500 Griswold, Suite 2200
Detroit, MI 48226

ECONOMIC DEVELOPMENT CORPORATION
FINANCE COMMITTEE MEETING
FRIDAY, DECEMBER 4, 2020 – 10:30 A.M.

MEMBERS PRESENT:	Linda Forte, Chair Damon Hodge Kwaku Osei Thomas Stallworth
MEMBERS ABSENT:	None
OTHERS PRESENT:	Kenyetta Bridges (DEGC/EDC) Cora Capler (DEGC/EDC) Gay Hilger (DEGC/EDC) Kate Humphry (City of Detroit) Malinda Jensen (DEGC/EDC) Paul Kako (DEGC/EDC) Jennifer Kanalos (DEGC/EDC) Glen Long (DEGC/EDC) Lexi Mabry (DEGC/EDC) Greg Mangan (Southwest Detroit Business Association) Rebecca Navin (DEGC/EDC) Zachary Ormsby (City of Detroit) Ed Potus (Cinnaire Solutions) Nevan Shokar (DEGC/EDC) Kelly Shovan (DEGC/EDC)

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MINUTES OF THE ECONOMIC DEVELOPMENT CORPORATION
FINANCE COMMITTEE MEETING
FRIDAY, DECEMBER 4, 2020
ZOOM VIRTUAL MEETING – 10:30 A.M.

CALL TO ORDER

Noting that a quorum was present, Chairperson Forte called the meeting of the Finance Committee of the Economic Development Corporation to order at 10:33 a.m.

APPROVAL OF MINUTES

Ms. Forte asked if there were any additions, deletions or corrections to the minutes of the September 18, 2020 Finance Committee meeting. Hearing none, the Committee took the following action:

> Mr. Stallworth made a motion approving the minutes of the September 18, 2020 Finance Committee meeting, as presented. Mr. Hodge seconded the motion. A roll call vote was conducted with the following result:
> Ayes: Mr. Hodge, Mr. Osei, Mr. Stallworth and Ms. Forte.
> Nays: None.
> The minutes of the September 18, 2020 Finance Committee meeting were approved.

PROJECTS

Loan and Grant Funding for La Joya Gardens Project

Mr. Shokar reported that the La Joya Gardens project (the "Project"), located on a vacant site at the main street commercial corridor of West Vernor Hwy and Hubbard St, is a planned 53-unit residential building with over 7,200 square feet of retail space. The Project is led by Cinnaire Solutions & Southwest Detroit Business Association (the "Developer"). The Project is a cornerstone of the comprehensive implementation actions coming from the City's Southwest Detroit Planning Framework and is being supported by the Strategic Neighborhood Fund. It is also a priority project for the City's Housing and Revitalization Department. Of the 53-units, it is anticipated that just a fraction will be market-rate, with approximately 75% of the units being reserved for households between 40-80% AMI for a period of at least 45 years. The Developer is committed to working with the Small Business Association of Michigan to attract minority-owned, Detroit based businesses to the Project. This Project is adjacent to a historic residential neighborhood and will bring much needed affordable housing and jobs to one of the City of Detroit's key commercial corridors.

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The Developer has secured funding from the Michigan State Housing Development Authority ("MSHDA") and Invest Detroit but overall, there is a remaining $1.5 million gap driven by the market rate housing and retail component of the Project. Staff of the Economic Development Corporation of the City of Detroit ("EDC") has evaluated the Project in detail and seeks to support this Project by providing an entity affiliated with Developer, Hubbard Vernor 4 LDHA, LLC (the "Borrower"), with the remaining funds required for the completion of the Project.

EDC staff proposed that $1,500,000 be provided to the Project as follows: $1,000,000 of recycled Urban Development Action Grant ("UDAG") funding in the form of a loan to Borrower (the "Loan") in accordance with the terms below, and $500,000 in UDAG funds provided in the form of a UDAG grant to Developer.

