



**DOWNTOWN DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING
WEDNESDAY, AUGUST 21, 2019 – 2:00 P.M.**

COMMITTEE MEMBERS PRESENT:

David Blaszkiewicz
Sonya Delley
Melvin Hollowell
John Naglick
Steve Ogden

COMMITTEE MEMBERS ABSENT:

None

OTHERS PRESENT:

Charlotte Fisher (DEGC/DDA)
Rainey Hamilton (Hamilton Anderson)
Amanda Hanlin (DEGC/DDA)
Gay Hilger (DEGC/DDA)
Malinda Jensen (DEGC/DDA)
Kevin Johnson (DEGC/DDA)
Paul Kako (DEGC/DDA)
Jennifer Kanalos (DEGC/DDA)
Denise Lewis (Honigman)
Glen Long, Jr. (DEGC/DDA)
Rebecca Navin (DEGC/DDA)
Sarah Pavelko (DEGC/DDA)
Dan Reysinski (Hamilton Anderson)
David Schervish (Randolph Centre/HDC)



**MINUTES OF THE DOWNTOWN DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING
WEDNESDAY, AUGUST 21, 2019
DETROIT ECONOMIC GROWTH CORPORATION
500 GRISWOLD STREET, SUITE 2200 – 2:00 P.M.**

GENERAL

Call to Order

Noting that a quorum was present, Chairman Naglick called the meeting of the Downtown Development Authority Finance Committee to order at 2:09 p.m.

Approval of Minutes

Mr. Naglick asked if there were any additions, deletions or corrections to the minutes of the June 26, 2019 Finance Committee meeting. Hearing none, the Committee took the following action:

On a motion by Mr. Hollowell, seconded by Mr. Blaszkiewicz, the June 26, 2019 minutes were unanimously approved.

PROJECTS

Paradise Valley Business & Entertainment District: Amendment to the Development Agreement for 1435 Randolph and 1455 Centre

Ms. Pavelko advised that the City of Detroit Downtown Development Authority (the “DDA”) approved the award of a development agreement (as amended, the “Development Agreement”) for 1435 Randolph and 1455 Centre to Randolph Centre 2020, LLC (the “Developer”) following a Request for Proposals issued by DDA staff. In June 2017, the DDA approved a reduction of the purchase price from \$2,351,000 to \$2,001,000 and certain other modifications to the original award to facilitate construction of an addition.

The Development Agreement contemplated that the lawsuits filed by the DDA in November 2016 and March 2017 relating to the ground floor restaurant tenant would be resolved by January of 2018; however, the final workout and vacation of the property did not occur until September 2018. This delay put significant pressure on the project and created significant uncertainty and prevented the finalization of proformas and financing. Further, underwriting by a third party determined that with terms offered by the Developer’s financing partner and increased construction costs necessitated a further reduction to the purchase price and elimination of the addition from the near-term development plan.

In addition, the DDA postponed needed maintenance with the assumption that closing would be sooner and this resulted in significant impacts for the tenancy of Hamilton Anderson and Associates, an affiliate of Developer (“HAA”), prompting HAA to escrow its monthly rental payments since April 2019. It also resulted in delayed closing & additional rent payments rather than debt service to build equity for the principal of HAA.



Based on the foregoing circumstances, DDA staff recommends amending the Development Agreement to make the following changes, the terms of which are more particularly set forth in the Exhibit A included in the Board material:

1. Reduce the purchase price to \$1,400,000;
2. Provide a development credit against the purchase price of \$400,000;
3. Provide seller financing of the purchase price & additional financing for predevelopment and construction activities;
4. Allow for an immediate closing on the property; and
5. Release rent payments from escrow to the HAA and no rent to be payable to closing.

The DDA staff is seeking the Finance Committee's recommendation to the Board for approval to negotiate and execute an Amendment to the Development Agreement consistent with the terms and conditions described in the Term Sheet presented to the Committee as Exhibit A.

Following Ms. Palvelko's presentation, the Finance Committee thoroughly discussed the proposed Amendment and Mr. Hollowell summarized the key points of the discussion as follows:

The two main principles that were considered are:

1. We want to move the project forward for jobs and economic development, and culture.
2. We want to ensure that there is consistent treatment among the common Paradise Valley project participants, understanding that there are some nuances on each of the Paradise Valley sites.

Other points considered were as follows:

- The total investment by the developer is \$6.8 million, and that includes what is being financed by the DDA, but not the \$400,000;
- We needed assurances of the capacity of the development team, and Mr. Hamilton provided same.
- The property addition, which was in the original development agreement aspect, is removed from the proposal. That parcel is going to remain a parking lot.
- The \$30 per square foot purchase price is consistent with the other Paradise Valley projects.
- September 30 closing date.
- In consideration of two lawsuits and other repairs, the rent in escrow (approximately \$128,000) will be released.
- The grant of a development credit is consistent with the amended development terms for 1409 Randolph since, in both cases, the developers experienced project delays and additional expenses as a result of DDA's litigation with a tenant at the property, which, in this case, was a longer than expected period during which developer's affiliate was required to pay rent rather than build equity in the project.
- The development credit by the DDA of \$400,000 will be converted to a note if the full renovation is not completed in 24 months from the date of closing on senior financing.
- The loan is secured by a personal guarantee.
- There is \$835,000 for pre-development and construction costs.



- Seventy-five percent of the first-floor retail space must be occupied at the completion of construction, and the retail commercial consultant requires DDA sign-off.

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

On a motion by Mr. Hollowell, seconded by Ms. Delley, the Committee unanimously agreed to recommend approval of the transaction to the Board.

ADMINISTRATION

PUBLIC COMMENT

ADJOURNMENT

With there being no other business to be brought before the Committee, Mr. Naglick adjourned the meeting at 2:37 p.m.