



**ECONOMIC DEVELOPMENT CORPORATION  
FINANCE COMMITTEE MEETING  
TUESDAY, FEBRUARY 4, 2020 – 8:30 A.M.**

**MEMBERS PRESENT:**

Linda Forte, Chair  
Damon Hodge  
Kwaku Osei

**MEMBERS ABSENT:**

Thomas Stallworth

**OTHERS PRESENT:**

Pierre Batton (DEGC/EDC)  
Marsha Bruhn (EDC Board Member)  
Keyra Cokley (DEGC/EDC)  
Catherine Frazier (DEGC/EDC)  
Gay Hilger (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)  
Kelly Shovan (DEGC/EDC)



**MINUTES OF THE ECONOMIC DEVELOPMENT CORPORATION  
FINANCE COMMITTEE MEETING  
TUESDAY, FEBRUARY 4, 2020  
DETROIT ECONOMIC GROWTH CORPORATION  
500 GRISWOLD, SUITE 2200 – 8:30 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 8:39 a.m.

**APPROVAL OF MINUTES**

Ms. Forte asked if there were any additions, deletions or corrections to the minutes of the December 17, 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 November 20, 2019 Finance Committee meeting minutes.

**PROJECTS**

**Authorization to Establish The Economic Development Gap Financing Loan Fund Program**

Ms. Frazier reported that the Michigan Community Redevelopment Program (“MCRP”), administered by the Michigan Strategic Fund (“MSF”) through the Michigan Economic Development Corporation (“MEDC”), provides a critical gap financing tool for eligible mixed-use development projects in areas throughout the State of Michigan and in particular in the City of Detroit. However, recent budget reductions in the MCRP have caused the available funds to economic development projects within the City of Detroit to also decrease. Although initially MCRP assistance was focused primarily on projects located in greater downtown, including Midtown and Corktown, more recently projects receiving MCRP funding have also been located within commercial corridors targeted by the City of Detroit’s Strategic Neighborhood Fund.

Given decrease in the MCRP budget, staff for The Economic Development Corporation of the City of Detroit (the “EDC”) is recommending that the EDC establish a gap funding program targeted primarily at projects that align with the program requirements of MCRP, to be known as the Economic Development Gap Financing Loan Fund Program (the “Program”). The Program would utilize gap financing in the form of loans to spur the economic development of key industrial and commercial mixed-use projects within Detroit, increasing private investment, creating jobs, revitalizing functionally obsolete properties, and reducing blight. Available funds may be available for financing in conjunction with or in place of MCRP loans. In addition, in certain circumstances, funding may be made available for site readiness activities that would spur new employment opportunities on publicly owned industrial sites. Proposed Program guidelines are below as **Exhibit A** (the “Program Guidelines”).



Pursuant to the terms of certain transfer agreements between the City of Detroit, acting through its Community and Economic Development Department, now known as the Housing and Revitalization Department (“HRD”) and the City of Detroit Downtown Development Authority (the “DDA”), the DDA is in possession of certain funds through the Urban Development Action Grant program (“UDAG”). These UDAG proceeds were received by the DDA as repayments of loans made by the DDA using UDAG grants and/or proceeds of UDAG grants. As such, these proceeds are now available for certain economic development purposes, subject to the provisions of the original UDAG grants and transfer agreements.

The DDA Board of Directors has authorized that available UDAG funds in an amount up to \$4,000,000.00 (the “DDA Funds”) be made available to the EDC the purposes of initial funding for the Program pursuant to a funding agreement to be negotiated between the EDC and the DDA. The EDC would only be able to draw upon the DDA Funds for loans that have been approved by the EDC Board and comply with the Program Guidelines established by the EDC Board, as well as applicable provisions of the original UDAG grants and transfer agreements, which may include the written consent of the Director of HRD.

EDC Staff is asking the EDC Finance Committee to recommend to the EDC Board of Directors use of the DDA Funds to administer the Economic Development Gap Financing Loan Fund Program in accordance with the proposed Program Guidelines.

## **EXHIBIT A**

### **Economic Development Gap Financing Loan Fund – Program Guidelines**

#### ***Overview***

The State of Michigan Economic Development Corporation budget was significantly reduced for fiscal year 2019-2020, which negatively impacted funding available for economic development projects within the City of Detroit. To spur the economic development of key industrial and commercial mixed-use projects within Detroit, the EDC has established the Economic Development Gap Financing Loan Fund (the “Program”). The purpose of the Program is to create jobs through private investment and to expand the City’s tax base. Eligible industrial and mixed-use projects must demonstrate a substantial gap related to the costs associated with site readiness and offer significant new job creation in the City of Detroit, while aligning with the program requirements of Michigan Community Redevelopment Program (“MCRP”) at the Michigan Economic Development Corporation (“MEDC”). The Program will initially be funded using loan repayment proceeds from loans original made using grant funds previously made available to the City of Detroit by the Department of Housing and Urban Development under the Urban Development Action Grant Program (“UDAG”).