Mr. Shokar reviewed the Loan and Grant terms as follows:

PROJECT FINANCING TERMS

Loan: $1,000,000 payable to the EDC pursuant to a promissory note and in accordance with the following:

> **Borrower:** Hubbard Vernor 4 LDHA, LLC
>
> **Interest Rate:** 1.0% Interest payments will be calculated annually based on the remaining principal.
>
> **Term*:*** 240 months. No prepayment penalties will be applied. Repayment of the loan will be due upon the maturity date of the promissory note, sale of the property or refinance of the existing mortgage, whichever occurs earlier.
>
> **Amortization:** 240 months.
>
> **Payments:** Interest only payments will be due commencing on the first business day of the month following the initial disbursement of the Loan and continue through the 24th month following the issuance of the Certificate of Occupancy. Thereafter, payments of principal and interest on the balance of the Loan shall be payable until the maturity date. All unpaid principal and accrued but unpaid interest shall be due and payable on the maturity date or such other event triggering repayment of the Loan, as described by the loan documents.
>
> **Reporting:** Annual financial statements prepared certified by a certified public accountant in accordance with Generally Accepted Accounting Procedures will be provided to the EDC staff.

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Security for Loan: Subordinated Lien position on all business assets, Assignment of Leases and Rents, Subordinated Mortgage on the Project property. The EDC's security interest will be subordinated to that of the senior lenders.

Guaranty: Corporate Guaranty of Cinnaire Solutions Corporation ("Cinnaire"), or such other corporate entity affiliated with Borrower, subject to EDC staff's review of corporate financial statements.

Grant: $500,000.00 to be paid to Cinnaire, or such other non-profit corporation designated by Borrower, Cinnaire and Borrower's tax credit lender, to avoid a taxable event for the Project. Grant recipient will then use the grant proceeds to make a long-term cash flow contingent loan to Borrower. Grant will be recoverable from grant recipient to the extent of any loan proceeds received by grant recipient pursuant to the above-described loan.

Disbursement: Owner equity contributions and MSHDA HOME funds will be first, followed by disbursements of the EDC funds, and then followed by senior lenders' funds. The Loan will be funded through multiple disbursements following closing. It is anticipated that the EDC grant funds will be provided to Cinnaire Solutions Corporation in a single disbursement.

Eligible Uses: New construction, site improvements, additional machinery, equipment or fixtures for the Project, architectural and engineering or similar fees.

Conditions: Satisfactory review and acceptance of standard due diligence items. Binding commitments for all project loans. Execution of mutually agreeable Loan and grant documents. Borrower will provide itemized schedule and use of funds. Approval by City of Detroit Housing and Revitalization Department Director of EDC Project financing.

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SOURCES AND USES

SOURCES	Amount	% of TDC
Senior Debt		
MSHDA Perm 9	$919,489	4.9%
MSHDA Perm 4	$1,522,192	8.1%
Invest Detroit Commercial Loan	$680,050	3.6%
Subordinate Debt/Grants		
EDC UDAG Loan	$1,000,000	5.3%
EDC UDAG Grant	$500,000	2.6%
ALF Fund	$2,500,000	13.2%
MSHDA HOME	$300,000	1.6%
Income from Operations	$13,177	0.1%
Deferred Fees/Cash Equity		
Deferred Developer Fees	$101,805	0.5%
LIHTC Equity	$9,491,839	50.2%
SNF Equity	$1,500,000	7.9%
Sponsor Loan	$364,210	1.9%
TOTAL SOURCES	**$18,892,762**	**100.0%**

USES	Amount	% of TDC
Land Acquisition	$184,216	1.0%
Site Work, Infrastructure, Etc	$682,181	3.6%
Hard Construction Costs	$13,406,994	71.0%
Machinery, FFE, Etc.	$629,555	3.3%
Developer Fee	$1,116,344	5.9%
Consultant Fees	$1,159,738	6.1%
Total Soft Costs	$1,713,734	9.1%
TOTAL USES	**$18,892,762**	**100.0%**

