500 Griswold, Suite 2200
Detroit, MI 48226

DOWNTOWN DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING
WEDNESDAY, FEBRUARY 14, 2024 – 3:00 P.M.

COMMITTEE MEMBERS PRESENT:	Melvin Hollowell John Naglick David Blaszkiewicz
COMMITTEE MEMBERS ABSENT:	Steve Ogden
OTHERS PRESENT:	Jennifer Kanalos (DEGC/DDA) Glen Long, Jr. (DEGC/DDA) Rebecca Navin (DEGC/DDA) Nasri Sobh (DEGC/DDA) Sierra Spencer (DEGC/DDA) David Howell (DEGC/DDA) Medvis Jackson (DEGC/DDA) Kaci Jackson (DEGC/DDA) Lanard Ingram (DEGC/DDA)

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MINUTES OF THE DOWNTOWN DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING
WEDNESDAY, FEBRUARY 14, 2024
DETROIT ECONOMIC GROWTH CORPORATION
500 GRISWOLD, SUITE 2200 – 3:00 P.M.

GENERAL

Call to Order

Chairperson Naglick called the Finance Committee meeting of the Downtown Development Authority Board of Directors to order at 3:04 p.m. A 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 October 11, 2023, Finance Committee meeting. Hearing none, the Committee took the following action:

> Mr. Blaszkiewicz made a motion approving the October 11, 2023, minutes, as written. Mr. Hollowell supported the motion. All were in favor with no opposition, and the October 11, 2023, minutes were unanimously approved.

PROJECTS

PARADISE VALLEY BUSINESS & ENTERTAINMENT DISTRICT: 311 GRAND RIVER LOAN REQUEST

Mr. Howell explained that in April 2017, the City of Detroit Downtown Development Authority (the "DDA") entered into an Agreement to Purchase and Develop Land (as amended, the "Agreement") with 311 Grand River, LLC (the "Developer") for the redevelopment of the property located 311 Grand River (the "Property") as a result of a Request for Proposals issued by DDA staff. The Developer is a Special Purpose Entity owned by Basco, Inc., which Roger Basmajian controls.

Following the execution of the Agreement, the DDA Board of Directors approved various amendments to the Agreement, which amended the scope of the project, reduced the purchase price of the Property, extended the date of Closing, and allowed for the provision of DDA financing for the project. Such DDA financing totaled $2,700,000 (the "Loan") and included a $1,500,000 loan for construction and related activities and seller financing of the $1,200,000 purchase price for the Property. The Developer closed on the Loan and the purchase of the Property on January 31, 2021. The outstanding principal loan balance is $2,666,203.68 (the "DDA Loan").

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The Developer received a senior loan from Mercantile Bank (the “Senior Lender”) for $7.65 million (the “Senior Loan”). The renovation began in 2021, and in May 2022, Lighthouse Immersive Detroit, LLC (the “Tenant”) who is a subsidiary of Lighthouse Immersive USA, Corp (the “Parent”), began operating the Van Gogh Immersive Experience at the Property. The Tenant initially experienced tremendous success, bringing over 10,000 visitors to the exhibit monthly, resulting in sold-out shows for the first six months of operation. However, that success was short-lived. As the Tenant failed to generate the same demand for shows, it pivoted to producing new shows, incurring significant creative fees and overhead and diminishing revenue. In May 2023, the Tenant failed to make its timely rent payment and, in subsequent months, fell behind on payments. The Developer worked with the Tenant to find resolutions but to no avail.

The Parent was having similar issues in other markets, which the Developer was unaware of. Finally, in August of 2023, when the efforts to help the Tenant had stalled and promised installment payments stopped, Developer filed a notice of default and filed for possession of the premises. As Developer’s attorneys got involved, the fact that the Parent had filed for bankruptcy protection at the end of July 2023 was revealed. The Parent had accumulated more than $100 million in debt, was insolvent, and had a $16M judgment against it. By September 2023, the Tenant owed over $300K in unpaid rent, CAM, and utilities. The Developer negotiated a $50k settlement upon the Tenant’s tear-down and removal of equipment in early October 2023. The various liens and bankruptcy court limitations limited Developer’s recovery efforts.