#### ***Program Goals***

To spur economic development through loans based on demonstrated financial need and projected project performance. Eligible industrial and commercial mixed-use projects include supplementing private investment to create jobs, revitalize functionally obsolete properties, and reduce blight.



### ***Program Criteria***

All projects will be competitively evaluated based on the following criteria:

1. Financing: Maximize all available financing with preference through a federally insured and regulated senior lender.
2. Fees: Minimize or defer all developer and other related-party fees.
3. Equity: Provide significant owner equity investment.
4. Debt Service Coverage Ratio: Ensure that the debt service coverage ratio is above 1.20x after all financing tools are applied.
5. Significant job creation.
6. The applicant's financial need for the incentive and whether the project is financially and economically sound.
7. The importance of the project to the community, the amount of local financial support to the project, and the level of private sector and other contributions to the project, such as federal tax credits.
8. For mixed-use projects, whether the project incorporates basic tenants of urban design by promoting mixed-use development, walkable communities and/or increasing the density of the area.
9. For industrial projects, whether the project site is located on publicly owned land that will require site readiness activities in order to make it shovel ready for industrial use.
10. Whether the project will redevelop a brownfield and/or historic resource and/or a vacant structure; if historic, whether the project will follow the federal secretary of the interior's standards for rehabilitation of historic buildings;
11. Whether the project promotes sustainable development.
12. The level and extent of environmental contamination.
13. If the project will act as a catalyst for additional revitalization and/or addresses area-wide redevelopment strategies.
14. Whether the project addresses underserved markets of commerce; converts abandoned public buildings to private use; and if the project will compete with or affect existing businesses.
15. Whether the project / proposed uses satisfy applicable requirements relating to the source of funds, including but not limited to UDAG requirements and/or City approvals.
16. Any other relevant criteria that are specific to each individual project as determined by the EDC Board of Directors.

### ***Who is eligible to apply?***

A person or multiple persons, business owners, developers, or governmental entities may apply to for assistance under the Program.

### ***Eligible Property***

Any property meeting one or more of the following conditions:

- Facility;
- Historic resource;
- Blighted;
- Functionally obsolete;
- Neighborhood and Commercial Corridor Food Initiative;
- Any other property promoting community development as determined by the EDC Board.



### ***Loan Fund Program – Key Terms***

- *Total Loan Pool* – up to \$4,000,000, with potential for additional funding, subject to availability of funds and approval by the EDC Board
- *Loan Size* – up to \$2,500,000, not to exceed 10% of the eligible investment,
- *Loan Type* – Repayable Loan
- *Interest Rate* – 1%-4% interest rate, with up to 36 months interest-only
- *Loan Term*: Maturity date and amortization schedule set based on terms of senior debt or project need
- *Security* – security will include any of the following:
  - Senior/Subordinated secured position on real property (if available)
  - Guarantees of borrower’s principals and/or affiliated entities
  - Security interest in all FF&E
  - Other pledged security – Accounts receivable, inventory, equipment and other business and/or personal assets
- *Eligible uses* –
  - Alteration, construction, improvement, demolition or rehabilitation of buildings;
  - Site improvement and clean up;
  - Environmental Testing and Reporting (Phase I ESA, Phase II ESA, BEA, Documentation of Due Care Compliance, etc.);
  - Removal and remediation of contamination;
  - The addition of machinery, equipment or fixtures;
  - Architectural, engineering, surveying and similar professional fees for a project including third-party green building certification;
  - Other uses as approved by the EDC Board.

### ***Eligible Investment***

An eligible investment is defined as at least one, or any combination of, the following expenditures which may have occurred prior to the EDC approval of the application and has not been completely reimbursed to, or paid for on behalf of, the applicant. Collectively these expenditures are eligible investments and are referred to as “Hard Costs”:

- a) Any fees or costs for alteration, construction, improvement, demolition, or rehabilitation of buildings of an approved project, including utility tap fees, and fees and costs paid to a governmental entity for permits, zoning, and inspections;
- b) Any fees or costs for site improvements to an approved project, including, a surface parking lot, parking garage, parking ramp, utilities and public infrastructure, such as roads, curbs, gutters, sidewalks, landscaping, lighting, grading and land balancing;
- c) Any fees or costs for the addition of machinery, equipment or fixtures to an approved project; or
- d) Professional fees or costs for an approved project for architectural services, engineering services, Phase I environmental site assessment, Phase II environmental site assessment, or Baseline Environmental Assessment, or surveying services.
- e) Professional fees associated with obtaining a third-party certification for environmentally sustainable design, building materials and/or development practices.



