



**ECONOMIC DEVELOPMENT CORPORATION
FINANCE COMMITTEE MEETING
FRIDAY, OCTOBER 4, 2019 – 10:00 A.M.**

MEMBERS PRESENT:

Linda Forte, Chair
Damon Hodge
Thomas Stallworth

MEMBERS ABSENT:

Kwaku Osei

OTHERS PRESENT:

Pierre Batton (DEGC/EDC)
Cora Capler (DEGC/EDC)
David Esshaki (George Johnson and Company)
Lily Hamburger (DEGC/EDC)
Denise Hundley (DEGC/EDC)
Paul Kako (DEGC/EDC)

Glen Long (DEGC/EDC)
Michelle Matthews (DEGC/EDC)
Mike Nicholas (George Johnson and Company)
Mariangela Pledl (DEGC/EDC)
Kelly Shovan (DEGC/EDC)
Brianna Walker (DEGC/EDC)



**MINUTES OF THE ECONOMIC DEVELOPMENT CORPORATION
FINANCE COMMITTEE MEETING
FRIDAY, OCTOBER 4, 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 10:00 a.m.

APPROVAL OF MINUTES

Ms. Forte asked if there were any additions, deletions or corrections to the minutes of the September 19, 2019 Finance Committee meeting. Hearing none, the Committee took the following action:

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

ADMINISTRATION

Draft Audited Financial Statements for FY 2018-19

Mr. Long advised that the EDC engaged George Johnson and Company to do both the financial audit and A133 audit. The A133 still has a few open items and is not available yet. The deadline to submit the financial statements to the City is October 15 so we wanted to get the financial statements to the Committee at this time so hopefully we can meet the deadline.

Mr. Long introduced Mike Nicholas and David Esshaki of George Johnson and Company to present the audit to the Finance Committee.

Mr. Nicholas and Mr. Esshaki reviewed the Audit Wrap Up document that was provided to the Committee and asked if there were any questions.

Mr. Stallworth requested more conversation about the recalculation on repayment of loans and increase in collectables and what if anything was learned from that experience.

Mr. Long explained that there were two new loans to other authorities, the DBRA and the LDFA, during the year. The DBRA loan is 100 percent secure and rated at 1. The LDFA loan was a bridge loan to help the LDFA not miss any bond payments, was rated at a 4 and 75 percent of it was reserved to be conservative. It is to be paid back with future revenues after the bonds are retired. We expect to get it back by 2022, but we wanted to present it conservatively in the event we do not get 100 percent back.



Ms. Forte stated that it would be helpful if Mr. Long would do a benchmarking overview presentation to the Committee at a future meeting. Mr. Long stated that we would work with George Johnson and Company to get that done.

Mr. Hodge asked when the decision was made to do the write-down of that debt and questioned if that was known at the time the loan to the LDFA was approved. Mr. Long stated that staff, along with a third-party vendor does an annual review of all of the loans and a year to 18 months ago we knew that the projected full repayment of the LDFA loan was uncertain, but loan was made because they were having revenue problems. We expect to be repaid by 2022.

With there being no other questions, Ms. Forte called for a motion and the committee took the following action:

On a motion by Mr. Stallworth, seconded by Mr. Hodge, the Committee unanimously approved acceptance of the audit report and the submittal of same to the City.

Policy Discussion Regarding Streetscape Mitigation Loan Fund Program

Mr. Batton advised that staff is seeking some guidance from the Committee on the Streetscape Mitigation Loan Fund Program that was approved by the Board recently. He explained that they have seen a number of start-up businesses that have been open less than a year applying for Streetscape loans. One of the key parameters for qualifying the loans is looking at the previous year's performance compared to current year. With start-ups not having that historical information, it obviously poses a challenge. Start-ups have been able to present their financial projections but rarely do new businesses hit their projections. We know that streetscape construction is impacting their flow in some way but quantifying that poses a challenge. Staff wanted to come to this body for a recommendation to be taken to the Board for a formal vote.

Ms. Forte stated that she feels this Program should be able to do something for the start-ups affected by the streetscape improvements, but the question is to understand, recognize and feel confident that you have a business that was truly impacted by the streetscape improvements.

Mr. Stallworth asked how many of the applicants are start-ups and if any of them are Motor City Match awardees. Mr. Batton replied about 20 to 25 percent of the applicants are start-ups and less than 4 of the start-ups are MCM awardees. Mr. Stallworth stated that he would be more comfortable with the MCM companies as they have gone through a thorough review and been evaluated already. We don't know how much we can trust the projections of the other start-ups. Mr. Stallworth suggested that we try to calculate the overall impact the streetscape has had on other businesses, we could get some universal percentage to apply to the start-ups.