The Tenant’s demise, together with liens filed by subcontractors of the original contractor, MIG Construction, resulted in a default on the Senior Loan by the fall of 2023 resulting in a $2 million reduction of the Senior Loan. Furthermore, MIG Construction filed for bankruptcy in December of 2023, and many unpaid subcontractors placed additional liens on the Property. The Bank ordered appraisals on several of Basco’s properties. The Senior Lender offered short-term interest-only loan relief, which matures in May 2024, in exchange for cross-collateralization of multiple assets. The Developer is in discussions with a different lender for $5.65M to take out the existing loan.

As a result of MIG’s bankruptcy, subcontractors began approaching Developer directly for payment. With no other choice, Developer is making payments to subcontractors with limited cash reserves and pulling funding from other projects.

Developer has taken the failure of Lighthouse Immersive as an opportunity to reposition the Property back to the intended multi-food and beverage venue and events center and has hired Forte Ballenger as a consultant and Star Trax to manage the event center space on the second and third floors. The space will feature multiple event venue rooms for corporate and private gatherings. The event space will take 24 months to build out and generate revenue. Furthermore, Developer signed a lower-level restaurant tenant last year, co-owned by Derrick and LaDonna Reynolds of Good Times on Livernois and Cheff Llyod Roberts of Adachi. The new restaurant lounge called Emonah will feature Asian and Soul food fusion. Enomah is under construction and will be open in March 2024. Developer is also in discussions with a hospitality group for a bar/café/lounge on the first floor, which would operate as an ongoing café-lounge. Lincoln Mercury Car Company has booked the entire building for its yearly international dealership conference from March 2024 through June 2024.

To date, Developer has committed $3,236,135.00 in developer equity to the Property and has estimated that an additional $219,131 will be necessary to address the project's operating deficit for 2024. $2,300,000 will be required to pay the remaining balances owed to subcontractors, construct the building improvements associated with the repositioning efforts, and make tenant improvements for the lower-level tenant.

The Developer has approached the DDA and asked for assistance to effectuate the repositioning effort of the asset. The schedule below illustrates the equity that the Developer has committed and how the additional DDA support would be allocated to the Property.

The DDA Board's vision of a thriving Paradise Valley District is essential to maintaining the rich legacy of Paradise Valley. It is an intricate component of the revitalization of Detroit, particularly the Downtown Submarket. While there is more to accomplish in actualizing the Board's vision, tremendous progress has been made to date. 311 E Grand River plays a vital role in creating the District, an area that pays homage to the history of Paradise Valley, and its success is directly tied to the success of the District's development. Based on the foregoing, and in support of the repositioning strategy for the Property, DDA staff is recommending the that the DDA Finance Committee recommend the following to the Board of Directors:

1. A 24-month deferral of principal and interest payments for the existing DDA Loan in the amount of $2.7M.
2. An additional $2.3M loan from the DDA that will assist with addressing outstanding invoices from the original core and shell costs and the Developer's repositioning efforts. The loan term would be consistent with the current loan and have a 24-month deferral period as outlined in Exhibit A.

Mr. Naglick stated that we he reviewed the information provided prior to the committee meeting, he was unsure as to how the senior loan decreased from $7.65 million to $5.65 million and suggested that this be explained when the matter is taken before the full DDA Board. Mr. Naglick explained that $2 million dollars of the loan is replacing what should've been drawn from the senior lender. Mr. Naglick stated that the Board may question how lean waivers were not obtained from subcontractors when the contractor is being paid. Mr. Naglick explained that it is the standard to get lean waivers while ensuring that it's not behind. Mr. Naglick asked if Mr. Basmajian's group or the DEGC was responsible for monitoring the draws.

Mr. Blaszkiewicz stated that many times when these things implode the general contractor is paid, but they do not pay the subcontractors and thus gaps are created. Mr. Blaszkiewicz explained that he is involved with the Dreamtroit transaction, and a similar thing happened which triggers the question of whether the general contractor was paid and in turn, the subcontractors weren't paid by them leading to a lean or is it the collapse of the general contractor and the delay of payments on other payments that created the gap.

