



**DOWNTOWN DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING
MONDAY, MARCH 29, 2021 – 4:00 P.M.**

COMMITTEE MEMBERS PRESENT: David Blaszkiewicz
Sonya Delley
Melvin Hollowell
John Naglick
Steve Ogden

COMMITTEE MEMBERS ABSENT:

OTHERS PRESENT: Kenyetta Bridges (DEGC/DDA)
Cora Capler (DEGC/DDA)
David Laurence Howell (DEGC/DDA)
Malinda Jensen (DEGC/DDA)
Kevin Johnson (DEGC/DDA)
Jennifer Kanalos (DEGC/DDA)
Paul Kako (DEGC/DDA)
Glen Long, Jr. (DEGC/DDA)
Rebecca Navin (DEGC/DDA)
Vickie Adams (Detroit Documenters)
Richard Barr (Honigman)
Rainy Hamilton Jr. (Randolph Center 2020, LLC)
Chante Jackson (Hamilton Development)
Noah Kincade (Detroit Documenters)
David Schervish (Randolph Center 2020, LLC)



**MINUTES OF THE DOWNTOWN DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING
MONDAY, MARCH 29, 2021
ZOOM VIRTUAL MEETING – 4:00 P.M.**

GENERAL

Call to Order

Chairman Naglick called the Finance Committee meeting of the Downtown Development Authority Board of Directors to order at 4:01 p.m. Roll call was conducted, and a quorum was established.

Approval of Minutes

Mr. Naglick asked if there were any additions, deletions or corrections to the minutes of the November 20, 2020 Finance Committee meeting. Hearing none, the Committee took the following action:

Mr. Hollowell made a motion approving the November 20, 2020 minutes, as written. Mr. Blaszkiewicz seconded the motion. A roll call vote was conducted with the following result:

Ayes: Mr. Blaszkiewicz, Ms. Delley, Mr. Hollowell, Mr. Naglick and Mr. Ogden
Nays: None.

PROJECTS

Paradise Valley Business & Entertainment District: Amendment to Development Agreement for 1435 Randolph and 1455 Centre

Mr. Howell reported that the City of Detroit Downtown Development Authority (the “DDA”) approved the award of a development agreement (as amended, the “Development Agreement”) for 1435 Randolph and 1455 Centre (the “Property”) to Randolph Centre 2020, LLC (the “Developer”) following a Request for Proposals issued by DDA staff. In June, 2017 and August, 2019, the DDA approved certain amendments to the Development Agreement, including but not limited to:

1. Reduction of the purchase price to \$1,400,000;
2. Provide a forgivable development credit against the purchase price of \$400,000;
3. Provide seller financing of the purchase price & additional financing of \$835,000 (the “DDA Loan”) for predevelopment and construction activities; and
4. Allow for an immediate closing on the property, with the senior construction financing (the “Senior Loan”) to close within six months following closing.

Developer closed on the acquisition of the Property in October 2019, including the \$1,000,000 seller financing and a disbursement of \$400,000 of the DDA Loan proceeds. Since the closing, several factors have prohibited the Developer from moving forward and effectuating the development plan and closing on the Senior Loan. First, the onset of the global pandemic has



created uncertainty in the financial and real estate markets which required the Developer to restructure the terms and conditions of the project's construction and permanent financing and has dramatically slowed leasing activity in the CBD, particularly among retail/restaurant tenants, negatively impacting the leasing of 9,000 SF of ground floor space. Furthermore, continued increases in construction costs and overall project costs have required the Developer to value engineer the project by reducing the overall project scope. Lastly, the initial real property assessment was significantly higher than the project projections could support, thus requiring the Developer to pursue a tax appeal that has brought the taxes to a level that makes the project feasible from an operating perspective.

Based on the foregoing, DDA staff recommended the following amendments to Development Agreement and the loan agreement upon the terms and conditions set forth in term sheet described in **Exhibit A** (the "Revised Terms"), the key terms of which were summarized as follows:

- 1) Extend the date of the Senior Loan closing to six (6) months from the date of the Board's approval of the Revised Terms;
- 2) Disburse a portion of the remaining \$435,000 DDA Loan prior to the Senior Loan closing;
- 3) Increase the Development Credit from \$400,000 to \$835,000 for construction and increased and unanticipated soft costs; provided that Developer closes on the Senior Loan within the above-period;
- 4) Extend the amount of time the Developer has to lease the ground floor retail space from 24 months to 36 months and reduce the leasing requirement from 9,000 SF to 6,000 SF;
- 5) Forgive the unpaid interest that has accrued on the principal balance of \$1,400,000 from April, 2020 through December 31, 2020 and add unpaid interest accrued from January 1, 2021 through the DDA Loan closing to the principal balance of the DDA Loan; and,
- 6) Extend the maturity date of the DDA Loan to September 30, 2043, provided that the maturity date shall automatically be extended for up to 12 months to match the initial maturity date of the Senior Loan.