Mr. Hodge seconded the foregoing remarks and stated that our goal is help and encourage these new businesses as much as we can. He expressed that his concern is that he doesn't want any funding that we are providing these businesses to take the place of what should have been sufficient start-up capital in the first place.



Ms. Forte suggested that the maximum level of support for a start-up be less than the \$20,000 for existing businesses and it could be based on number of months in business. We should also ask for additional information/documentation from non-MCM start-ups to show us how they capitalized their business.

Mr. Hodge asked if it is possible for some of these start-ups to be considered for the MCM program. Mr. Batton responded that once a business has opened, they are not eligible for MCM unless they are doing an expansion to additional locations. Technical assistance could also be provided that might potentially help these start-ups and could be incorporated into the program.

Mr. Stallworth asked at what point did the businesses know that the streetscape construction was going to happen. Mr. Batton advised that the City met with the community to get the word out and the scope of the project changed over time and became more intensive than anticipated. The timeline of the project also changed.

Mr. Hodge stated that the Livernois streetscape improvements are much more intrusive as compared to other streetscape projects. He doesn't know how the businesses could have anticipated the effects of this major of a project.

Mr. Stallworth opined that he doesn't believe that we should take responsibility for things that new business owners should have accounted for. We are not in the business of bailing out bad business decisions. There is a balance to be found here. We have to have a reasonable expectation that the businesses planning was rigorous enough to account for things that were obvious or known risks.

Ms. Forte asked Mr. Batton if the discussion gives him some guidance. Mr. Batton responded that it absolutely does and thanked the Committee for the guidance.

Mr. Hodge asked if we need to go back to the funding sources to clarify whether startups are included. Mr. Batton advised that the funding is available to any business that is open on the corridor.

PROJECTS

Streetscape Mitigation Loan Fund Program: Modifications to Previously Approved Loans to SB Media LLC and Happy to be Nappy

Mr. Batton advised that EDC staff proposes that the following approved borrowers from the Streetscape Mitigation Loan Fund Program ("The Program") modify the conditions of their loans:

- Hugh Smith, owner of SB Media LLC, DBA Baker's Keyboard Lounge, will secure his \$20,000 loan with a personal guarantee rather than his commercial property as originally approved. Due diligence conducted in advance of closing uncovered that the property is under a land contract. While the land contract is being fulfilled, it is EDC staff's recommendation that this loan move forward with closing, using a personal guarantee from the borrower instead of the originally pledged collateral.



- Ewanda Ferguson, owner of Happy to be Nappy, will secure her \$20,000 loan with a personal guarantee rather than his commercial property as originally approved. Due diligence conducted in advance of closing uncovered that the property is under a land contract. While the land contract is being fulfilled, it is EDC staff's recommendation that this loan move forward with closing, using a personal guarantee from the borrower instead of the originally pledged collateral.

Ms. Forte questioned if this changes the original risk rating of these businesses. Mr. Batton replied that the risk rating was not impacted primarily because the cash flow from these business as well as the personal cash flow should be able to sustain the loan.

Mr. Hodge asked if we knew there were land contracts for these two loans. Mr. Batton advised that we did not know at the time of approval and that is why we are seeking approval with these modifications.

Subsequent to the discussion, Ms. Forte asked if there was a motion to support these modifications.

On a motion by Mr. Hodge, seconded by Mr. Stallworth, the Committee unanimously agreed to recommend approval of the loan modifications to the Board.

Ms. Forte commented that she would be interested in having the Committee take a look at the risk ratings on these two loans.

Streetscape Mitigation Loan Fund Program: Approval of Loans (Fashion For Less and Shears and Shaves)

Mr. Batton stated that there will be two loans presented today. The third loan listed on the agenda will be tabled. Mr. Batton called on Brianna Walker to present the loan to Fashion For Less.

Ms. Walker reviewed the terms of the loan as follows:

**EXHIBIT A
SUMMARY OF PROPOSED TERMS**

Borrower Name:	Fashion For Less
Borrower Business Location:	19110 Livernois, Detroit, MI 48221
Date:	10/4/2019
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: 7.4 – Moderate Risk
Analyst/Officer: Brianna Walker

LOAN PURPOSE AND BUSINESS DESCRIPTION/HISTORY

Prisca Onyejiaka, the owner of Fashion For Less 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 19110 Livernois, Detroit. EDC financing will support rent, payroll, advertising, utilities, repairs, insurance and working capital for cold-weather inventory.

