

NO. 971

JULY 1988

DETROIT BALLOT ISSUES: AUTHORIZATION TO SELL GENERAL OBLIGATION BONDS

On August 2, 1988, Detroit voters will be asked to authorize the issuance of \$199 million of general obligation bonds in five general categories: lighting; recreation and zoo; economic development and neighborhood redevelopment; Cobo Hall completion; and Detroit Institute of Arts.

Article IX, Section 6, of the Michigan Constitution requires voter approval for the sale of general obligation bonds, which are guaranteed by the full faith and credit of the city. These bonds will be repaid from a property tax levy which is in addition to charter and statutory limits.

Authorizations Recent voter responses to city requests for bond authorizations have been mixed: in 1978, voters approved issuance of \$41.05 million of bonds, but in 1980, voters approved only two of six issues submitted to them, defeating requests for cultural facilities, neighborhood development, police facilities, and recreation facilities in both August and November. In 1986, all five ballot proposals for bond authorizations totaling \$67.1 million were approved, bringing the total of authorized, unissued bonds to \$146.9 million.

CITY OF DETROIT GENERAL OBLIGATION BONDS (in Millions)

Purpose	Authorized as of 11-4-86	Sold on 9-16-87	Authorized as of 6-15-88	Approval Requested 8-2-88	Authorized if Requests are Approved	To Be Sold in Fiscal 1988-89
Sewer	\$24.0		\$24.0		\$ 24.0	
Fire	9.1		9.1		9.1	
Lighting	41.7	\$19.8	21.9	\$ 40.0	61.9	\$17.2
Recreation/Zoo	23.0	13.9	9.1	44.0	53.1	9.1
Police	11.0	6.0	5.0		5.0	
Economic Development/ Neighborhoods	33.8	11.4	22.4	65.0	87.4	19.5
Health	4.3		4.3		4.3	3.3
Cobo Expansion				25.0	25.0	
Art Institute				25.0	25.0	
Total	\$146.9	\$51.1	\$95.8	\$199.0	\$294.8	\$49.1

On September 16, 1987, \$51.1 million of general obligation bonds were sold. That sale was the first since 1979, due to the downgrading of Detroit bond ratings in August of 1980. The restoration of investment grade ratings initiated by Standard and Poors in June 1986 allowed the city to reenter the general obligation bond market. The city's 1988-89 budget assumes the sale of \$49.1 million of general obligation bonds early in the fiscal year.

BOARD OF DIRECTORS

WILL SCOTT, President
DANIEL J. KELLY, Vice President
KENNETH AIRD
GEORGE N. BASHARA, JR.
LOUIS BETANZOS
JOHN W. CLARK
T. NEAL COMBS

GEORGE H. CRESS
MALCOLM G. DADE
HAROLD E. D'ORAZIO
ALFRED R. GLANCY
MICHAEL M. GLUSAC
LAWRENCE C. HOFF
JOHN J. HOLTON

P. CHRISMAN IRIBE
ROBERT F. MAGILL
DAVID N. MCCAMMON
D. S. PIRKLE
IRVING ROSE
JOHN A. SIMONSON

HOWARD F. SIMS
F. ALAN SMITH
A. ROBERT STEVENSON
RICHARD C. VAN DUSEN
RICHARD WEBB
NORMAN B. WESTON

ROBERT L. QUELLER, Vice President-Executive Director

The city currently has authorization to sell \$95.8 million of bonds, including \$24 million of sewer bonds that were authorized in 1960 that will probably never be issued; existing authorizations likely to be sold total \$71.8 million.

The mayor of Detroit has informed the city council that it is his intention to seek approval from the electorate for new general obligation bond authorizations every two years "in an amount sufficient to continue a program of infrastructure additions and replacements reflecting the needs of our City."

Debt Service The property tax rate for debt service has been declining as the city paid off old obligations and abstained from selling new general obligation bonds. The following data are from the city's annual budgets.

CITY OF DETROIT GENERAL OBLIGATION DEBT SERVICE

Fiscal Year	State Equalized Valuation	Debt Service Tax Rate	Debt Service Tax Levy
1979-80	\$5,051,552,870	9.428 mills	\$47,623,016
1980-81	5,227,447,400	9.317	48,699,762
1981-82	5,321,090,420	8.578	45,640,361
1982-83	5,366,753,613	8.355	44,839,226
1983-84	5,277,495,430	8.409	43,541,063
1984-85	5,271,716,730	7.802	41,129,934
1985-86	5,230,620,665	6.862	35,892,519
1986-87	5,240,363,510	6.187	32,422,129
1987-88	5,323,939,415	6.228	33,157,495
1988-89	5,380,325,660	6.197	33,341,878

City officials have stated that the 1987 and planned 1988 issues were inflated by the demand created by Detroit's recent absence from capital markets, and that their goal is annual bond sales of \$30 million. The following chart indicates the effect on debt service requirements and the tax rate of a 1988 sale of \$50 million and subsequent annual sales of \$30 million, each for 20 years at an interest rate of 8.5%, using an estimated SEV of \$5.38 billion and the existing relationship of the levy to debt service requirements.