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CASH FLOW PROJECTION

Cash Flow Projection	1	2	3	4	5	6	7	8	9	10
Effective Income	$563,980	$575,259	$586,765	$600,402	$612,410	$624,658	$637,151	$649,895	$662,892	$676,150
OPEX	$295,352	$304,213	$313,339	$322,739	$332,421	$342,394	$352,666	$363,246	$374,143	$385,367
NOI	**$268,628**	**$271,047**	**$273,426**	**$277,663**	**$279,989**	**$282,264**	**$284,486**	**$286,649**	**$288,749**	**$290,783**
Debt Service										
MSHDA Perm 9	$56,909	$56,909	$56,909	$56,909	$56,909	$56,909	$56,909	$56,909	$56,909	$56,909
MSHDA Perm 4	$86,873	$86,873	$86,873	$86,873	$86,873	$86,873	$86,873	$86,873	$86,873	$86,873
Commercial Loan	$52,579	$52,579	$52,579	$52,579	$52,579	$52,579	$52,579	$60,679	$60,679	$60,679
Total Debt Service before EDC Loan	**$196,361**	**$196,361**	**$196,361**	**$196,361**	**$196,361**	**$196,361**	**$196,361**	**$204,462**	**$204,462**	**$204,462**
Subtotal	**$72,266**	**$74,685**	**$77,064**	**$81,302**	**$83,627**	**$85,903**	**$88,124**	**$82,187**	**$84,288**	**$86,321**
EDC Loan	*$10,000*	*$10,000*	*$55,187*	*$55,187*	*$55,187*	*$55,187*	*$55,187*	*$55,187*	*$55,187*	*$55,187*
Cash Flow after Debt Service	**$62,266**	**$64,685**	**$21,877**	**$26,114**	**$28,440**	**$30,716**	**$32,937**	**$27,000**	**$29,100**	**$31,134**
DSCR	*1.30x*	*1.31x*	*1.09x*	*1.10x*	*1.11x*	*1.12x*	*1.13x*	*1.10x*	*1.11x*	*1.12x*

EDC staff requested that the Finance Committee recommend approval of the Loan and grant to the EDC Board of Directors.

Ms. Forte advised that she had a question and then would open the discussion to the Committee members. She asked if the grant was a true grant with no expectation of repayment. Mr. Shokar stated that is correct. Ms. Navin added that the grant will be made to either Cinnaire or another nonprofit entity affiliated with Cinnaire and the development team, and then that nonprofit will make a contingent cash flow loan to the project. It is not anticipated that the project will be able to repay that loan, given the tight margins, but if at some point they are able to repay that loan, those proceeds would be capturable by the EDC, and a mechanism will be included in the grant to capture those proceeds. Mr. Forte asked what the source of the grant funds is. Ms. Navin answered that the entire $1.5 million is from UDAG repayment funds.

Ms. Forte asked how many permanent and temporary jobs will be created. Mr. Shokar directed Ms. Forte's question to Ed Potus of the development team. Mr. Potus advised that they anticipate the standard levels of construction jobs created, but the real impact will be at the street-level commercial side. There will be up to five individual tenants in the spaces and up to 24 permanent jobs created depending on the tenant mix.

Mr. Hodge commented about the timing of this loan and grant request, with such an aggressive closing anticipated in 60 to 90 days and asked if there was a financing structure change at the last minute. Mr. Shokar stated that there always was a $1.5 million gap in the funding of the project. The funds were anticipated to come from another source and the funds were not available. MSHDA is completing their review this month and we are close to the finish line on the project.

Mr. Osei asked about the timeline of the project and when it would be complete, and secondly, if the funds did not come from the EDC, where were they going to get the funds. Mr. Shokar stated that the MEDC was going to provide CRP funds, but the State budget was reduced. Mr. Shokar called on Mr. Potus to speak to the development timeline. Mr. Potus advised that construction would begin the first quarter of next year and completion is expected in the summer of 2022.

Mr. Hodge asked if there were ever a point in time that a higher debt service coverage ratio was considered and stated that 1.1 seemed a bit snug. Mr. Shokar advised that they ran the numbers using several different scenarios to try to get that number up to 1.15 or 1.2 but ultimately wanted the most amount of funds to be repayable with a return back to this Board.

Ms. Forte asked what the range of square footage is for the units. Mr. Shokar advised that the one-bedroom units are 700 square feet and the two-bedroom units are 900 square feet. Ms. Forte commented that the size and location of the units is really a positive thing in her mind.

Ms. Forte asked if there were any other questions. Hearing none, she called for a motion.

> Mr. Hodge made a motion to recommend approval to the Board of the La Joya Gardens Project loan and grant request, as presented. Mr. Stallworth seconded the motion. A roll call vote was conducted with the following result:
> Ayes: Mr. Hodge, Mr. Osei, Mr. Stallworth and Ms. Forte.
> Nays: None.
> The La Joya Gardens Project loan and grant request was recommended to the Board for approval.