Mr. Naglick explained that he previously belonged to a company that did work for General Motors and if his company did a pay up General Motors would pay them, for the next pay up they would pay themselves, and for the next pay up it was essential to have lean waivers from the subcontractors. Mr. Naglick stated that he understood being beaten out of one draw but did not understand if this applied to multiple draws where advances were being made to the contractor and subcontractors.

Mr. Basmajian explained that there was only one draw paid for that affected the subcontractors, which was the last draw being paid back. Mr. Basmajian explained that MIG was faltering on multiple fronts and could no longer get its subcontractors to perform, which resulted in a great deal of outstanding work to be done. Mr. Basmajian stated that the goal was to wait for this to close but there was an approximate $300K draw that did not get to the subcontractors and after that, they could not produce the lien waivers.

Mr. Naglick stated that he understood and noted this is a risk that is taken in construction and asked if this was the only aspect that caused fault with the senior lender. Mr. Basmajian explained that the fault was caused by multiple leads. Mr. Basmajian stated that he believes that the bank has lost interest in being in Detroit.

Mr. Naglick suggested that Mr. Howell frame this project to the full Board by explaining that Mr. Basmajian had a senior lender lined up and was dealing with the construction firm MIG. The project is something that has already been committed to by the Board and Mr. Basmajian has done a great deal of work to no fault of his own he lost his tenant and the default due to MIG. Therefore Mr. Basmajian is coming to the Board to replace what he could've drawn from his senior lender that will allow him to finish the building. Mr. Naglick advised that this may make the Board more comfortable to understand that the Board is replacing what would've been drawn from the senior lender and it is not the case that all funds from the lender have been spent and that Mr. Basmajian is coming to ask for further funding.

Mr. Blaszkiewicz asked if Mr. Basmajian had gone through the reconciliation of all the pay-ups and confirmed that the subcontractors had been paid. Mr. Blaszkiewicz stated that he was in no way suggesting fraud was happening but by doing diligence on this topic additional costs may be uncovered. Mr. Blaszkiewicz stated that in his experience he has not flipped general contractors and didn't have significant additional costs from doing so. Mr. Blaszkiewicz referenced Mr. Naglick's point and stated that the Board is replacing the missing portion of the senior debt.

Mr. Hollowell stated that the $300K is the additional costs and to his understanding, Mr. Basmajian covered those costs out of pocket and noted this is an important piece to the overall story and asked if this was accurate. Mr. Basmajian explained that there is accounting that requires investigation and an ongoing case related to bankruptcy. Mr. Basmajian continued that it had been uncovered that there were many comingled projects, and his team was able to negotiate the discounted payoff for MIG's release but did not release them from any authority issues. Mr.

Basmajian explained that this was done because it was suspected that MIG would file for bankruptcy and if this happened it would complicate the project a great deal.

Mr. Naglick emphasized Mr. Blaszkiewicz's question and asked how sure Mr. Basmajian is that his list of subcontractors is complete. Mr. Basmajian explained that each subcontractor must provide their accounting and be verified by his accounting team.

Mr. Naglick asked if Mr. Basmajian agreed with the suggestion made by the Board to frame the ask as a replacement for the senior lender. Mr. Naglick explained that with this framework the Board will be able to see what will be funded with the loan and what the draw schedule will be. Mr. Naglick advised that a list of the subcontractors be included to show that all of them have been paid and to show that there is no worry about having leans on a property for years to come.

Mr. Naglick noted that there may be some concern as to there being no conditions with the fear being that money will be drawn to pay Mr. Basmajian and the project will come back to the Board with the need for more funding. Mr. Naglick suggested that the loan be draw-based, being managed by the DEGC, which has a history of being good at making sure conditions are met before allowing a draw. Mr. Naglick stated that the Board is most likely familiar with MIG and understands that this is not the fault of Mr. Basmajian and the goal is to finish the project.

