



**OFFICE OF THE
CHIEF FINANCIAL OFFICER
OFFICE OF BUDGET**

Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 1106
Detroit, Michigan 48226

Phone 313•224•6260
www.detroitmi.gov

October 16, 2024

Honorable Mary Waters, Council Member
Coleman A. Young Municipal Center
2 Woodward Avenue
Detroit, MI 48226

Re: Fiscal Impact of Amendment to the Rental Ordinance (Chapter 8 of the 2019 Detroit City Code)

Dear Council Member Waters:

Please see attached Fiscal Impact Statement prepared by the Office of Budget for the above referenced item, pursuant to CFO Directive 2018-101-029: Fiscal Impact Statements. Upon review, please do not hesitate to contact me to discuss further.

Best regards,

Tanya Stoudemire
Chief Deputy CFO / Interim Budget Director

Att: CFO Fiscal Impact Statement No. 2024-110-014

cc: Honorable Detroit City Council
Jay B. Rising, CFO
John Naglick, Jr., Chief Deputy CFO/Finance Director
Malik Washington, City Council Liaison
David Whitaker, Director-Legislative Policy Division



Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 1100
Detroit, Michigan 48226

Phone: 313 -628-2535
Fax: 313 -224-2135
www.detroitmi.gov

CFO FISCAL IMPACT STATEMENT NO. 2024-110-014

SUBJECT: Fiscal Impact of Proposed Rental Ordinance Reform
PREPARED BY: Office of the CFO – Office of Budget
DATE ISSUED: October 16, 2024

1. AUTHORITY

- 1.1. State of Michigan Public Act 279 of 1909, Section 4s(2)(d), as amended by Public Act 182 of 2014, states the Chief Financial Officer (“CFO”) shall submit in writing to the Mayor and the governing body of the City his or her opinion on the effect that policy or budgetary decisions made by the Mayor or the governing body of the City (“City Council”) will have on the City’s annual budget and its four-year financial plan.
- 1.2. CFO Directive No. 2018-101-029 Fiscal Impact Statements states that the CFO shall issue Fiscal Impact Statements (“FIS”) for pending or enacted decision items with a significant fiscal impact on the City, as determined by the CFO, to provide financial information to the Mayor and the City Council as they consider action on proposed local policy or budgetary decision items.

2. PURPOSE

- 2.1. To provide financial information to the Mayor and the Detroit City Council as they consider the effect of the proposed rental ordinance reform to provide oversight of rental homes to increase the quality and safety of rental housing (the “rental ordinance”).

3. OBJECTIVE

- 3.1. This FIS serves as the report on the fiscal impact of the proposed ordinance on the City’s annual budget for FY 2025 and four-year financial plan for FY 2025 – FY 2028 (the “City budget”).

4. SCOPE

- 4.1. This FIS is not intended to convey any statements nor opinions on the advisability of the ordinance, except for those components that have or may have a fiscal impact on the City budget.
- 4.2. This fiscal impact analysis is based on the proposal as described below in Section 5 of this FIS. Should the proposal change prior to final approval, an updated FIS may be issued.

5. STATEMENT

Conclusion: The proposed rental ordinance would have a **negative fiscal impact** on the City budget beginning in FY 2027.

- 5.1. Background: The proposed ordinance focuses on both rental home inspections and the rent escrow program and would impact the Housing and Revitalization Department (HRD) and the Buildings, Safety Engineering, and Environmental Department (BSEED). Currently, homeowners pay over \$1,000 in fees for a one-time inspection to the City and inspectors, which includes a 37-point home condition assessment, lead and safety inspections, and a Certificate of Compliance. Most of these fees are directed to a third party with only \$167 allocated to BSEED for administrative costs. The new ordinance replaces this with a \$150 annual inspection fee paid directly to BSEED for a streamlined 15-point annual inspection. The ordinance suggests a \$150 increase in violation penalties, though properties that comply within the designated timeframe will benefit from a 50% fee reduction.

