



**ECONOMIC DEVELOPMENT CORPORATION
FINANCE COMMITTEE MEETING
WEDNESDAY, NOVEMBER 6, 2019 – 10:00 A.M.**

MEMBERS PRESENT: Linda Forte, Chair
Damon Hodge
Kwaku Osei

MEMBERS ABSENT: Thomas Stallworth

OTHERS PRESENT: Clifford Brown (EDC Board Member)
Lily Hamburger (DEGC/EDC)
Gay Hilger (DEGC/EDC)
Denise Hundley (DEGC/EDC)
Malinda Jensen (DEGC/EDC)
Paul Kako (DEGC/EDC)
Jennifer Kanalos (DEGC/EDC)
Glen Long (DEGC/EDC)
Rebecca Navin (DEGC/EDC)
Mariangela Pledl (DEGC/EDC)
Martha Potere (DEGC/EDC)
Brianna Walker (DEGC/EDC)
Michelle Williams (DEGC/EDC)



**MINUTES OF THE ECONOMIC DEVELOPMENT CORPORATION
FINANCE COMMITTEE MEETING
WEDNESDAY, NOVEMBER 6, 2019
DETROIT ECONOMIC GROWTH CORPORATION
500 GRISWOLD, SUITE 2200 – 10:00 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 10:04 a.m.

APPROVAL OF MINUTES

Ms. Forte asked if there were any additions, deletions or corrections to the minutes of the October 16, 2019 Finance Committee meeting. Hearing none, the Committee took the following action:

On a motion by Mr. Hodge, seconded by Mr. Osei, the Committee unanimously approved the minutes.

ADMINISTRATION

Federal Audit and Management Letter

Mr. Long advised that copies of the 2018-19 Single Audit and Management Letter as prepared by George Johnson & Company were included in the Committee material. Both the audit and letter are “clean”, as there were no findings. They are being presented to the Committee for approval and a recommendation to the full Board for acceptance. Once the audits are finalized, they will be taken to the full Board for acceptance.

Ms. Forte asked if the Committee had any questions or comments on the Federal audit or management letter. Hearing none, the Committee took the following action:

On a motion by Mr. Hodge, seconded by Mr. Osei, the Committee approved the financial statements and management letter and recommends acceptance by the Board.

Auditor General Report on Casino Development Fund Loan Programs

Mr. Long stated that a final copy of the Audit of the Real Property GAP Fund, and a final draft copy of the National and Non-Affiliated Retail Funds were included in the material for the Committee’s review. Staff responses were also included at the end of each report. The Auditor General had three findings on the GAP fund audit and two of the same findings on the Retail Funds. We acknowledge the two findings that appear on both and have implemented corrective measures. We dispute the third finding on the GAP fund.

Mr. Long gave historical information about the fund for the Committee’s information and explained that they did audits on each of the sub-programs. The audits in the packet are the three loan



programs that the EDC administered. The other programs were just a pass through of funds. They did have findings on these three programs. One finding was that we did not have proper documentation, and another was that we should have been charging late fees. We acknowledged that there were some gaps in the documentation of some of the older files due to the fact that the program began 12 years ago and documentation could not be located possibly due to purging of files and staff turnover. Mr. Long explained the third finding on a loan made to the Woodward Theatre and stated that we believe we acted appropriately. The Auditor General disagrees with our response to the finding and, therefore, we have agreed to disagree.

Mr. Long advised that as far as the late fees go, when this program was set up, staff and the EDC Finance Committee at that time made a conscience decision to not aggressively pursue the collection of late fees. The purpose of these loans is to be a lender of last resort to help these small businesses get across the finish line. Staff is not looking for the Committee to take an action on this but is asking for a discussion to get the Committee's thoughts about the collection of late fees.

Ms. Forte asked if there was documentation about the Finance Committee's decision to not pursue late fees. Mr. Long responded that we do not have documentation because, at that time, the Finance Committee meetings were not considered to be public meetings and minutes were not kept.

Ms. Forte asked if the existing documentation indicates that we "can" or "will" charge a late fee. Mr. Long replied that he believes the documents say we "will" charge a late fee after the 10th of the month. If we want to have the flexibility, the loan documents should say that we "may" (rather than "shall") charge a late fee.

Ms. Navin advised that if it is the will of this body to change the policy on the enforcement of late fees, with respect to the existing loans, we will need to have a resolution of the full Board approving that change.