Mr. Blaszkiewicz stated that the satisfaction of the bank is still important as they are still a debt holder and questioned the certainty of conclusion for the project as if they can't be refinanced out that they will still be satisfied with their position. Mr. Blaszkiewicz stated that the missing piece to this is the revenue from the first floor and that those components will need to be replaced to have an operating pro forma that satisfies the bank.

Mr. Naglick agreed and stated that the worry would be that the bank would find another reason to keep the project in default status. Mr. Naglick stated that if this project is approved Mr. Basmajian can go to the lender and show the plan explaining that the partner (the DDA) wants to ensure that the expectations will remain the same.

Mr. Blaskiewicz suggested there be a forbearance or another component that buys time to put everything together.

Mr. Naglick stated that this will help Mr. Basmajian when he wants Mercantile Bank out, he will have a plan to display that shows that he and the DDA have a clear path to finish the project. Mr. Naglick continued that when he needs a replacement lender, he can show the replacement terms whereas in the current condition, a lender would wonder what they get from the deal.

Mr. Howell clarified that Mr. Basmajian is in discussion with another institution as the current lender does not want to have further involvement in the deal.

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Mr. Blaszkiewicz explained that as he has worked with many different kinds of workout lenders his concern that is when they want out, they will cause issues. Mr. Blaszkiewicz stated that he wants to make sure that there is adequate time to get to a different scenario with a cash flow positive project projected. Mr. Blaszkiewicz stated that whether it be a forbearance or some other structured piece that says the lender is satisfied for this period and that the intention is to remove them from the deal.

Mr. Naglick stated that it may be a question for Mr. Basmajian's legal counsel as to how Mr. Basmajian may be able to leverage the loan, he is getting from the DDA tied to the construction build-out to get him out of the senior loan.

Mr. Basmajian stated that the default with the current lender is cross-collateralizing cash production and reduced debt coverage ratios. Mr. Basmajian explained that the deadline is in June to have worked out a deal to keep the current lender or to find another senior lender. Mr. Basmajian stated that the committee does have legitimate concerns as it is unlikely that anyone will want to step into the position of the current lender but once the construction is done it will create a better position to take the current lender out.

Mr. Naglick agreed and stated that the DDA funding the remainder of the construction would make a replacement lender decision easier. Mr. Naglick suggested that this be structured as a draw loan with a schedule and Board members would like the subcontractors to have be paid.

Mr. Blaszkiewicz asked if the Board is prepared to have second-position debt as it relates to the $2 million being put into the project. Mr. Howell responded that a quarter-year term had been contemplated.

Mr. Naglick called for a motion to recommend approval of the Paradise Valley Business & Entertainment District: 311 Grand River Loan Request to the DDA Board.

> Mr. Hollowell made a motion to recommend approval of the Paradise Valley Business & Entertainment District: 311 Grand River Loan Request, with the reframing as discussed during the Committee meeting. Mr. Blaszkiewicz seconded the motion. All were in favor with no opposition.

OTHER
None.

PUBLIC COMMENT
None.

ADJOURNMENT

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With there being no other business to be brought before the Committee, Mr. Blaszkiewicz made a motion to adjourn the meeting, which was seconded by Mr. Hollowell, and Mr. Naglick adjourned the meeting at 3:45 p.m.

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Exhibit A
PROJECT FINANCING TERMS

Loans:

Loan A $2,700,000.00, of which $1,200,000 was seller financing of the purchase price, and $1,500,000 was for additional activities. This loan has been fully disbursed.

Loan B $2,300,000 to address remaining balances owed to subcontractors, construct the building improvements associated with the repositioning efforts, and make tenant improvements for the lower-level tenant. Disbursement to occur on a draw basis.

