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To: Honorable Detroit City Council

From: Jay B. Rising, Chief Financial Officer

Date: July 24, 2024

Re: Installment Purchase Agreement (IPA) Financing

During the Neighborhood & Community Services Committee meeting on 7/18/2024, the committee members asked questions about the Installment Purchase Agreement (IPA) financing the City is using for fleet replacements and the associated contracts. This memo provides a response and overview of how the IPA works.

What is an Installment Purchase Agreement (IPA)?

An IPA is a statutorily authorized method for Michigan municipal governments to finance the purchase of vehicles and equipment over a period that cannot exceed 15 years (Public Act 99 of 1933, MCL 123.721). In April 2024, along with the Fiscal Year 2024-2025 Budget, City Council approved a resolution authorizing the City to enter into up to \$55 million worth of IPAs to acquire vehicles and related equipment, as contemplated by the annual budget. The City will repay the IPAs over five years from the time each vehicle is delivered.

Why use IPAs to finance vehicles?

Much like when an individual finances a car purchase with a loan, the IPAs allow the City to spread the cost of fleet replacements over the useful life of the assets, up to five years per the resolution. Rather than relying on upfront cash for fleet replacements, the City has included the annual IPA repayments in the recurring annual budget and four-year financial plan (pg. B18-8 of Fiscal Year 2024-2025 Annual Budget and Four-Year Financial Plan). While the repayment budget may need to be refreshed each year based on actual delivery schedules, the IPA overall provides stability and predictability with our fleet replacement plan.

How many vehicles does the City plan to finance with IPAs?

Our current authorization is up to \$55 million, which covers approximately 441 vehicles for the next two to five years. This includes police cruisers, heavy duty vehicles, fire engines, ambulances, etc. Keeping up with fleet replacements is not only important for delivering City services but also to avoid spending more on repair and maintenance than the vehicles are worth. After the currently authorized IPAs are exhausted, the City may enter into new IPAs and/or resume using upfront cash to purchase fleet replacements.

What bank holds the IPA? How does it work?

The City executed a \$55 million Master IPA with The Huntington National Bank on 7/19/2024, pursuant to the City Council approved resolution. This agreement serves as an umbrella relationship under which Supplemental IPAs (SIPAs) will be made for the purchase of vehicles and for any upfitting orders. We have loaded the \$55 million Master IPA budget into account string 4504-23001-470100 to facilitate requisitions and purchase orders against the IPA and associated

vehicle contracts. When the ordered vehicles are ready for delivery, the bank will deliver the acquisition proceeds to the City, the City pays the vendor upon delivery, and then the City pays back the bank over five years.

What are the interest rates on the IPA?

The interest rate will be a fixed rate based on the 3-year Secured Overnight Financing Rate (SOFR). The SOFR interest rate index is updated daily based on Treasury securities. At the time each SIPA is executed, a fixed rate will be determined based on the 3-year SOFR index at the time, with a tax-exempt discount of 79%, plus an agreed upon spread at the time of SIPA execution. For example, the calculated interest rate at 7/18/2024 would have been 3.79%. The actual interest rate will be determined at the time that each SIPA is executed. Of the three bids that the City received, Huntington offered the lowest interest rates.

Are the City vehicles pledged as collateral to the bank?

Vehicles are not pledged as collateral. The City is able to enter into an IPA agreement on a Limited Tax General Obligation (LTGO) pledge.

Why are the contracts valued at more than \$55 million?

The contracts, totaling \$90 million, will be supported by 100% Capital and IPA Funding and cover 5 years of heavy duty vehicle purchases. The current \$55 million IPA authorization covers \$14 million in priority heavy duty vehicle purchases over the next two years. The balance of the IPA authorization will be used for other vehicle purchases. Future vehicle acquisitions may be funded by cash capital or future authorized IPA financing beyond the initial authorization, as approved by City Council.