Fashion For Less is a retail shop selling African fashions for men, women and children. Prisca began selling these products at vendor events 15 years ago and started using the location on Livernois as a storage facility. In 2017, business started booming, a phenomenon which Prisca attributes to the release of Marvel's Black Panther movie. The majority of her sales come from business during the summer months, so construction has severely impacted her bottom line. **Revenue for Fashion For Less from April 2019 through August 2019 is down 62% in comparison to the comparable time frame in 2018.**

SOURCES AND USES

Uses of Funds	Amount
Rent	\$ 3,600
Working Capital (Inventory + Vendor Fairs)	\$ 7,000
Payroll	\$4,500
Advertising	\$ 2,400
Utilities	\$ 1,400
Repairs/ Maintenance	\$ 500
Insurance	\$ 200
Sources of Funds	
EDC Streetscape Mitigation Fund	\$20,000

SOURCE OF REPAYMENT

Primary: Cash Flow from Fashion For Less
Secondary: Personal Guaranty

COLLATERAL AND CONDITIONS

Business Assets: N/A
Personal Assets: 2009 Ford Escape, (\$5,000 Kelly Blue Book Value)
 2005 Lexus ES, (\$5,000 Kelly Blue Book Value)



- 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. Forte called for questions or comments. With there being none, Ms. Hamburger presented the terms and conditions of the next proposed loan to Shears and Shaves as follows:

EXHIBIT B SUMMARY OF PROPOSED TERMS

SHEARS AND SHAVES LOAN REQUEST

- Borrower Name:** Shears and Shaving, LLC DBA Shears and Shaves
Borrower Business Location: 20202 Livernois, Detroit, MI 48221
Date: 10/4/2019
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 Guaranty
Analyst’s Rating: 7.25 – Moderate Risk
Analyst/Officer: Lily Hamburger

LOAN PURPOSE AND BUSINESS DESCRIPTION/HISTORY

Dawn Sanford, the founder and owner of Shears and Shaves, 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 as she ramps up this newly opened full-service salon and spa. The property’s physical location is 20202 Livernois, Detroit and Ms. Sanford held her grand opening there in August 2019. EDC financing will support rent, utilities, payroll, and supplies for the salon.

Shears and Shaves is a full services salon and spa offering services to both men and women, as well as kids. Ms. Sanford has a loyal clientele following her to Shears and Shaves after her 30-year career as a hair dresser and barber in in Detroit, as well as travelling around the country to serve dignitaries and celebrities. She started this business with support from Motor City Match: she was an awardee of all four tracks of the program and is also a client of TechTown SWOT City. Ms. Sanford had projected to hire 6 employees after opening, but due to low traffic and obstruction of the space she did not.



SOURCES AND USES

Uses of Funds	Amount
Rent	\$3,500.00
Utilities	\$1,000.00
Payroll	\$5,500.00
Inventory/Supplies	\$10,000.00
Sources of Funds	
EDC Streetscape Mitigation Fund	\$20,000.00

SOURCE OF REPAYMENT

Primary: Cash Flow from Shears and Shaves
Secondary: Personal Guaranty

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. Forte called for questions and comments and noted that this is a new Motor City Match awardee business that just recently opened. The Committee talked earlier today about what modifications to the Program should be made for start-ups and discussed a reduction in maximum the dollar amount to be given.

Mr. Hodge asked how many employees she had hired. Ms. Hamburger stated that she hired three of the nine she had projected to hire.

Mr. Hodge asked about her initial capitalization because she is requesting \$10,000 for inventory and supplies and had only been in business two months. He was wondering if she was undercapitalized as a start-up. Ms. Hamburger responded that she mentioned that she wanted to purchase hair care products for sale at the salon. The Committee felt that her inventory should still be high having been in business two months, particularly with reduced street traffic.

Mr. Stallworth asked about her hiring six more employees and if they would be on the payroll as full-time employees or just contractors leasing space from her. Ms. Hamburger stated she would be happy to check into that.



Mr. Batton stated that they would like to bring this back to the Committee at a later date after getting more information from the loan applicant

Mr. Hodge suggested that since there are no historical revenues for this business, he would like to see a comparison of projected revenues to the actual revenue. Ms. Forte added that she believes for the MCM businesses that would be a fair comparison.

Ms. Hamburger stated that she can ask this borrower for her actuals for the two months she has been open and questioned if she should just ask for just her revenue or for her revenue, expenses and profit, or whatever information that would be helpful to the Committee in making a decision.

Mr. Stallworth said that he would like clarification on the \$10,000 for payroll and whether it is for maintaining payroll for the existing employees or for adding employees.

Mr. Hodge asked if she owns or rents the space. Ms. Hamburger responded that she rents the space.

Subsequent to the discussion, Ms. Forte called for a motion and the Committee took the following action:

On a motion by Mr. Hodge, seconded by Mr. Stallworth, the Committee unanimously agreed to recommend the loan to Fashion For Less to the Board for approval and to table the Shears and Shaves loan request to be brought back to the Committee with the requested additional information.

OTHER MATTERS

PUBLIC COMMENT

ADJOURNMENT

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