



TO: David Whitaker, Director
Legislative Policy Division

FROM: Kevin Johnson, President & CEO
Detroit Economic Growth Corporation (DEGC)

DATE: March 11, 2024

RE: FY 2024-25 Budget Analysis

This memo is in response to questions dated March 8, 2024.

- 1. Is the District Business Liaison (DBL) program fully staffed? If not, how many vacancies are in the program and how soon will the vacant positions be filled?**

There is one vacancy in District 5. This position just became vacant, and we expect to fill it by month's end. These positions are much easier to fill now that we can pay a reasonable wage after last year's increase.

- 2. In the DEGC's response to question number 5 to LPD's preliminary budget questions for FY 2024 (Attachment IV), the DEGC currently has 75 budget positions, which is 1 more than the 74 budgeted positions in FY 2023. As of March 7, 2024, 69 positions were filled with six vacancies. The DEGC expects to fill the vacant positions quickly. The number of positions is up from slightly from the prior year due to growth in the Detroit Means Business Program. However, the personnel makeup of the DEGC fluctuates up and down over the course of the year as new program opportunities arise. Please explain the difficulty in filling positions.**

Comparing this year with the prior, we added a position in the Detroit Means Business Program. The programs we run are fluid and the need for positions will always come and go. Part of what makes DEGC so valuable is our ability to adapt and to change personnel as necessary. There's always change, but we usually fill vacancies quickly.

- 3. During FY 2024 budget process, City Council added \$600,000 to the City's contribution to the DEGC for the following: 1) \$525,000 for the Green Grocer Program, and 2) \$75,000 for the African Town Retail Study. Please provide a status update of these programs and the current level of expenditures from the dollars City Council allocated for these programs.**

1) The Green Grocer Program has been re-established. It has a two-year time horizon. To date we've incurred costs of roughly \$75,000 in the updated program.

2) African Town Retail Study scope and RFP are prepared. We are hoping to move forward once PDD completes their Brightmoor study. As Brightmoor has significant African/Caribbean business engagement, we can build on their report rather than present duplicative information.



4. Attachment II represents the DEGC’s operating budget for FY 2024 and Attachment II.A is the operating budget for FY 2023. Questions/requests

a. On the revenue side, please explain the \$300,000 increase in Other Contracts revenue in FY 2023.

It’s the first full year of DMB with staffing. This caused a large increase in DEGC payroll expenses and a large increase in Other Contracts to fund that initiative.

b. On the expenditure side, Personnel increases by \$567,000 (7.1%) in FY 2024. Please Explain

We added one position compared to last year, and there were inflationary increases, but the majority of the increase is due to having a full year of DMB personnel costs.

5. In February 2024, the Citizens Research Council of Michigan (CRC) published Memorandum 1177 entitled “An Assessment of Detroit’s Economic Condition and A Critique of Its Economic Development Efforts”. The following are questions regarding the CRC report:

a. Does the DEGC agree with the conclusions raised by the CRC in the report?

Unfortunately, as highlighted by the report, despite the growth that the City has experienced, the economic conditions have not improved enough to eliminate the need for incentives. There continues to be a gap in achieving financially feasible development projects, making Detroit less competitive in attracting businesses compared to other cities. Without incentives, Detroit would be challenged to compete for future jobs and investment.

As the report states, Detroit cannot afford to stop incentives until costs faced by developers and returns on investment become more aligned with competitor cities.

b. Are there any major issues that were not addressed in the CRC report?

At this time, the DEGC has not identified major issues not being addressed in the first report and looks forward to reviewing the comprehensive analysis expected in the second report.

6. What can the DEGC share as to what is causing the delay in the phase one construction of the District Detroit project?

The development team remains committed to the District Detroit project and is currently evaluating the resequencing of the respective sites, due to ongoing challenges with the capital markets. While District Detroit has a demand for Office within its portfolio, the lending market is challenged, as banks have a low risk tolerance for office lending. To that end, the development team is evaluating resequencing the projects within the overall 10-project development program with a focus on the residential.



It's important to note that the development team has not received any benefits from the public incentives package, as those benefits are performance based and can't be accessed until the projects commence construction.