Ms. Hundley stated that in working directly with these borrowers every day on a month-to-month basis, our main goal is to help these borrowers so that they will be able to make their monthly payment. The loan payment is due on the first of the month and they are given 10 business days before a late fee of .05 percent of the loan payment is charged. It is a process to follow the borrowers to just get the loan payment each month. Mr. Long added that we receive most of the loan payments within that 10-day grace period, but there are a few that always pay around the 20th of the month. The auditors want us to collect late fees. They also want us to report the late payments to the credit agencies.

Ms. Forte asked Ms. Navin what the consequences would be if we have some inequity in our practices. Ms. Navin responded that it certainly would be more protective to adopt a bright line rule.

Mr. Long advised that he agrees that we don't want a gray area and asked the Committee for direction on which way they would like to go on the fees issue.



Ms. Forte stated that she leans towards having a bright line rule in order to be fair. There needs to be a due date and a late fee charged, even if it means the borrower will owe a couple more payments at the end of the loan. Mr. Hodge agreed that we need to be consistent. A late fee should serve as a motivator to get the payment in before the fee is added. He also understands that EDC is not a traditional lender and we should look at putting some sort of late payment structure in place, so maybe that would be at 30 days as opposed to 10 days.

Ms. Forte added that in cases where we know the borrower is having trouble making the payments on time, maybe we could suggest a restructure as a way to support the business.

Mr. Long questioned the Committee about how they want to handle the credit reporting agencies. If we are charging late fees and are not getting them, do we report them.

Ms. Forte stated that her initial response is, and she doesn't know what the timeframe for reporting would be and maybe we could be flexible on that, but she believes that telling someone their credit score is going to be impacted is probably more punitive than charging late fees.

Mr. Osei suggested that the late fee be charged if payment is more than 30 days late and suggesting to the borrower that we will report to credit agencies at 45 days late.

Ms. Navin added that we will have to take a look at the existing loans to see what type of notice we have to give to the guarantor before reporting to the credit agencies.

Ms. Navin suggested that, in the short term, staff will come back with a proposal relating to when the late fee would be assessed and, if the Committee agrees, when staff comes back in the spring with a credit policy, the credit policy could flush out more of this issue of reporting to the credit agencies and at what point that becomes appropriate or required.

Mr. Osei questioned what the ramifications are for EDC for not complying with all of the auditor's findings. Mr. Long advised that he is not sure but can say that there is no mismanagement of money here and the program has been successful.

Ms. Navin advised that ultimately, City Council will review the finding and may ask for a discussion and will certainly want to know what corrective measures we are taking, and then it would be within their right to have the Law Department look at any remedies that might be available under the agreement.

Ms. Forte asked what action needed to be taken by the Committee. Mr. Long replied that there is no action to be taken at this time and that staff was just looking for direction. Mr. Long advised that staff will be bringing back to the Committee a new late policy and will request action on that.

Ms. Forte stated that she supports Ms. Navin's suggestion of bringing the full policy back in the spring.



PROJECTS

Streetscape Mitigation Loan Fund Program

Ms. Hamburger reported that to support the financial stability of Detroit’s businesses during the streetscape improvement construction projects on key commercial corridors in Detroit’s neighborhoods, Economic Development Corporation of the City of Detroit (“EDC”) in coordination with the City of Detroit (the “City”), foundations and other partners, is implementing a program that will fund zero-interest loans and technical assistance to qualifying businesses. On August 27, 2019, the EDC approved a pilot Streetscape Mitigation Loan Fund Program (the “Program”) for Livernois between Margareta and 8 Mile with an initial \$400,000 loan pool. It is anticipated that as additional funds are raised, the Program will be implemented in other areas impacted by planned streetscape improvement projects. EDC staff recommendation for approval of four loans (Exhibits A, B, C, and D) under the Program follows.

Ms. Hamburger called on Ms. Walker to present the proposed terms of the first loan.

Ms. Walker reviewed the terms of the proposed loan to Stokes Enterprises, LLC as follows:

**EXHIBIT A
SUMMARY OF PROPOSED TERMS**

STOKES ENTERPRISES, LLC DBA KARISMAS KLOSET BOUTIQUE LOAN REQUEST

Borrower Name:	Stokes Enterprises, LLC DBA Karismas Kloset Boutique
Borrower Business Location:	19458 Livernois, Detroit, MI 48221
Date:	11/6/2019
Request:	\$20,000.00 Commercial Business Loan
Rate:	0%
Fee:	\$0.00
Repayment:	Principal Only
Term:	72 Months – Straight Line Amortization, payments begin Month 13; principal balance forgivable after 24 on-time payments or equivalent.
Security:	1991 Sun Clipper F530, fully renovated as a food truck
Analyst’s Rating:	6.9 – Acceptable Risk
Analyst/Officer:	Brianna Walker

LOAN PURPOSE AND BUSINESS DESCRIPTION/HISTORY

Tykia Stokes, the owner of Karismas Kloset is seeking a \$20,000.00 commercial business loan from the Economic Development Corporation of the City of Detroit Streetscape Mitigation Loan Fund to support business expenses throughout the construction. The property’s physical location is 19458 Livernois, Detroit. EDC financing will support rent, working capital, advertising, business debt repayment, payroll and repairs.



