

City of Detroit



Downtown Development Authority

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**DOWNTOWN DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING
MONDAY, JANUARY 14, 2019 – 2:00 P.M.**

COMMITTEE MEMBERS PRESENT:

Sonya Delley
John Naglick, Chair
Steve Ogden

COMMITTEE MEMBER ABSENT:

David Blaszkiewicz

OTHERS PRESENT:

Gay Hilger (DEGC/DDA)
Denise Hundley (DEGC/DDA)
Paul Kako (DEGC/DDA)
Jennifer Kanalos (DEGC/DDA)
Glen Long (DEGC/DDA)
Rebecca Navin (DEGC/DDA)

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**MINUTES OF THE DOWNTOWN DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING
MONDAY, JANUARY 14, 2019
DETROIT ECONOMIC GROWTH CORPORATION
500 GRISWOLD STREET, SUITE 2200 –2:00 P.M.**

GENERAL

Call to Order

Noting that a quorum was present, Chairman Naglick called the meeting of the Downtown Development Authority Finance Committee to order at 2:15 p.m.

Approval of Minutes

Mr. Naglick asked if there were any additions, deletions or changes to the minutes of the November 12, 2018 Finance Committee meeting.

Hearing none, the Committee took the following action:

On a motion by Ms. Delley, seconded by Mr. Ogden, the minutes of the November 12, 2018 Finance Committee meeting were unanimously approved.

PROJECTS

DDA Loan – SNM Tobin

Ms. Hundley reported that in 1989, The City of Detroit Downtown Development Authority (“DDA”) approved and allocated up to 1 million dollars in tax increment funds for the acquisition of the property and placement of public improvements within the Harmonie Park project area. SVM Development (the “Borrower”), a Michigan Corporation headed by David Schervis, was selected as the developer for the Harmonie Park project, which included the renovation of five buildings: Harmonie Club, Powell, Skupien, Leopold and the Tobin building (the “Project”).

The terms and conditions of the Project were pursuant to the terms of a 1992 Development Loan Agreement. The Project would be completed in phases. The City of Detroit, in consideration for the development, secured from the United States Department of Housing and Urban Development an Urban Development Action Grant

("UDAG") in the amount of \$6,075,000.00. The City of Detroit transferred the UDAG funds to the DDA and the DDA loaned the UDAG funds and other loan funds to the developer to assist in the Project.

Phase one of the development included complete renovation of the Tobin building located at 277 Gratiot Street. On July 6, 1992, the Borrower executed a Promissory Note with the DDA in the amount of \$1,425,000.00 at 0% interest. The maturity date of the note was August 30, 2008. The note was secured by a UDAG mortgage. In 2007, DDA modified the note to extend the maturity date to August 2016.

In 2004, Borrower received a \$2,300,000.00 loan from Sterling Bank, secured by a mortgage on the Tobin building. DDA assumed a subordinated position. The Sterling note was modified in 2007, 2009 & 2011. In 2014, the note was modified to extend the maturity date to January 2019. The loan balance is \$1,570,428.57. Ms. Hundley made a correction and stated that the loan balance is actually \$1,530, 010.50.

During the years, the phase I of the Project incurred many financial challenges. Some of the challenges involved mortgage taxes and utility obligations that were unpaid. In 2007, David Schervish as developer, entered into an Assignment of Interests with Beal Properties, LLC on behalf of SVM. Mr. Schervish no longer has any remaining ownership interest in the Project. Beal Properties worked diligently using personal funds to pay some delinquent mortgage fees, property taxes and utility obligations.

In 2016, due to still resolving financial obligations, the Borrower was unable to remit the DDA payment of \$1,425,000.00. Over time, DDA and the Borrower remained in discussions regarding resolutions of payment. In 2017, the Borrower had requested to repay the loan at 2% interest amortized over 20 years with monthly payments of \$7,208.84. DDA staff had discussions but did not reach a conclusion. In December 2018 the borrower reached back out to DDA and proposed a loan discounted payoff in the amount of \$1,000,000.00.

Beal Properties has paid delinquent mortgage payments, property taxes and utility expenses to maintain the property, remitted required loan documentation and remained responsive to DDA.

DDA staff has reviewed the request and surrounding circumstances of the loan and finds it reasonable to accept the discounted payoff loan amount of \$1,000,000.00. The \$425,000.00 balance of the loan will be written off.