- 7. Is there a delay in the start of the construction of the UofM Innovation Center project? If so, what is causing the delay from DEGC's perspective?**

The U of M Innovation Center project broke ground in December, 2023 and construction is expected be completed in 2027. Related-Olympia's adjacent residential project is anticipated to be completed in about the same time frame.

- 8. Prospectively, will the DEGC update City Council when major projects that are to be constructed based on a defined schedule are delayed by more than six months and give reason(s) for the delay?**

Yes, DEGC will update Council on delays with major projects, as we are made aware.

EDC

- 1. Previously for a number of years, the City through the HRD contributed \$275,000 to the EDC, with \$255,000 allocated for EDC operations and \$20,000 for the Detroit Next Michigan Development Corporation (DNMDC) operations. Mayor Duggan proposes to increase the contribution to the EDC by \$25,000 in FY 2025. Please explain the need for the \$25,000 increase. How much of the \$300,000 City subsidy is slated for the EDC operations and the DNMDC operations in FY 2025, if approved by City Council?**

From the 1980s into the 2000s, the general operations of the EDC were partially funded at a level of \$300,000 by the City. Beginning in 2011, the amount was reduced to \$255,000 (plus \$20,000 for the DNMDC) and has remained at this level. This is approximately 10% of the EDC's operating budget. The EDC is a very large entity, and the staff spends thousands of hours on EDC projects every year that have no or limited funding source for staffing costs. These projects include the I-94 Industrial Park, Jefferson Village, Eastern Market, East Riverfront, Springwells Industrial Park, the Tiger Stadium redevelopment, and Gap Financing Loan Fund. In addition, the operations of the EDC require significant resources to manage the authority properly. EDC must pay insurance, audit, legal, and other administrative costs.

The \$25,000 increase will go fully for EDC operations and it still won't be back to the amount of support provided in the 1980s. The cost of everything continues to increase and some of EDC's supplemental revenue sources are sunsetting. This addition will help to cover increasing operating costs.

- 2. Attachment VI shows that there is approximately \$1.3 million in unspent Casino Development Fund (CDF) dollars that formerly were allocated amongst the National Retail, Non-Affiliated/Resident Retail and Resident Real Estate programs, but now are consolidated into one category called "Loan Funds". These dollars were reprogrammed to the "Loan Funds" category so that the use of these**



dollars is no longer restricted to specific geographical areas of the City, particularly downtown Detroit, but now to general areas of the City so that these dollars can be expended throughout the City of Detroit? Please briefly describe the criteria for the expenditure of these funds and how they could potentially help Detroiters. Please provide a timeline of when these dollars will be spent.

The casino loan program is a citywide program that provides funding for the construction buildout of a project, and or fixtures, furniture, and equipment. Loans are generally limited to a maximum of \$200,000 or 40% of project costs, whichever is less.

In addition to the criteria described above (which also includes Detroit small businesses), a proposed loan from the Fund must undergo a standard underwriting process, including but not limited to an examination of project sources and uses, review of collateral and other security for loan, and review of project viability. With the 2020 inclusion of Detroit small businesses and the lifting of the program's geographic restrictions, these funds can be deployed into neighborhoods where traditional financing and capital are less accessible.

In prior years, loans of this nature were made out of a federally funded program. The loans were made from that program because it had a time restriction and we wanted to utilize that program to its full potential. Now that those funds have been exhausted, we're receiving more interest in the program from potential borrowers.

We continue to evaluate potential loans and work with businesses whose loans have been approved but have not yet closed. We would expect 1-2 years for the remaining funds to be encumbered and disbursed.

DBRA

- 1. Has the number of brownfield redevelopment projects this fiscal year increased or decreased as compared to last year?**

To date, there have been five (5) brownfield plans approved this fiscal year. In the prior fiscal year, there were a total of eleven (11) brownfield plans approved. We anticipate that the total approved for this fiscal year will be slightly higher.

The amount of TIF plans that we manage increases annually. We currently have over 90 brownfield plans that require tracking, reimbursement and reporting to the state.