DDA
CITY OF DETROIT
DOWNTOWN DEVELOPMENT AUTHORITY
500 Griswold, Suite 2200
Detroit, MI 48226

DOWNTOWN DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING
WEDNESDAY, OCTOBER 9, 2024 – 3:00 P.M.

COMMITTEE MEMBERS PRESENT:	David Blaszkiewicz Melvin Hollowell John Naglick Steve Ogden
COMMITTEE MEMBERS ABSENT:	None
OTHERS PRESENT:	Cora Capler (DEGC/DDA) Kevin Johnson (DEGC/DDA) Glen Long, Jr. (DEGC/DDA) Rebecca Navin (DEGC/DDA) Kelly Shovan (DEGC/DDA) Nasri Sobh (DEGC/DDA) Sierra Spencer (DEGC/DDA) David Esshaki (George Johnson & Company) Anthony McCree (George Johnson & Company) Michael Nicholas (George Johnson & Company)

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MINUTES OF THE DOWNTOWN DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING
WEDNESDAY, OCTOBER 9, 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 3:05 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 May 22, 2024, Finance Committee meeting. Hearing none, the Committee took the following action:

> Mr. Ogden made a motion approving the May 22, 2024, minutes, as written. Mr. Blaszkiewicz supported the motion. All were in favor with no opposition, and the May 22, 2024, minutes were unanimously approved.

PROJECTS

ADMINISTRATIVE

DDA Draft Audit for FY 2023-2024

Mr. Long introduced Mr. David Esshaki, Mr. Anthony McCree, and Mr. Michael Nicholas of George Johnson & Company (GJC), who reviewed the Audit Wrap-Up document.

Mr. Naglick advised that the property tax amount shown is the tax capture that the DDA receives from the City of Detroit.

Mr. Naglick stated that since the DDA Board meets regularly and discusses financials, it becomes a good control. Mr. Naglick continued that since the Committee knows where the DDA stands financially, it would be noticed if numbers were presented incorrectly.

Mr. Long stated that there was an adjustment and explained that the bond issuance closed on June 27, 2024. During that time, staff entered the premium and expenses, and the wrong amount was entered to be amortized. Mr. Long advised that this was a paper adjustment, not a cash adjustment so with respect to the $15M that was cited, the cash was properly accounted for. Mr.

Long added that the $15M is a premium which should be entered as a payable and recognized over the course of the life of the bonds. What occurred was that it was entered as income because the bond transaction occurred so late in the fiscal year. If the transaction had occurred in May, it would have been noticed immediately as 1/12 of a year's worth would have required amortization, but because it was entered at the end of the year there was none. The auditors rightly noted it and it ended up as an adjustment.

Mr. Blaskiewicz stated that process should be discussed and added that when a material statement arises, there is always a great explanation as to why but that he wanted go "one layer deeper" into the adjustment. Mr. Blaskiewicz articulated that he understood the adjustment to be $16M as there was $1M on the expense side and that this was a significant adjustment. Mr. Blaskiewicz then asked if there had been any discussions with legal counsel or GJC before the bonds were recorded. Mr. Long responded that typically, the auditors are included in the recording, but because the bond issuance happened at the end of the fiscal year, staff believed that everything was correct and that GJC would review it during the annual audit. Mr. Long stated that whenever the next bond issuance occurs, in accordance with the recommendation of GJC, the auditors would be included on the front end of the issuance. Mr. Long stated that he wanted to point out again that it wasn't that the income and expenses weren't recorded, it was that they were recorded all at once when it should be recorded over the years.

Mr. Blaskiewicz stated that his questions should not be interpreted as criticism, as they relate to process and infrastructure, which is an ongoing conversation on various Boards.

