DDA
CITY OF DETROIT
Downtown Development Authority
500 Griswold, Suite 2200
Detroit, MI 48226

DOWNTOWN DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING
MONDAY, JULY 6, 2020 – 3:00 P.M.

COMMITTEE MEMBERS PRESENT:	David Blaszkiewicz Sonya Delley Melvin Hollowell John Naglick
COMMITTEE MEMBERS ABSENT:	Steve Ogden
OTHERS PRESENT:	Malinda Jensen (DEGC/DDA) Jennifer Kanalos (DEGC/DDA) Cora Capler (DEGC/DDA) Tom Goss (Bagley Development Group LLC) Gay Hilger (DEGC/DDA) Denise Hundley (DEGC/DDA) Paul Kako (DEGC/DDA) Glen Long, Jr. (DEGC/DDA) Lexi Mabry (DEGC/DDA) Emmett Moten (Bagley Development Group LLC) Rebecca Navin (DEGC/DDA) Sarah Pavelko (DEGC/DDA) Roy Roberts (Bagley Development Group LLC) Ed Saenz (Olympia Development) Nevan Shokar (DEGC/DDA)

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MINUTES OF THE DOWNTOWN DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING
MONDAY, JULY 6, 2020
ZOOM VIRTUAL MEETING – 3:00 P.M.

GENERAL

Call to Order

Chairman Naglick called the Finance Committee meeting of the Downtown Development Authority Board of Directors to order at 3:05 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 May 21, 2020 Finance Committee meeting. Hearing none, the Committee took the following action:

> Mr. Hollowell made a motion approving the May 21, 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, and Mr. Naglick
> Nays: None.

PROJECTS

Proposed DDA Development Housing and Retail Loan Request for Bagley Development Group LLC

Mr. Shokar did a PowerPoint presentation on the proposed project and reviewed the following terms of the loan request:

LOAN PURPOSE AND DEVELOPMENT DESCRIPTION

Bagley Development Group, LLC, (the "Developer") is development team formed in 2015 led by Emmet Moten and Richard Hosey. The Developer is seeking to redevelop the United Artists Building located at 150 Bagley into a mixed-use commercial development (the "Project"). The Developer will be a ground lessee of the property, pursuant to a 70-year ground lease. To facilitate the development, the Developer is seeking a $2.5MM loan (the "DDA Loan") from the City of Detroit Downtown Development Authority ("DDA") Housing/Office/Retail Development and Absorption Fund (the "DDA Loan Fund").

The loan request is a result of the reduction of the Michigan Strategic Fund ("MSF") 2019-2020 annual budget, which has reduced the amount of Community Revitalization Program funding dollars available to development projects statewide and resulted in a smaller than expected loan from MSF. The MSF has asked the DDA to service Developer's loan from MSF as well. The Project is also receiving loans from the U.S. Department of Housing and Urban Development and the City of Detroit's Housing and Revitalization Department and historic tax credits.

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The DDA Loan will support a $73 million mixed-use renovation of an eighteen-story, mixed-use building with 148 apartment units and 10,500 square feet of ground-floor retail with on-site surface parking spaces. Of the 148 units, 20% will be affordable at 80% of the area median income. The affordable unit rental rates are inclusive of utilities. The development team is committed to reaching out to Detroit-based and minority owned businesses who are looking for brick and mortar locations.

This development brings back to life a historic building in the heart of downtown Detroit, adding density to a much-needed Grand Circus Park area. It is projected to create a total of 25 FTEs and an anticipated 300 construction jobs.

Under the DDA Loan Fund, loans of up to $2,000,000 are available for housing projects and loans of up to $1,000,000 are available for retail projects. As the DDA Loan will support both housing and retail uses, Staff is recommending $2,500,000 loan.

Please find below the proposed terms of the DDA Loan, a sources and uses, and cash flow illustrating debt service for the project.

Borrower Name: Bagley Development Group, LLC

Borrower Location: 3633 Michigan Ave., Detroit MI 48216

Request: $2,500,000

Interest Rate: 3.0% per annum

Fee: 1% of the award amount due at closing. Additional fees to be applied and paid throughout the term of the loan for servicing the MSF loan.

Term: Shall match that of the senior lender, anticipated to be 508 months

Repayment: Monthly interest only payments for 28 months (period to match interest only period of HUD Loan), followed by semi-annual principal and interest payments equal to 30% of Distributable Cash Flow as determined by HUD for 480 months (cash flow to be split on a pro rata basis with the MSF). Payment of preferred returns to the HTC investor and lease payments are anticipated to made prior application of split. Developer fees will be paid and split under the same 30/70 proportions as described above.

Security: Subordinated Lien position on all business assets, Assignment of Leases and Rents, Subordinated Leasehold Mortgage on the property. DDA's security interest will be subordinated to that of the senior lender, and pari passu with MSF.