The DDA staff is seeking the Board's approval to negotiate and execute an Amendment to the Development Agreement and the documents governing the DDA Loan consistent with the Revised Terms and requested that the Finance Committee recommend approval of the Revised Terms to the Board.

Ms. Navin clarified that Mr. Howell's presentation was a high-level overview of the revised terms which could be found in Exhibit A of the memo and that with respect to the \$435K to be disbursed after closing, \$150K would be disbursed for pre-development and the remainder of the funds would be disbursed after the senior financing closes with \$50K for the next tax payment and then the remainder as the construction financing draws down.

Mr. Naglick called for comments/questions.

Mr. Blaszkiewicz remarked that when the DDA reviewed the last Amendment in October, 2019, construction costs, while rising, were not at the same levels that construction costs are currently.



Mr. Blaszkiewicz asked Mr. Hamilton about the current budget, how it has been impacted by the pandemic and how Mr. Hamilton planned to address any gaps in the budget?

Mr. Hamilton responded that they are working with Integrity Building Group, located in Paradise Valley, to discuss holding prices who in turn were discussing holding prices with their subcontractors. Mr. Hamilton also responded that they have had to reduce, to a small degree, some of the scope of work that had been included in the project initially to offset the increases in the construction industry.

Mr. Blaszkiewicz remarked that with so many businesses also being affected and from an underwriting process, banks must be looking at Hamilton Anderson Associates as a large occupant of the space, as an owner-occupied transaction and as such, the financial capacity is an important part of the underwriting process and asked Mr. Hamilton to discuss the status of the underwriting process.

Mr. Hamilton responded that Hamilton Anderson Associates added two staff members in the last six weeks, had a good year and is in a good position going forward, is still winning work, and has not had to reduce staff. Mr. Hamilton added that Hamilton Anderson Associates had to adjust its target for the year downward but was successful in obtaining two rounds of the Paycheck Protection Program funding for the business, so he felt they were in a good financial position moving forward as the major tenant of the office portion. Mr. Hamilton stated that they have been working constantly with Joe Vassallo of Flagstar Bank, speaking at least monthly, if not every two weeks, that Joe is greatly aware of where they are in the process and that Flagstar Bank is interested in getting into this type of market as a lender. Mr. Hamilton also stated that he is looking forward to the Amendment being approved, is hoping that underwriting process will begin quickly and be approved within the next 90 days and that they are in a good position to move the project forward.

Mr. Naglick asked Mr. Hamilton about Flagstar Bank with respect to proceeding with closing on the loan should the Amendment be approved by the Finance Committee and the DDA Board of Directors.

Mr. Hamilton responded that they have in-depth conversations with Flagstar Bank, who have been part of the conversation which led to the amendment request and the plan that office renovations should be conducted first with the retail renovations to follow in a later phase.

Mr. Ogden inquired to Mr. Hamilton as to what contributions he was making to solidify the deal.

Mr. Hamilton responded that he has put upwards of \$500K into the deal, paying for architectural costs, as well as legal fees, and when the restaurant comes online, it will be another \$200K that will go into the deal. Mr. Hamilton added that they have been carrying the project for 6 years and the soft costs associated with that has been a big lift with respect to the project. Mr. Hamilton also responded that the tax bill was up to \$208K in property taxes when they had budgeted about \$32K but they are fortunate that they have been able to pay rent, that they are still receiving inquiries regarding office space and that 80% of his team want to be back in the office.

Mr. Hollowell remarked that the viability of the project with respect the Amendment request is the issue and must be explained in way that the Amendment is credible.



Mr. Hamilton responded that Hamilton Anderson Associates has been in the building for 28 years, that he cannot speak for Flagstar Bank with respect to the loan but that he believes that Flagstar Bank will support it, that the delays that have occurred on the project have not been necessarily under their control and that they have been working hard to get the project done.