City of Detroit General Obligation Principal and Interest Requirements

Fiscal Year	Existing Requirements	Requirements to Service a \$50 million sale in 1988 and \$30 Million a Year Sales Thereafter (Equal Payments Starting in Year Following Sale)	
		Debt Service	Tax Rate in Mills
1989	\$29,983,306	\$29,983,306	6.197
1990	25,469,208	30,752,708	6.356
1991	21,731,234	30,184,834	6.239
1992	18,865,271	30,488,971	6.302
1993	15,972,909	30,766,709	6.359
1994	10,798,600	28,762,500	5.945
1995	6,133,538	27,267,538	5.636
1996	5,528,048	29,832,148	6.166
1997	5,527,660	33,001,860	6.821
1998	5,922,020	36,566,320	7.558
1999	5,921,295	39,735,695	8.213
2000	5,921,860	42,906,360	8.868
2001	5,920,710	46,075,310	9.523

If these assumptions were correct, the debt service tax rate would stay below that of 1979-80 until the turn of the century.

The Proposals The bond authorizations being submitted for voter approval are based on specific capital projects that were submitted by operating departments for consideration by the city executive. The city council was provided a fairly detailed list of proposed projects:

1. Neighborhood Redevelopment and Economic Development Programs	
Jefferson-Chalmers	\$ 30,000,000
City-Wide Housing Rehabilitation	25,000,000
Brush Park Area	4,000,000
Lower Cass Corridor (Cass, Fisher, Woodward, Stimson)	3,000,000
Theater District, West	<u>3,000,000</u>
	\$65,000,000
2. Public Lighting Service and Extensions	
Building Service Extensions	\$1,500,000
Supervisory Cable Replacement	4,500,000
Main Street Lighting	6,000,000
Residential Street and Alley Lighting	3,000,000
Substation Extension	2,400,000
Power Plant Improvements and Repairs	6,000,000
Rusted Steel Pole Replacement	4,900,000
Schrenk Steam Line Improvement	800,000
Communication Lines Improvement	1,200,000
Incandescent Street Lighting Replacement	2,600,000
120 KV P.L.D.-Edison Tie Lines	4,800,000
Distribution System Improvement-Chrysler Project	<u>2,300,000</u>
	\$40,000,000
3. Civic Center	
Completion of Cobo Hall Expansion	\$25,000,000
4. Recreation and Zoo Facilities	
Parks and Landscape--Park Development, Major Redevelopment	
Street, Boulevard and Park Tree Planting, Sports Lighting,	
Golf Course Improvements, Landscaping at Recreation Centers	\$ 9,500,000
Riverfront--Linked Parks, Stabilize Shoreline, Mariners Park	7,500,000
Buildings--Heilman, Herman Gardens and Parkside, and North-	
western Centers, Rehabilitation and Security Improvements	6,500,000
Belle Isle--Utility Rehabilitation, Facility Renovation,	
Landscape Improvements, Entrance and Signage Improvements	5,000,000
Olympic Facilities--Natatorium (swimming pool) and Velodrome	
(bicycle track)	4,000,000
Rouge Park and Valley--Picnic Area Rehabilitation, Trail	
and Bridge Construction, Comfort Station Rehabilitation,	
Winter Sports Area	1,500,000
Land Acquisition--Playground and Playfield Sites	1,000,000
Construction of a Multi-level 1,100 Space Garage (Zoo)	<u>9,000,000</u>
	\$ 44,000,000
5. Detroit Institute of Arts	
Expansion, Renovation, Rehabilitation of Museum Facilities	\$25,000,000
Grand Total	\$199,000,000

Voter approval will be applicable only to the broad general categories that appear on the ballot--not to any specific project. The wording of these ballot proposals, is kept

[4]

vague purposefully, to allow city officials the greatest latitude in the use of bond proceeds. Approval will be asked for:

“\$65,000,000 for the purpose of project improvements to various neighborhood redevelopment and housing rehabilitation programs and for economic development projects;”

“\$40,000,000 for the purpose of improving street and alley lighting, service extensions and improvements required to supply heat, light and power;”

“\$25,000,000 for the purpose of completing the expansion, renovation and rehabilitation of Cobo Hall;”

“\$44,000,000 for the purpose of acquisition, construction, renovation or rehabilitation of Recreation or Zoo facilities;” and,

“\$25,000,000 for the purpose of expansion, renovation or rehabilitation of Detroit Institute of Arts facilities.”

The deteriorated condition of Detroit’s neighborhoods, public lighting systems, and recreation facilities are obvious. The major new projects in the above list are Cobo Hall and the Art Institute. Cobo Hall expansion is being financed through the proceeds from a \$180 million revenue bond secured by a hotel and motel tax and a liquor tax imposed by state statutes enacted in 1985. The \$25 million authorization request would provide funds to renovate the old part of the facility, to bring it up to the standard of the new addition, and to pay for cost overruns on the addition. The authorization for the Art Institute would provide the city’s share for a major expansion, to be funded primarily through corporate sponsorships.

Citizens must decide whether the need for infrastructure improvements or the need to reduce the tax rate should prevail.