\*The EDC Staff, on its behalf, may impose additional terms and conditions involving any Hard Costs that meet eligibility for reimbursement under any tax increment financing, including requiring those costs to be repaid to the EDC, or excluding any such costs from Hard Costs.

### **Operations of the Economic Development Gap Financing Loan Fund**

EDC will manage the operations of the Program, including, but not limited to:

- Project management and facilitation of the Program
- Processing and servicing of the loans approved under the Program
- Marketing of the Program
- Ongoing monitoring and management of loans including review of project performance, measured against original financial documentation, operating statements or other appropriate metrics
- Credit and Underwriting – See Exhibit B – “Due Diligence Process”

### **Loan Process**

1. Loan application and supporting documents submitted through electronic submission and reviewed by EDC staff
  - Additional materials/information may be requested
2. Internal due diligence and evaluation of proposal performed
  - Additional materials/information requested
3. Presentation to EDC Finance Committee, where feasible
4. Presentation to EDC Board for final approval
5. If approved, documentation of the loan
6. Closing
7. Monitoring of loan by EDC staff

### **Investment Guidelines**

The EDC, as the entity overseeing and managing the Economic Development Gap Financing Loan Fund, will be the lender. The EDC will maintain sufficient flexibility in its lending guidelines and practices, in order to best assist projects requiring gap financing.

### **Loan Fees**

Loan fee equal to 1% of the award amount, plus third-party costs incurred by the EDC in closing the transaction

### **Additional Information**

Except as noted below, the EDC will not share an applicant or borrower’s proprietary and confidential data with any third parties except as needed during the loan underwriting, closing and servicing processes. Applicants and borrowers should clearly mark such information as proprietary and confidential. Applicant and borrower data will not be sold.

**NOTE:** The EDC is a governmental body and documents in the EDC’s possession are subject to disclosure under the Michigan Freedom of Information Act (“FOIA”). EDC will endeavor to not disclose any information of an applicant or borrower it believes to be exempt under the FOIA; however, notwithstanding anything stated otherwise herein, the EDC cannot guarantee the confidentiality of an applicant or borrower’s submissions and specifically does not warrant that



any documents submitted in connection with the loan application or the loan are exempt from disclosure under the FOIA. Accordingly, applicants and borrowers are advised that documents and information submitted to the EDC may become a public record. With respect to information submitted to the EDC as part of a loan application or loan, applicants and borrowers should give specific attention to the identification of information they deem confidential, commercial or personal financial information, proprietary information, or trade secrets and should appropriately mark such information as confidential prior to submission. Applicants and borrowers should be prepared to provide justification why such marked information should not be publicly disclosed under the FOIA. Applicants and borrowers are hereby advised that, without notice to the applicant or borrower, upon request from a third party, the EDC is required to make an independent determination as to whether the information may or must be divulged to that party and does not warrant that such information will be exempt from disclosure.

The information contained herein is subject to the actual loan documents and the written terms and conditions contained therein, as the same may be amended from time to time. EDC also reserves the right to make the final determination of any person's or organization's eligibility and/or qualifications for program benefits, and to make allocation of program benefits as it may, in sole discretion deem appropriate.

### **EXHIBIT A – MARKETING PLAN**

The primary audience for marketing this fund are developers and business owners seeking to develop properties in the City of Detroit, who also qualify for MEDC MCRP or Brownfield Programs. The Program will initially focus its efforts on development projects seeking the State of Michigan funding.

Potential businesses and developers may receive notice about the fund through multiple channels:

- Public announcements and meetings
- Social media eg., DEGC website
- Flyers directly delivered to each business in person and via email

Other stakeholders that reach businesses will be informed of the fund so that they can in turn spread the word to qualified applicants. These stakeholders include other business support organizations and City agencies.