<u>Detroit Gateway Park Outlet Mall, LLC- Casino Loan National Retail/UDAG - Loan Restructure</u>

Ms. Mabry advised that in March 2012, the Economic Development Corporation of the City of Detroit ("EDC") approved a $2,000,000.00 loan (the "Loan") to Detroit Gateway Park Outlet Mall, LLC (the "Borrower"). The Loan consisted of $1,500,000.00 of recycled Urban Development Action Grant funds and $500,000.00 from the EDC's Casino Loan fund. The Borrower utilized the Loan funds for the Detroit Gateway Park Outlet Mall project which consisted of a 340,000 square foot service-oriented retail center located at Eight mile and Woodward (the "Project"). The Project was the first major retail center within the City of Detroit in 50 years with a total Project cost in excess of $28,000,000. In addition to the Loan, the Borrower also received funding from the General Retirement System of the City of Detroit ("GRS") and Meijer Corporation as well as tax incentives through New Market Tax Credits.

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The collateral for the Loan includes a subordinated mortgage on the Project properties, assignment of lease & rents and a UCC asset filing. The Loan had an initial term of 7 years with a maturity date in 2019 and the interest rate was 4%. Monthly loan payments were interest only ($6,666.67) until maturity. Upon maturity of the Loan, the Borrower requested that EDC restructure its Loan, however, prior to restructuring the Loan, the Borrower was required to complete a number of New Markets Tax Credit financial procedures. During such time, the Borrower continued to timely remit to the EDC interest only payments.

As for the Project itself, the Project property currently is fully leased, except for 7,400 square feet which was location of the former space for Payless Shoes. This space will be split into 2 smaller spaces and the Borrower is currently negotiating a lease with a commercial and dental facility to locate their businesses on the property. The Meijer store is the anchor tenant and some other tenants include, but are not limited to Applebee's, Planet Fitness, K&G, and SVS Optical.

Earlier this year, the "exit/unwind" financial procedures of the New Market Tax Credit financing structure were completed and the Borrower was able to complete an extension and amendment to the GRS and Meijer loans. The maturity dates of both loans were extended to December 2024.

The Borrower is now requesting that the EDC restructure the Loan to match the terms of the Meijer loan as follows: 1) maturity date will be extended to December 2024; 2) interest only payments (payable quarterly, in arrears) through maturity at the rate of 2.0%; and 3) one-time principal payment of 10% of the outstanding principal balance of the Loan ($200,000.00) to be paid within 10 days of Borrower's receipt of the Summer 2020 tax increment financing revenues. It is anticipated that Borrower will receive a payment of such revenues in December 2020.

As economic development is one of EDC's primary roles, in the inception of this Loan, the subordinated debt was deemed to be an acceptable risk. EDC staff will remain vigilant in monitoring updates from the Borrower, GRS and Meijer before Loan maturity.

EDC staff finds the above restructuring terms practical in lieu of the financial structure of the Project and requested that the Finance Committee review this restructure and recommend it to the Board for approval.

Ms. Forte called for questions.

Mr. Hodge asked what the original plan was for repayment at inception of the loan. Ms. Mabry advised that they were going to pay the loan back as originally planned, but

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because of Covid and Payless not being involved in the loan anymore, they requested that we mirror the terms of the Meijer's restructure. Mr. Hodge stated that by the time this next renewal expires, EDC will be 12 years into this and will have only received a 10 percent reduction in the overall debt. His concern was long term and wondered if any thought had been given to that.

Mr. Long advised that this is tied to the TIF reimbursement the project receives through the Corridor Improvement Authority as well. That has been ongoing and healthy. The borrower has not missed a scheduled payment and they are current with the loan. We are confident we will get repayment on the back end of this as they are being reimbursed on the TIF for their costs currently. As that continues to go through and their costs are expiring, we believe we will be fine with principal and interest.

Ms. Forte asked if there were other questions. Hearing none, she called for a motion.

> Mr. Hodge made a motion to recommend approval to the Board of the Detroit Gateway Park Outlet Mall loan restructure, as presented. Mr. Osei seconded the motion. A roll call vote was conducted with the following result:
> Ayes: Mr. Hodge, Mr. Osei, Mr. Stallworth and Ms. Forte.
> Nays: None.
> The Gateway Park Outlet Mall loan restructure was recommended to the Board for approval.

ADMINISTRATION

None.

OTHER MATTERS

None.

PUBLIC COMMENT

None.

ADJOURNMENT

With there being no other business to come before the Committee, on a motion by Mr. Osei, seconded by Mr. Stallworth, Chairperson Forte adjourned the meeting at 10:58 a.m.