax exempt bonds into eligible activities

Closing and Questions