Guaranty A Guaranty of the individuals affiliated with the Borrower. The guaranty will remain in effect until 104 residential units, or 70% of the total residential units on the property, are under a lease agreement and occupied. Once this occupancy threshold is achieved, the Guaranty would cease to exist.

Eligible Uses: Demolition, alteration, rehabilitation, and improvement, additional machinery, equipment or fixtures for the project, architectural and engineering or similar fees.

Disbursement: Owner equity contributions are first, followed by a pro rata split between Michigan Strategic Fund (CRP) and DDA loan funds, followed by senior lender. The DDA loan will be funded through multiple disbursements following closing.

Conditions: Satisfactory review and acceptance of standard due diligence items. Binding commitments for all project loans. Borrower will provide itemized schedule and use of funds. Execution of mutually acceptable loan documents

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TOTAL SOURCES		
Senior Debt		
HUD 221D4 A Loan	$31,441,900	*42.8%*
HUD 221D4 B Loan	$3,563,300	*4.9%*
Subordinate Debt/Grants		
CDBG	$3,000,000	*4.1%*
DDA Loan	$2,500,000	*3.4%*
Deferred Fees/Cash Equity		
Deferred Developer Fees	$5,136,326	*7.0%*
Cash Equity Owner	$6,319,627	*8.6%*
MSF/MCRP Equity Investment	$5,000,000	*6.8%*
HTC Investor Equity	$10,803,790	*14.7%*
BSPRA	$5,675,430	*7.7%*
TOTAL DEVELOPMENT SOURCES	**$73,440,373**	***100.0%***

TOTAL USES		
Hard Costs		
Site Improvements	$429,652	*0.6%*
Demolition (Include Lead & Asbestos Abatement)	$1,270,440	*1.7%*
Structures	$36,775,859	*50.1%*

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Building Concrete/Masonry	*$5,574,382*	*7.6%*
Carpentry	*$721,632*	*1.0%*
Roofing/Metal/Siding/Insulation/Caulking	*$402,971*	*0.5%*
Drywall/Acoustical	*$8,065,391*	*11.0%*
Cabinets/Countertops/Appliances	*$4,852,462*	*6.6%*
Plumbing/Electrical/Fire Protection	*$9,709,479*	*13.2%*
HVAC	*$4,642,001*	*6.3%*
Elevators/Special Equipment	*$2,607,541*	*3.6%*
Tenant Upgrades	*$200,000*	*0.3%*
Builder Overhead/Profit	$8,899,689	*12.1%*
Permits/Tap Fees/Bond/Cost Certification	$290,000	*0.4%*
Construction Contingency	$4,556,067	*6.2%*
Total Hard Costs	**$52,221,707**	*71.1%*
Other Eligible Costs	**$985,984**	*1.3%*
Ineligible Soft Costs		
Other Professional Fees	$3,036,549	*4.1%*
Loan Fees	$1,318,500	*1.8%*
Construction Interest	$1,922,086	*2.6%*
Construction Taxes	$36,267	*0.0%*
Construction Insurance	$185,253	*0.3%*
Title Work	$50,000	*0.1%*
Rent-Up Reserve	$700,000	*1.0%*
Operating Reserve	$1,372,271	*1.9%*
BSPRA	$5,675,430	*7.7%*
Soft Cost Contingency	$800,000	*1.1%*
Developer Fee	$5,136,326	*7.0%*
Total Soft Costs	**$20,232,682**	*27.5%*
TOTAL DEVELOPMENT USES	**$73,440,373**	***100.00%***

Debt Service Analysis

	Year 1	Year 2	Year 3
Gross Income	$ 4,184,709	$ 4,268,403	$ 4,353,771
Vacancy Loss	$ (1,501,034)	$ (288,507)	$ (294,277)
Effective Income	$ 2,683,675	$ 3,979,897	$ 4,059,494
Total Expenses	$ (1,257,551)	$ (1,284,802)	$ (1,312,637)
Unleveraged Cash Flow	$ 1,426,124	$ 2,695,095	$ 2,746,857

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Debt Service HUD (4%, 40 year, 40 year AMT)	$	(1,400,208)	$	(1,951,266)	$	(1,951,266)
Leveraged Cash Flow	$	25,916	$	743,829	$	795,591
Debt Service Coverage Ratio		1.02x		1.38x		1.41x
Cash from Reserves	$	223,737	$	0	$	0
Repayment of Hist Tax Credits	$	0	$	(216,076)	$	216,076
Net Distributable Income*	**$**	**249,653**	**$**	**527,753**	**$**	**579,515**

***DDA and MSF repayment is 30% of this line item (Year 1, 2, 3: $74,896, $158,326, $173,855) proportional to the loan amount.**

The DDA Finance Committee was asked to recommend the proposed loan to the DDA Board of Directors for approval.