Ms. Delley inquired that as an owner-occupied facility why has the project been delayed? Ms. Delley asked if that could that be due to difficulty with the senior lending what is exactly is the gap that needs to be addresses to make the project happen? Ms. Delley also asked if the requested concessions are necessary to fill the gap, if there might be any additional sharing that could be done so that the Committee can recommend to the Board that it is filling the gap but only to the extent necessary to bring the project to fruition.

Mr. Hamilton responded that Flagstar Bank was on board to lend to the project, that they were in the process of negotiating a term sheet with Flagstar Bank and then COVID hit resulting in a pause on lending to projects. During this time, conversations continued with Flagstar Bank. Mr. Hamilton also referenced a report issued by Plante Moran from prior to the 2019 amendment which included an analysis that led to an adjustment of the numbers to fill the financial gap to make the project happen.

Mr. Howell remarked that with respect to the underwriting and the gap, Mr. Hamilton and his team had to rethink the assumptions used in the model so that it would be acceptable to Flagstar Bank. Mr. Howell added that he has had multiple conversations with Mr. Hamilton and Mr. Schervish about the assumptions particularly about Flagstar Bank's willingness to accept the assumptions about rents and timing of securing retail tenants to create a model that would be acceptable to Flagstar Bank.

Ms. Delley asked if there were any other banks interested in financing the deal? Mr. Hamilton responded that the bank for Hamilton Anderson Associates is Comerica Bank and as they thought they were nearing the finish line, the deal did not work for them. They did speak with other banks, but Flagstar Bank was the bank that showed great interest in making the deal happen.

Mr. Hollowell proposed a short delay, in the form of a motion, in connection with the Committee vote on the Amendment to the Development Agreement, and perhaps having some expression of support from Flagstar Bank indicating support of the deal.

Mr. Naglick asked is there was support for the motion. Mr. Ogden made a motion to support.

Mr. Hamilton responded that, prior to issuing a term sheet, Flagstar Bank has requested a resolution on the taxes and well as the amendment to the development agreement. Mr. Hamilton added that if there is a 30-day delay due to a more in-depth review by the Committee, it could have a negative consequence for the project.

Mr. Naglick asked if Mr. Hamilton could obtain something from Flagstar Bank indicating support for the project?

Ms. Delley remarked that she believes that there is concern that the DDA is subsidizing the project, more so with the current amendment request, that the sources of the capital stack need



to be reviewed considering how much Flagstar Bank is willing to support the project and is that acceptable to the DDA.

Mr. Hollowell proposed to include Ms. Delley's remarks as a friendly amendment for the Board to review in addition to the documents submitted to date.

Ms. Navin suggested that the Committee table the Amendment to the Development Agreement to allow staff the time to return to the Committee with a more detailed presentation about the capital stack and to give Mr. Hamilton the opportunity to discuss with Flagstar Bank the ability to provide an indication of support for the project, as soon as possible, perhaps calling a special meeting to review the Amendment to the Development Agreement.

Mr. Hollowell withdrew his motion, agreeing with Ms. Navin's suggestion to table the Amendment to the Development Agreement, in order to review the requested documents without the constraint of the 30-day requirement.

Mr. Naglick also agreed with Ms. Navin's suggestion and asked the Committee if it agreed with the suggestion to table the Amendment to the Development Agreement. Mr. Blaszkiewicz indicated support to table the item.

Mr. Hamilton inquired to Mr. Schervish as to whether Flagstar Bank had submitted a letter of interest.

Mr. Schervish responded that a soft letter was submitted with the some of the terms provided, which Joe Vassallo will take his to his committee after the tax issue is resolved and the Amendment to the Development Agreement is approved.

Mr. Naglick requested to review proforma from Mr. Howell.

Ms. Delley requested to review the term sheet.

Mr. Schervish responded that they do not have a term sheet, just a soft letter stating some of the terms, adding that Flagstar Bank cannot issue a term sheet until the tax issue is resolved and the Amendment to the Development Agreement is approved.

Mr. Naglick added that the increase in taxes is beneficial to the DDA's tax capture and that information should be added to the request.

Mr. Ogden requested information with respect to the loan to value and what the sources and uses are to close that gap.

Ms. Navin indicated that DDA staff would work to get the information and schedule a Finance Committee meeting so that the Amendment to the Development Agreement can be on the April 14, 2021 DDA Board agenda.

ADMINISTRATION



None.

PUBLIC COMMENT

None.

ADJOURNMENT

With there being no further business to be brought before the Committee, on a motion by Mr. Blaszkiewicz, seconded by Mr. Ogden, Mr. Naglick adjourned the meeting at 5:02 p.m.