Prepared by Citizens Research Council of Michigan **August 1993**

CITY OF DETROIT BOND REFINANCING PROPOSAL
CHRYSLER/JEFFERSON AVENUE JEEP ASSEMBLY PLANT

On September 14, 1993, voters of the City of Detroit will again be asked to approve the refinancing of the remaining $118.6 million of outstanding bonds sold as limited tax bonds by the city to finance the Chrysler/Jefferson Avenue Jeep Assembly Plant.

> Do you favor authorizing the restructuring and/or the refinancing at a lower rate of interest of $118,560,000.00 of currently outstanding State Aid General Obligation Bonds which were issued for the purpose of financing a portion of the City's required contribution to the development of the Chrysler/Jefferson Avenue Jeep Assembly Plant through the issuance of refunding bonds at a lower rate of interest and/or through bond resolution amendments, Provided that these bonds shall be paid from taxes the City is allowed to levy in addition to Charter and statutory limits and Provided that all funds becoming available as a result of this restructuring and/or refinancing shall be used by the City solely to fund public services?

It is interesting to note that this ballot proposal has 119 words. The city's Law Department has indicated that the 100 word maximum limit for ballot proposals applies only to proposed amendments to the city charter and state constitution.

In 1989, the City of Detroit sold $130 million of limited tax general obligation bonds which had not been submitted to or approved by the voters; principal and interest over the 20-year life of the bonds totaled $245.2 million. The revenue was used to provide permanent financing for site acquisitions relocation, demolition, and infrastructure improvements for the Chrysler/ Jefferson Avenue Project. Proceeds from the bond sale paid off $100 million of bonds and notes that had been issued in 1987 and 1088 as interim financing for the project and funded $30 million of additional costs, primarily related to environmental remediation. There was considerable media attention and public concern about the city's involvement, specifically the purchase by the city of a warehouse full of used equipment for $42 million, and the subsequent resale of that equipment to the original owner for five cents on the dollar. At the time, the city's position was that there had not been an opportunity to obtain voter approval given the time constraints placed on the project by Chrysler Corporation.

The September 1993 ballot proposal requests authorization to restructure and/or refinance at a lower rate of interest. It may be possible to refinance the 7.25 percent debt at around 5.5 percent, thereby reducing total interest costs, but merely refinancing limited tax bonds at a lower rate of interest would not require voter approval. The ballot proposal would allow the city to convert these limited tax bonds paid from the existing general revenues of the city to unlimited tax bonds paid from an additional property tax levy. Voters denied a request to finance this bond issue with unlimited tax bonds by a vote of 41,362 to 54,812 at the August, 1992 election, when the ballot language was much clearer. At that election, five other requests for voter approval to sell unlimited tax bonds were approved.

The 1992-93 City of Detroit budget assumed that voters would approve a tax increase to pay the remaining principal and interest on the $130 million of general obligation bonds that had been sold without voter approval. The annual debt service of $12,664,225 was appropriated from the general fund, but a revenue of the same amount was budgeted in anticipation of voter approval. The general fund expenditure was made to pay the debt service, but voter denial of the ballot request in August 1992 meant that the budgeted general fund revenue did not materialize and this contributed to the 1992-93 estimated deficit of $29.7 million.

The 1993-94 budget again assumes that voters will approve converting the limited tax bonds payable from existing general fund revenues to unlimited tax bonds payable from debt service millage. The present annual debt service requirement is $12.7 million. If the proposed refinancing is approved, the city debt service tax rate will increase about 2.54 mills, while the present $12.7 million of debt service from the general fund will be available for other general fund purposes.

Scheduled principal and interest on unlimited tax debt declined from $42.4 million in 1992-93 to $38.6 million in the 1993-94 fiscal year, and will decline to $27.7 million next year. Currently scheduled unlimited tax debt will then remain at the $27 million to $28 million level through 2007.

Outstanding Unlimited Tax Debt Service Requirements

	Principal	**Interest**	**Total**
1993	20,910,000	21,528,642	42,438,642
1994	18,630,000	19,991,050	38,621,050
1995	9,010,000	18,654,494	27,664,494
1996	9,705,000	17,998,904	27,703,904
1997	10,435,000	17,267,591	27,702,591
1998	11,615,000	16,472,216	28,087,216
1999	12,505,000	15,566,019	28,071,019
2000	12,690,000	14,607,589	27,297,589
2001	13,700,000	13,589,769	27,289,769
2002	14,425,000	12,479,510	26,904,510
2003	15,600,000	11,301,405	26,901,405
2004	16,870,000	10,026,960	26,896,960
2005	18,255,000	8,648,344	26,903,344
2006	19,740,000	7,156,094	26,896,094
2007	21,360,000	5,541,944	26,901,944
2008	17,580,000	3,794,803	21,374,803
2009	13,970,000	2,380,935	16,350,935
2010	11,140,000	1,248,565	12,388,565
2011	3,890,000	311,200	4,201,200

Source: City of Detroit August 1, 1992 Bond Prospectus