Karimas Kloset is a clothing store whose target demographic is women, age 16-49. The store sells fashionable clothes, shoes and accessories. Ms. Stokes originally began as an online retailer, before she expanded to a brick and mortar location on the Avenue of Fashion in 2014. In March of 2018 she had a major break-in that had a large impact on her sales. Net income for Karimas Kloset from January 2019 through July 2019 is down 93% compared to an average monthly net income from 2018. Revenue has gone up 23% in that time period because she was shut down due to the break-in in 2018.

SOURCES AND USES

Uses of Funds	Amount
Rent	\$5,000.00
Working Capital (inventory)	\$4,000.00
Advertising	\$3,000.00
Business debt repayment	\$3,000.00
Payroll	\$3,000.00
Repairs	\$2,000.00
Sources of Funds	
EDC Streetscape Mitigation Fund	\$20,000.00

SOURCE OF REPAYMENT

Primary: Cash Flow from Karimas Kloset Boutique and Ty's Kitchen N Grill
Secondary: Vehicle – Food Truck

COLLATERAL AND CONDITIONS

Personal Assets: 1991 Sun Clipper F530, fully renovated as a food truck
Real Estate: N/A
Conditions: Closing contingent upon EDC Board approval. Borrower will be required to engage in technical assistance to improve financial planning, marketing and accounting.
Reporting: 1.) Quarterly Profit/Loss Statement and Balance Sheet prepared by CPA
 2.) Annual Business and Personal Financial statement/tax return

Ms. Walker responded to Board members' questions. Subsequent to the discussion, Ms. Forte called on Ms. Matthew to present the next loan.

Ms. Matthews stated that there were two changes in the material provided to the Committee and advised that the Analyst's Rating below should be 7.5 rather than 9 and that the security listed below should indicate that the owner is providing a personal guaranty. Ms. Matthews summarized the loan request as follows:



**EXHIBIT B
SUMMARY OF PROPOSED TERMS**

GOOD TIMES ON THE AVE, LLC LOAN REQUEST

Borrower Name: Good Times on The Ave, LLC
Borrower Business Location: 19416 Livernois, Detroit, MI 48221
Date: 11/6/2019
Request: \$20,000.00 Commercial Business Loan
Rate: 0%
Fee: \$0.00
Repayment: Principal Only
Term: 72 Months – Straight Line Amortization, payments begin Month 13; principal balance forgivable after 24 on-time payments or equivalent.
Security: N/A
Analyst’s Rating: 9 – Moderate Risk
Analyst/Officer: Michelle Matthews

LOAN PURPOSE AND BUSINESS DESCRIPTION/HISTORY

LaDonna Reynolds the owner of Good Times on The Ave, is seeking a \$20,000.00 commercial business loan from the Economic Development Corporation of the City of Detroit Streetscape Mitigation Loan Fund to support business expenses throughout the construction season. The property's physical location is 19416 Livernois, Detroit. EDC financing will support rent, payroll, and utilities.

Good Times on The Ave is Livernois’s newest restaurant serving traditional American dishes with lobster, shrimp, steak and lamb chops. LaDonna and Derrick Reynolds have invested 500K in the purchase and renovation of 19416 Livernois. Good Times is a recipient of the Motor City Match Cash Track. Revenue is down 67% for Good Time on the Ave from August through October 2019 in comparison to the projections expected to achieve in 2019. Actual Net Income is down 110% when compared with the business projections.

LaDonna and Derrick Reynolds own two other businesses- a salon and construction renovation company. The Reynolds created a holding company for their real estate ventures, which collects rent from Good Times. The Reynolds are savvy entrepreneurs and are working diligently to better control their operating expenses to improve their net income once business stabilizes.