Marketing materials for the loan fund may include the following:

- One-page flyer, including application instructions
- Term sheet
- Application checklist
- Application – available electronically online and in paper copy
- Website with FAQ



## EXHIBIT B – DUE DILIGENCE PROCESS

As a condition to receive a loan, applicants must comply with the following requirements:

- Applicant will turn in all required documentation outlined in the application and application checklist
- EDC staff will review documentation and provide recommendations to the EDC Finance Committee, when feasible, and the EDC Board of Directors based on Program underwriting guidelines, which may include but not be limited to the following considerations:
  - The character, competence, integrity and expertise of management and willingness to repay the loan
  - The source, timing and probability of future cash flows to service the borrower's obligations
  - The overall financial condition of the borrower
  - The condition of the industry in which the borrower operates and the condition of the economy in general
  - The adequacy of collateral to serve as an alternative source of loan repayment
- All loans are subject to final approval by the EDC Board
- Within 90 days of submission, the applicant will be notified of the final status of their application.
- The EDC shall consider the Program criteria set forth in the Program Guidelines
- Whether the project / proposed uses satisfy applicable requirements relating to the source of funds, including but not limited to UDAG requirements and/or City approvals.

Ms. Forte stated that she had at least one clarifying question. Ms. Frazier mentioned that these funds from the DDA would be used like a “line of credit”, but rather, it is really an instrument that facilitates loans when they come to the EDC. Ms. Frazier stated that what she meant was the DDA has those funds available to the EDC if the EDC decides to draw on those funds to distribute a loan.

Ms. Navin advised that the DDA Board, at its last meeting, authorized the use of these funds. The funds would stay in their current account at the DDA until a request comes from the EDC that has been authorized by the EDC Board.

Ms. Forte asked if there was a specific project in mind today. Ms. Navin responded that, yes, we do have some projects that the real estate team is looking at. The State has advised us that they cannot fund all of the projects in the CRP pipeline at the level they expected to, so we are looking at that pipeline to see where we can deploy these funds. We have not selected a project yet. Also, we have hit a roadblock in terms of industrial sites that are shovel ready and assembled. On some of these sites that have large amounts of publicly owned land, we are coming into some situations where there are some costs to be borne by the City, such as relocation of public infrastructure, that are difficult to pass on to a developer. We are also looking at potentially being able to use these funds on a loan basis to be able to ready those sites. We have a couple of potential sites in mind.



Mr. Osei asked, based on this pipeline that staff is reviewing, how many projects will EDC end up doing. Also, is \$4 million just the initial amount available, and over time, will additional funds be available?

Ms. Navin stated that she would respond Mr. Osei's second questions first. Right now, the funds that have been identified organization-wide are \$4 million that currently sit at the DDA, but because of the source of the funds—recycled UDAG funds—those funds are not subject to the restrictions of DDA's other funds. If other funding sources are found, we could potentially put them into this pool, so the criteria in the Program Guidelines anticipates that there could be other funding sources. But right now, there is \$4 million.

With respect to the first question, Ms. Frazier advised that within the last month and a half there have been three existing projects within our MEDC's Community Revitalization Program loan fund that eligible requests of the state have been substantially large but the MEDC is coming in anywhere from \$2 to \$3 million less than the request of the developer of the development project. Those projects are evaluating all of their potential sources. It could be that, of the three that we know now, any of those could be eligible. They are all really important projects to the City Administration as well. There could also be smaller loans coming in related to neighborhood-based smaller industrial projects.

Mr. Hodge asked if we had someone ready with financing in place, etc. for the industrial sites that we are going to get shovel ready. Ms. Navin answered that it depends. Some of these sites we have real-life examples in the last eight months with the FCA development where we lost projects because we did not have the site shovel ready. Now with the recent GM announcement, we anticipate a similar interest of suppliers for sites. The industrial and real estate team is looking at which sites have these barriers but otherwise are ready to go for a user.

Mr. Hodge questioned if these funds would be used for sites in Highland Park or Hamtramck. Ms. Navin stated that these funds would only be for industrial projects in Detroit. Ms. Navin said she mentioned earlier that we know that both Highland Park and Hamtramck have sites that are shovel-ready, and we don't want to lose any more projects because Detroit does not have a shovel ready site.

Subsequent to the discussion, the Committee took the following action:

On a motion by Mr. Hodge, seconded by Mr. Osei, the Committee unanimously agreed to recommend approval to the Board.

## **ADMINISTRATION**

## **OTHER MATTERS**

## **PUBLIC COMMENT**



## **ADJOURNMENT**

With there being no other business to come before the Committee, on a motion by Mr. Hodge, seconded by Mr. Osei, Chairperson Forte adjourned the meeting at 8:57 a.m.