DDA staff requested that the Finance Committee recommend this transaction to the DDA Board for approval.

The Committee discussed the proposed deal and decided that it would be in the best interest of the DDA to have the building stable with tenants and maintained. Having this property viable would increase the value of other DDA properties in the area.

The Committee discussed and agreed to making a counteroffer of \$1,075,000.00, and if the Borrower was not willing to accept DDA's counteroffer, request a copy of the latest appraisal of the property.

Subsequent to the discussion, the Board took the following action:

On a motion by Ms. Delley, seconded by Mr. Ogden, the Committee unanimously agreed to recommend to the Board approval of the discounted payoff counteroffer amount of \$1,075,000, if accepted by the Borrower. If DDA's counteroffer was not accepted by the Borrower, the Committee would like to see the most recent appraisal on the building before reconsidering.

Adams/Park Investments Partial Loan Settlement (Shield's Pizza)

Ms. Navin advised that on April 30, 2008, the City of Detroit Downtown Development Authority ("DDA") made a loan to Adams/Park Investments, L.L.C. (the "Borrower") in the original principal amount of \$200,000.00 (the "Loan") in connection with a proposed Shield's Pizza franchise location in the Kales Building (the "Project"). The Loan was secured, in part, by joint and several guaranties of Frank Wolicki, Anthony DiGirolamo, and Kenneth Leonard. Following the disbursement of the Loan the Project failed and the Borrower was unable to make the required payments. DDA staff has been pursuing payment from the Borrower and personal guarantors. On September 20, 2012, the Wayne County Circuit Court issued a judgment against the Borrower and personal guarantors in favor of the DDA in the amount of \$208,400.60. This amount represents payment of the Loan, interest, and attorneys' fees resulting from the legal action.

DDA staff sought to collect the judgment amount from each of the personal guarantors, but certain conditions made this task difficult. First, personal guarantor Kenneth Leonard's obligations in connection with the Loan were discharged due to the filing of a personal bankruptcy. Second, following the court's issuance of the judgment, personal guarantor Anthony DiGirolamo did not have any available assets or income immediately available to engage in collection efforts to collect on his portion of the remaining balance of the Loan. The DDA and its legal counsel on this matter, Kotz, Sangster, Wysocki and Berg, P.C. ("Kotz"), continued to pursue the personal guarantors for payment on the defaulted Loan. To date, the DDA has collected \$13,411.98, with the majority of these funds being collected from Mr. DiGirolamo in relation to a garnishment and charging order. As of December 31, 2018, the outstanding balance on the Loan was \$184,463.02.

On November 5, 2018 Mr. DiGirolamo reached out to Kotz and proposed a settlement between himself, as personal guarantor, and the DDA. The terms of the proposed settlement include the following:

- (a) Mr. DiGirolamo will remit to DDA a lump sum payment of \$10,000 following the approval of the settlement terms and execution of a settlement agreement;
- (b) Following the lump sum payment, Mr. DiGirolamo will make monthly payments to the DDA in the minimum amount of \$100 until the aggregate amount of such monthly payments equals \$10,000;
- (c) After the DDA receives \$20,000 from Mr. DiGirolamo, being the lump sum payment of \$10,000 and the aggregate amount of the monthly payments totaling \$10,000, the DDA will release all liens and claims against Mr. DiGirolamo as a personal guarantor of the Loan;

DDA's settlement with Mr. DiGirolamo will not release Borrower nor Mr. Wolicki from any obligations each may have under the Loan. DDA staff and Kotz will continue to pursue DDA's rights under the Loan to secure payment of the outstanding balance.

DDA staff, in consultation with Kotz, has reviewed the proposed settlement terms and feels that this is a reasonable settlement offer. DDA staff asks the Finance Committee to recommend this transaction to the DDA Board for approval.

Subsequent to a discussion, the Committee took the following action:

On a motion by Ms. Delley, seconded by Mr. Ogden, the Committee unanimously agreed to recommend to the DDA Board approval of this partial settlement.

OTHER MATTERS

PUBLIC COMMENT

ADJOURNMENT

With there being no other business to be brought before the Committee, Mr. Naglick adjourned the meeting at 2:38 p.m.