SOURCES AND USES

Uses of Funds	Amount
Rent	\$ 4,000
Utilities	\$3,600
Insurance	\$1,700
Advertising	\$ 2,300
Payroll	\$ 7,200
Telephone	\$ 1,200



Sources of Funds	
EDC Streetscape Mitigation Fund	\$20,000

SOURCE OF REPAYMENT

Primary: Personal Guarantee
Secondary: N/A

COLLATERAL AND CONDITIONS

Business Assets: N/A
Personal Assets: N/A
Conditions: Closing contingent upon EDC Board approval. Borrower will be required to engage in technical assistance to improve financial planning, marketing and accounting.
Reporting: 1.) Quarterly Profit/Loss Statement and Balance Sheet prepared by CPA
 2.) Annual Business and Personal Financial statement/tax return

Ms. Matthews responded to Board members’ questions. Subsequent to the discussion, Ms. Forte called on Ms. Potere to present the next loan.

Ms. Potere reviewed the terms of the proposed loan to Hooper’s Place as follows:

**EXHIBIT C
 SUMMARY OF PROPOSED TERMS**

HOOPER’S PLACE LLC LOAN REQUEST

Borrower Name: Hooper’s Place LLC
Borrower Business Location: 18955 Livernois, Detroit, MI 48221
Date: 11/6/2019
Request: \$20,000.00 Commercial Business Loan
Rate: 0%
Fee: \$0.00
Repayment: Principal Only
Term: 72 Months – Straight Line Amortization, payments begin Month 13; principal balance forgivable after 24 on-time payments or equivalent.
Security: N/A
Analyst’s Rating: 7.6 – Moderate Risk
Analyst/Officer: Martha Potere

LOAN PURPOSE AND BUSINESS DESCRIPTION/HISTORY

Roger Hooper, Jr., the owner of Hooper’s Place, is seeking a \$20,000.00 commercial business loan from the Economic Development Corporation of the City of Detroit Streetscape Mitigation Loan Fund to support business expenses throughout the construction season. The property’s



physical location is 18955 Livernois, Detroit. EDC financing will support rent, payroll, working capital, advertising, insurance, repairs, accounting, internet and utilities.

Hooper’s Place enjoys a niche in the market by offering custom suits and custom details; Mr. Hooper is a tailor as well. He wanted to move his business to Detroit, and more specifically, the Avenue of Fashion to gain more visibility for his business, which had proven successful in Southfield over 10 years. Although the majority of his customers come from northwest Detroit, revenue for Hooper’s Place took a significant hit in July and August when he moved to the Avenue of Fashion. From January – May of 2019, he had been nearly doubling his sales from the same months in 2018 when he was still in the Southfield location. Net profit is up 27.5% from 2018 to 2019 and revenues are up 0.1% because Mr. Hooper had a strong April – June of 2019.

SOURCES AND USES

Uses of Funds	Amount
Rent	\$ 6050
Utilities	\$ 950
Insurance	\$ 740
Accounting and Legal	\$ 350
Repairs	\$ 2,070
Working Capital	\$ 2,500
Payroll	\$ 5,500
Advertising/Marketing	\$ 1,200
Telephone	\$ 640
Sources of Funds	
EDC Streetscape Mitigation Fund	\$ 20,000

SOURCE OF REPAYMENT

Primary: Personal Guarantee
Secondary: N/A

COLLATERAL AND CONDITIONS

Business Assets: N/A
Personal Assets: N/A
Conditions: Closing contingent upon EDC Board approval. Borrower will be required to engage in technical assistance to improve financial planning, marketing and accounting.
Reporting: 1.) Quarterly Profit/Loss Statement and Balance Sheet prepared by CPA
 2.) Annual Business and Personal Financial statement/tax return

Ms. Potere responded to Board members’ questions. Subsequent to the discussion, Ms. Forte called on Ms. Matthews to present the next loan.

Ms. Matthews reviewed the terms of the proposed loan to House of Morrison Shoe Repair as follows:



**EXHIBIT D
SUMMARY OF PROPOSED TERMS**

HOUSE OF MORRISON SHOE REPAIR, LLC LOAN REQUEST

Borrower Name: House of Morrison Shoe Repair, LLC
Borrower Business Location: 18933 Livernois Detroit, MI 48221
Date: 11/6/2019
Request: \$20,000.00 Commercial Business Loan
Rate: 0%
Fee: \$0.00
Repayment: Principal Only
Term: 72 Months – Straight Line Amortization, payments begin Month 13; principal balance forgivable after 24 on-time payments or equivalent.
Security: Personal Guarantee
Analyst’s Rating: 7 – Moderate Risk
Analyst/Officer: Michelle Matthews

LOAN PURPOSE AND BUSINESS DESCRIPTION/HISTORY

Ronda Morrison, the owner of House of Morrison Shoe Repair, is seeking a \$20,000.00 commercial business loan from the Economic Development Corporation of the City of Detroit Streetscape Mitigation Loan Fund to support business expenses throughout the construction season. The property's physical location is 18933 Livernois, Detroit. EDC financing will support payroll, renovation of the front lobby, and working capital.