The loans shall be payable under separate promissory notes payable to the DDA and executed by the Developer, upon the following terms and conditions:

> **Interest:** 1.5% annual interest rate. Principal & Interest payments will be calculated annually based on the remaining principal. Principal & Interest not paid will accrue into the outstanding principal balance.
>
> ***Term:*** January 29, 2041 (240 months from closing of Loan A). No prepayment penalties will be applied. Repayment of the loan will be due upon the maturity date, sale of the property, or refinance of the existing mortgage, whichever occurs earlier; provided that Developer may refinance the senior loan at an interest rate not to exceed the U.S 10 Year Treasury Rate + 450 basis points, provided that the DDA is furnished with satisfactory evidence that the cash flow post-refinance exceeds a minimum of 1.0x DSCR.
>
> **Payments:** Loan A was timely paid through November 2023. Deferral of principal and interest payments for Loans A and B, commencing with December 2023 payment for Loan A, with such payments resuming in December 2025, with deferred interest added to the principal loan balance. Thereafter, monthly principal and interest payments will resume, on a 20 year amortization schedule. 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 Loans, as described by the loan documents.
>
> **Reporting:** Annual financial statements prepared and certified by a certified public accountant using generally accepted accounting procedures will be provided to the DDA staff.

Security: Subordinated mortgage on Property; personal guaranty of the development team; and other documents reasonably and typically required by the DDA staff for such a transaction.

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Schedule of Developer Equity

Intial Equity Contribution	$ 1,162,255.00
Deferred Developer Fee	$ 480,000.00
Construction Close out from MIG	$ 873,016.00
Carrying Cost after Lighthouse default	$ 720,864.00
Projected 2024 Operating Deficit	$ 219,131.00
Total Developer Equity	**$ 3,455,266.00**

DDA Loan Proceed Uses

Remainng Core & Shell Costs (MIG)	$ 171,770.00
Lower Level Resturant	$ 91,882.00
Repositioning Constuction/TI's	$ 2,036,100.00
Total Loan Request	**$ 2,299,752.00**
Rounded	**$ 2,300,000.00**

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Cash Flow Projections - 3 YR.

Account Name	2024	2025	2026
Operating Income & Expense			
Income			
RENTS			
Total Operating Income	**$ 617,081.78**	**$ 966,497.83**	**$ 1,353,039.68**
Expenses			
Total CLEANING AND MAINTENANCE	**$ 50,300.00**	**$ 58,300.00**	**$ 70,300.00**
Total INSURANCE	**$ 25,000.00**	**$ 25,000.00**	**$ 25,000.00**
OTHER PROFESSIONAL FEES			
Inspection Fees	$ -	$ -	$ -
Total OTHER PROFESSIONAL FEES	**$ -**	$ -	$ -
Total MANAGEMENT FEES	**$ 99,882.63**	**$ 129,882.63**	**$ 129,882.63**
MORTGAGE			
Mortgage Interest - Mercantile $5.7M Loan	$ 441,006.21	$ 410,456.80	$ 403,341.70
Mortgage Principal - Mercantile $5.7M Loan	$ 15,746.46	$ 98,424.22	$ 105,539.32
Mortgage Interest - DDA $2.3M Loan	$ -	$ -	$ 34,867.89
Mortgage Principal - DDA $2.3M Loan	$ -	$ -	$ 99,363.81
Mortgage Interest - DDA $2.7M Loan	$ -	$ -	$ 40,734.96
Mortgage Principal - DDA $2.7M Loan	$ -	$ -	$ 116,644.47
Total MORTGAGE	**$ 456,752.67**	**$ 508,881.02**	**$ 800,492.15**
Total REPAIRS AND MAINTENANCE	**$ 21,568.88**	**$ 21,568.88**	**$ 21,568.88**
TAXES			
Gross Property Tax	$ 168,683.52	$ 168,683.52	$ 168,683.52
OPRA Tax Incentive	$ (76,954.92)	$ (76,954.92)	$ (76,954.92)
Total TAXES	**$ 91,728.60**	**$ 91,728.60**	**$ 91,728.60**
Total UTILITIES	**$ 64,380.00**	**$ 64,380.00**	**$ 70,818.00**
Total OTHER	**$ 26,600.00**	**$ 26,600.00**	**$ 26,600.00**
Total Operating Expense	**$ 836,212.79**	**$ 926,341.14**	**$ 1,236,390.27**
Cash Flow	**$ (219,131.00)**	**$ 40,156.69**	**$ 116,649.42**
DSCR	***0.52***	***1.08***	***1.15***