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MEMORANDUM

To: David Whitaker, Director, Legislative Policy Division
From: John Naglick, Jr., Chief Deputy CFO/Finance Director – Controller
Donnie Johnson, Deputy Budget Director
Date: April 30, 2025
Re: **Response to Fiscal Year 2025-2026 Non-Departmental Budget Analysis**

Please find below response to your questions sent on March 25, 2025, regarding the Fiscal Year 2026 Proposed Budget for Non-Departmental.

Non-Departmental Expenditures and Revenues

1. **Please briefly explain the department's new expense initiatives, new capital funding requests, operational reform and savings proposals, and new revenue initiatives/proposals to be implemented in FY 2026. Please provide which appropriation/cost center the new initiative/request/proposal is impacting in FY 2026.**

   The proposed budget includes additional capacity to execute approximately $22 million in additional IPA purchases in FY26. The OCFO does not plan to seek additional IPA authorization from Council at this time but will continue to evaluate fleet funding strategies.

2. **The proposed budget for FY 2026 has the Debt Service millage decreasing from 7 mills to 4 mills.**
   a. **Please provide the calculation used to set the debt service millage for FY 2026. Please include all revenues sources and exclusions and/or adjustments to revenues.**

      Revenue sources for the UTGO debt millage include: the State PPT reimbursement, federal BABs rebate, interest earnings on escrow balance, current debt millage property tax collections, and delinquent debt millage property tax collections turned over from Wayne County. Revenues are adjusted for TIF capture and excess escrow balance amounts. Revenues are set to exactly equal the amount needed for UTGO debt service.

   b. **The Mayor's Proposed FY 2026 Budget presentation included a Pro Forma Bonding chart to illustrate the city's bonding capacity at 4 mills. The chart shows the impact on the UTGO Debt Service requirements with a $100 million bond sale. Is this conceptual or are plans in process to float bonds in FY 2027? Please discuss and include timelines for each phase of the process.**

      There are no plans to seek voter approval or council authorization to issue UTGO Bonds at this time. The $100m bond sale was a conceptual exercise to determine bonding capacity if voters approve a new ballot measure.

c. **What is the current unrestricted fund balance for the Debt Service Fund? Was any of the fund balance used to lower the debt service mills to 4 mills?**

The UTGO debt service fund is restricted. Some of the debt service fund will be used to reduce the millage rate. However, given the projected growth in property tax revenues and declining UTGO debt service, 4 mills will sustain the debt millage without using unrestricted funds through FY30.

3. **Please provide an update on the Vehicle Installment Purchases. The original proposal involved the purchase of $55 million in vehicles over 2 to 3 years.**

a. **How many Supplemental Agreements have been entered into to-date and what is the total amount financed to-date?**

The City has entered into two supplemental agreements to date, totaling $27.47 million. This includes the additional $2 million council authorization for printers.

b. **Is it still the plan to use all of the $55 million to purchase vehicles?**

Yes, there are still plans to issue the $29.53 million of remaining authorization (from the $57 total authorized).

c. **What types of vehicles are being or will be purchased using the $55 million Vehicle Installment Purchase plan?**

The two executed IPAs included purchases for GSD (groundskeeping trailers), Fire (remounts and cots to outfit ambulances), Police (raid vans, in-car mobile kits), and DPW (street sweepers and dump trucks). Vehicles to be purchased with the remaining authorization will also be for a range of departments. While it will primarily be for police and fire, it will also include CDD, ACC, and some other departments. All vehicles purchased with IPA financing are approved by the Vehicle Steering Committee who approve and monitor the City's fleet capital plan.

d. **What agencies will use the vehicles purchased under the Vehicle Installment Purchase plan?**

Please see the answer to question 2C above.

4. **On page B18-4, please explain the Proposed FY 2026 Budget year-over-year increase/decrease in the following expenditure categories:**

a. **Employee Benefits increase by $4 million, 2.6%; considering the one-time $10 million in supplemental pension payments, please discuss what other actions impact this account in FY 2026.**

A 2-4% increase is standard across most expenditures due to cost-of-living adjustments, fringe adjustments, and other contributing factors.

b. **Fixed Charges decrease by -$17.3 million, -11.6% followed by an increase to $139 million in FY 2027 and FY 2028; please discuss.**

Fixed Charges included HRD Section 108 Loan Interests and Earnings. The increase in FY27 is primarily due to the increase in the IPA Debt Payment from $5.3 in FY26 to 10.6M in FY27.

c. **Other Expenses decrease by $2.3 million, -.8% in FY 2026 followed by a gradual reduction of $600,000 in each of the forecast years; please discuss.**

Our goal is to rightsize all expense categories closer with actuals and down to the object level for better visibility and management. Ideally, minimizing the amount of expenses within categories containing “Other” or “Miscellaneous.”

5. **On page B18-8, please explain the Proposed FY 2026 Budget year-over-year increase/decrease in the following appropriations:**

a. **1000-29181- Pension Legacy increase by $2.7 million, 1.8% followed by on average a 2.6% decline for the forecast period.**

Pension Legacy included a $10M One-Time Expenditure to fund the supplemental payment for retirees, colloquially referred to as the 13th check. As this is a one-time item dependent on City surplus resources, it is not forecasted in FY27 and beyond.

b. **1000-29353- Debt Repayment - 180080 - DSA Debt Service – what is driving the increase in FY 2025 and FY 2026; please discuss?**

The $11.2 million increase is driven by the DSA 5th Lien Bonds debt service issued in October 2024. These bonds refinanced the outstanding 2014 exit financing bonds, achieving $4.7 million in present value savings.

c. **1000-29353- Debt Repayment - 180110 - IPA Debt Service – why the one year decrease of $1.4 million, -17.7% in FY 2026?**

The FY25 budget included $7.9 million for IPA debt service as an estimate, before we finalized the Master IPA agreement with Huntington National Bank or determined an exact financing schedule. The $6.5 million IPA debt service proposed for FY26 reflects the debt service schedule for the two executed IPAs and a better projection for the timing for issuing the remaining IPAs based on fleet capital needs.

d. **1000-29353- Debt Repayment - 180140 - Solar Projects Debt Service– please explain the $1 million debt service for the current fiscal year and no debt service payments from FY 2026-2029.**

During the FY 2025 budget development process, the Administration was exploring the possibility of financing what became the Solar Neighborhoods Project through the sale of Limited Tax General Obligation (LTGO) Bonds. Ultimately, the Administration funded Solar Neighborhoods using available cash rather than financing the project, so the debt service budget was removed from the FY 2026 budget and from the FY 2027 – FY 2029 forecast period.

6. **On page B18-9, please explain the Proposed FY 2026 Budget year-over-year increase/decrease in the following revenue appropriation:**

   a. **4000- 29180 - Debt Service -180010- General Bond Redemption increase by $3.3 million from $1.5 million in FY 2025 to $4.8 million in FY 2026 declining further in the forecast period by 11% to 15%.**

   The revenues in this cost center include investment earnings and the federal BABs rebate. The increase is driven by updated projections for these. Both are expected to decline as we pay off the 2010 bonds, the rebate amount declines, and interest earnings on the reduced escrow balance.

   b. **4000- 29180 - Debt Service -180040- General Bond Redemption decrease by $9.4 million and a continual decline in FY 2027 through FY 2029.**

   UTGO debt service declines by $11.9 million from FY2025 to FY2026, due to paying $6.6m less on the 2023s (had frontloaded debt service) and $5.5m less on the 2016As which has much lower principal payments going forward.