The proposed ordinance also transfers the existing rent escrow program from BSEED to HRD and requires HRD to promulgate rules for the program's administration. The proposal maintains the overall escrow program structure which allows tenants to pay their rent into the escrow program if their home lacks a Certificate of Compliance or has documented property maintenance code violations that pose a safety risk to the tenant. If the property comes into compliance or the safety issue is resolved, the funds will be returned to the owner; otherwise, they will revert to the tenant. The ordinance also removes language that limits program operations which previously limited tenant access to the escrow program for those with leases expiring within 90 days of using the program. HRD will conduct periodic reviews of each escrow account, not exceeding 120 days. Importantly, the ordinance clarifies that rental payments made into an escrow account do not violate lease obligations.

- 5.2. Fiscal Impact: The proposed rental ordinance would have a **negative fiscal impact** on the City budget beginning in FY 2027. The incremental costs total an estimated \$577k, with \$276k impacting the General Fund and \$301k impacting the Construction Code Fund. The reform would have no net fiscal impact on the City budget in the short-term (FY 2025-26) because existing resources will be utilized from HRD's Over-Assessment Program budget along with current-year Construction Code Fund operational efficiency savings within BSEED.

HRD will require additional funding to maintain the rent escrow program operations in FY 2027, primarily to cover staffing costs (3 additional FTEs) for processing applications and managing the program as well as liaising with BSEED and contacting tenants. BSEED would be able to administer the program with their existing staffing resources in the short-term but would require 3 additional administrative positions beginning in FY 2027 to cover the anticipated inspection volume increase over time.

The rental ordinance is also expected to reduce BSEED inspection fee revenue within the Construction Code Fund. However, the revenue impacts of these changes remain uncertain, as they depend on customer behavior in adapting to the new system. To address these uncertainties, BSEED would need to conduct a one-time fee study to fully understand the long-term revenue implications.

City of Detroit
FIS - Rental Ordinance Proposal

	FY 2025	FY 2026	FY 2027	FY 2028
BSEED - 3 FTE (Admin) ¹	\$ -	\$ -	\$ 301,329	\$ 307,356
HRD - 3 FTE (1 Project Manager, 2 General Support)	<u>244,507</u>	<u>249,397</u>	<u>254,385</u>	<u>259,473</u>
Total, Personnel Costs	\$ 244,507	\$ 249,397	\$ 555,714	\$ 566,828
BSEED - One-Time Fee Study	\$ 100,000	\$ -	\$ -	\$ -
BSEED - Operating 3rd Party Inspection Payments	150,000	165,000	180,000	195,000
HRD - Operating	<u>22,000</u>	<u>22,000</u>	<u>22,000</u>	<u>22,000</u>
Total, Operating Costs	\$ 272,000	\$ 187,000	\$ 202,000	\$ 217,000
Total Costs	\$ 516,507	\$ 436,397	\$ 757,714	\$ 783,828
BSEED - Owner Fees Revenue (Inspection Offset)	\$ 150,000	\$ 165,000	\$ 180,000	\$ 195,000
BSEED - Operational Efficiency Savings	100,000	-	-	-
HRD - Overassessment Resource Offset (FY25-26) ²	266,507	271,397	-	-
Net Impact on Four-Year Financial Plan	\$ -	\$ -	\$ 577,714	\$ 588,828
<i>General Fund - HRD Impact</i>	-	-	276,385	281,473
<i>BSEED - Construction Code Fund Impact</i>	-	-	301,329	307,356

Notes:

(1) Additional BSEED staffing is required as inspection volume increases. Additional staff is anticipated to be needed beginning in FY 2027.

(2) Existing one-time overassessment program resources are available in FY 2025-26 to cover the incremental HRD costs. However, these resources are not available beyond FY 2026.

APPROVED



Tanya Stoudemire
 Chief Deputy CFO / Interim Budget Director