Mr. Emmett Moten, Managing Partner of Bagley Development Group LLC, provided detailed information and background on the project and the development group.

Mr. Naglick asked if there was a motion before discussion:

> Mr. Hollowell made a motion to recommend approval to the Board of the $2.5 million loan, and Mr. Blaszkiewicz seconded the motion.

Mr. Naglick called for discussion.

Mr. Hollowell stated that you couldn't have a better development team than this team of developers. It is a relative who's who of those that have been successful in this city and it is an added benefit that it is an African American development team. He also feels that this team will get the project done. When you look at the 300 construction jobs and the 25 FTEs, on the building side of this project, I know the developer is going to adhere to all of the standards that we expect with respect to African American participation and involvement of as many as possible of Detroit residents and businesses. The fact that the developer has hit all of the benchmarks with City Council, particularly Mary Sheffield, and the 20% affordable piece is very strong, and he would be very excited to get the shovel in the ground.

Mr. Blaszkiewicz added that Mr. Hollowell had made many of the same points that he was going to make, but he has one question. With nine different participants in the ownership structure, who owns the decision-making process? Mr. Moten responded that they have set up a four-person Executive Committee consisting of Roy Roberts, Jim Thrower, Tom Goss, and Richard Hosey that meets weekly to make decisions, and he acts as Managing Partner of the Committee. Mr.

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Hollowell asked a question about local participation. This is a 100 percent union job. In our contract with the subcontractors, we are telling them that we want to see local participation and go beyond a good faith effort, both from a construction and operation standpoint.

Ms. Delley stated that she is in full support of this project and is very pleased with the entire development team and what they are trying to accomplish. Given that DDA is providing quasi-equity, she suggested that the Committee consider taking an assignment of the managing member or the partnership interest of our sponsors in the historic tax credit.

Ms. Navin advised that this is not a standard development deal for DDA because the property is owned by an affiliate of Olympia and is going to be leased to the borrower. DDA will be entering into a loan and security agreement with the borrower and is in this deal purely as a lender. Our collateral on this deal is a leasehold mortgage because we are now in a subordinated position on that security and we've got an assignment of the lease, again in a subordinated position, but if there were a default, we would be able to step into the shoes of the developer on the lease. We also have a guaranty of payment, but once that project reaches 70 percent occupancy, that guaranty goes away. DDA has the comfort of HUD performing an annual audit on the project so that we can be assured that the distributable cash flow is going through that third-party eyes and DDA and the MSF will receive our disbursements out of that cashflow. Because this is an important project downtown and is unique in that it has a majority minority and Detroit-based development team, and because of the experience and history of the parties involved in the project, we feel comfortable moving forward.

Mr. Hollowell said that this is a difficult economic environment that we are in now and he wouldn't want to further handicap the project when they go to HUD to finalize the deal. He is satisfied with the legal protections that Ms. Navin has outlined.

Ms. Delley stated that she understands and agrees with all of the above and knows that working with HUD is extremely difficult and wouldn't want to handicap this project in any way, shape or form. But, having done many historic tax credit deals on the lending side, and when we didn't have collateral, if we were making a bridge loan for historic tax credits, we would take an assignment of the borrower's interest in the vehicle. It does not hurt the borrower at all. All it does is add some collateral that HUD has overlooked because they don't need it. If we can slide this in and HUD is okay with it, then why not?

Mr. Moten advised that the bridge loan lender is another entity that comes in and oversees the bridge loan and the tax credits. Ms. Delley responded that they are going to take the assignment, so that makes this whole conversation moot.

Mr. Naglick called on Ms. Kanalos who made the disclosure that because Mr. Moten mentioned that the project would be using the general contractors, Brinker/Christman, she wanted to advise the Committee that her husband, Kevin Kanalos, is a superintendent at Christman, but he has no financial interest in the company.

Mr. Naglick asked Ms. Navin if, since Mr. Hosey is involved in the project, if this is a project that will take two Board meetings. Ms. Navin responded, yes, the project would be presented at the Board meeting on Wednesday and then tabled for a period of at least seven days. It will be brought back for a vote at the July 22nd DDA Board meeting.

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There being no further discussion, Mr. Naglick called for a motion:

> Mr. Hollowell made a motion to recommend approval to the Board of the DDA Development Housing and Retail Loan Request for Bagley Development Group LLC, as presented. Ms. Delley seconded the motion. A roll call vote was conducted with the following result:
> Ayes: Mr. Blaszkiewicz, Ms. Delley, Mr. Hollowell, and Mr. Naglick.
> Nays: None.

ADMINISTRATION

None.

PUBLIC COMMENT

None.

ADJOURNMENT

With there being no other business to be brought before the Committee, on a motion by Mr. Hollowell, seconded by Ms. Delley, Mr. Naglick adjourned the meeting at 3:40 p.m.