Ronda learned her trade early on from her father, who was the original owner of the business. House of Morrison was established in 1954 to service clients with professional customer service, experienced craftsmanship, and attention to detail. Revenue for House of Morrison is approximately even comparing the period March through July for 2018 and 2019. Net income from March - July 2019 is down 94% in comparison to 2018, in part due to major investments in the business prior to road construction starting on Livernois.

SOURCES AND USES

Uses of Funds	Amount
Payroll	\$ 4,300
Repairs and Maintenance	\$6,000
Working Capital	\$9,700
Sources of Funds	
EDC Streetscape Mitigation Fund	\$20,000

SOURCE OF REPAYMENT

Primary: Personal Guarantee
Secondary: N/A



COLLATERAL AND CONDITIONS

Business Assets:	N/A
Personal Assets:	N/A
Conditions:	Closing contingent upon EDC Board approval. Borrower will be required to engage in technical assistance to improve financial planning, marketing and accounting.
Reporting:	1.) Quarterly Profit/Loss Statement and Balance Sheet prepared by CPA 2.) Annual Business and Personal Financial statement/tax returns

Mr. Hodge questioned if this business meets the requirements of having business losses as a result of the streetscape. Ms. Hamburger responded that this is one of the cases where the business owner is telling us that she is hurting because of streetscape. She made these investments and she didn't plan to be in the financial situation that she is in. Ms. Forte stated that she believes that she is suffering because she had anticipated a revenue increase. She invested in some equipment and the revenue increase did not come through because of the streetscape. Ms. Forte stated that it needs to be documented because the Committee does not see it reflected in the material provided. Mr. Hodge stated that what he would be looking for would be a more detailed explanation of what that business investment was, what it consisted of and how it was projected that it was going to lead to an increase in revenue. The way it is explained in the material is that it was replacement of existing equipment.

Ms. Matthews advised that she did speak with Ms. Morrison about her investments and what it included was a shoe repair machine and electrical upgrades that were required to accommodate that new machine that had higher voltage, and also an air ventilation system which totaled approximate \$22,000. Ms. Morrison did not have financial projections for this year when she made the investment.

Mr. Osei stated that it doesn't seem that her business has been impacted by the streetscape from what has been shared. It appears that she heard about the program and thought she would take advantage of the forgivable loan.

Ms. Navin advised that it would be prudent at this point for the small business team to go back to Ms. Morrison and revisit those numbers with her and try to understand better how streetscape has affected her. Ms. Navin asked the Committee if staff feels like they can document that and explain more fully to the Board by next Tuesday's meeting, if it could go directly to the Board. The Committee was supportive of it going directly to the Board if staff can get questions answered.

Ms. Forte called for a motion to recommend approval to the Board of the first three loans

On a motion by Mr. Osei, seconded by Mr. Hodge, the Committee unanimously recommended approval to the Board of the loans to Stokes Enterprises, LLC, Good Times on the Ave, LLC and Hooper's Place LLC.



OTHER MATTERS

Ms. Jensen stated that there is one policy discussion item for the Committee's consideration. She prefaced the discussion by quoting the EDC Credit Policy Manual:

"The EDC will extend credit for only constructive economic purposes and avoid situations which might negatively impact the EDC and/or the City of Detroit."

Ms. Jensen informed that we have an applicant that has expressed a hardship as a result of the streetscape and would like to apply for a loan to purchase inventory. This applicant owns a liquor store and would like to purchase liquor because of the Holiday sales coming up. Ms. Navin added that to date, we have told him categorically no, that the EDC could not approve a loan to support that specific use. We would be willing to support a loan to his business, but not for that specific purpose. We asked him to look at whether there are other needs that could be supportive of the loan.

The Committee agreed with staff's interpretation of the EDC Credit Policy Manual.

PUBLIC COMMENT

ADJOURNMENT

With there being no other business to come before the Committee, on a motion by Mr. Osei, seconded by Mr. Hodge, Chairperson Forte adjourned the meeting at 11:06 a.m.