Mr. Naglick explained that when a bond is sold, there is a printed coupon rate, and the DDA bonds had a typical rate of five percent (5%). Mr. Naglick continued that the market rate was below five percent (5%); therefore, the buyer pays a premium on the face amount of the bonds and gets paid interest at the coupon rate which will result in the DDA paying the bondholder less than what the bondholder paid as the effective interest rate was below 5%. The additional amount then gets amortized over the life of the bonds. Mr. Naglick added that the adjustment was a simple journal entry mistake where the premium was recognized on the books for June 2024 when it should've been on the balance sheet to be amortized over the bond's life. Mr. Naglick agreed with Mr. Blaskiewicz's statements about the discussions happening on many Boards and stated that the question is always how we can do better. Mr. Naglick continued that the auditors are not supposed to provide comfort for the financial statements presented, but rather the Board is already comfortable and that when the auditors find something, it is seen as a required auditing statement.

Mr. Naglick stated that the City of Detroit is setting up its own internal audit function. In the case of more bond transactions, the Committee could ask the DEGC to have an internal auditor who has the same knowledge as the external auditors and reviews everything before it is given to the external auditors, but since these transactions are extremely rare it may not be cost effective.

Mr. Hollowell stated that this adjustment gave him more confidence in the management of the DDA because the adjustment was handled forthrightly, caught, and fixed. Mr. Hollowell stated that the DDA meets often and considers this to be a good thing because Board Members ask questions and provide their own experience, which he believes should give the public confidence that funds are being spent in a way that furthers the development of the City while being as frugal as possible.

Mr. Naglick stated that Mr. Long was forthright about the entry mistake, able to explain how the mistake happened, and transparent.

Mr. Blaskiewicz suggested that when major entries need to be made, DDA Staff contact the auditors for guidance before making the entry to prevent mistakes.

Mr. Ogden stated that it seems a large cause of the mistake was that the transaction closed three (3) days before the end of the fiscal year; if it had closed with more time before the end of the fiscal year, the entry mistake would've been shown on the ledger.

Mr. Naglick explained that there was a strong need to avoid paying another large bond insurance premium, so there was a rush to complete the issuance before June 30, 2024. Mr. Long added that, for many reasons, he would prefer a closing not happen in June again.

Mr. Blaskiewicz asked what valuation method is used for the balance sheet's capital items. Mr. Long stated that it was straight-line depreciation. Mr. Naglick added that the DDA does not mark capital assets to the market.

Mr. Blaskiewicz inquired about the four percent (4%) decrease in tax capture and asked why, with the COVID-19 pandemic in the past and more people returning to the office, the DDA income would not increase. Mr. Long explained that many things affect income, such as abatements and how taxes are collected. Mr. Long added that adjustments are made from period to period, and therefore, there is some fluctuation from year to year. Mr. Naglick stated that one of the elements needed for the bond issuance was for the outside consultant MuniCap to forecast how much capture there would be for individuals who bought the bonds. Mr. Naglick continued that Ms. Navin was diligent about ensuring that the bond disclosures were accurate, and as it was realized that there were appeals on certain properties in the DDA district, the bond document was revised. Mr. Naglick advised that multiple captures operate, impacting how much income comes in for any given year. Mr. Naglick stated that bondholders want to know how they will be paid back, and therefore, the MuniCap report is reviewed, and in this case, it will show that the capture district is diverse.

Ms. Navin advised the Committee that starting July 1, 2025, the DDA will no longer capture the voted Detroit Public Library millage. While this loss will not appear in the financial statements until 2026, the Committee should be aware of it.

Mr. Ogden asked that with the sale of the DDA's real estate assets, and since the DDA has not been fully repaid at some point, would this fact appear on the financial statements. Mr. Long gave an example of a property recently closed on Broadway Street carried on the DDA books at five hundred thousand dollars ($500,000.00). Mr. Long explained that the sale price was eight hundred thousand dollars ($800,000.00), but it was seller financing, so it was moved from a five hundred thousand dollar ($500,000.00) capital asset to an eight hundred thousand dollar

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($800,000.00) loan. Mr. Long concluded that while cash payments would be preferred, it is sometimes impossible. Mr. Naglick added that most of the income is from the big assets: the stadium and two (2) garages.

Mr. Long stated that the GJC auditors are experienced and rotate staff to allow different sets of eyes and introduced Mr. McCree.

Mr. Blaskiewicz asked if there were any control deficiencies or other deficiencies that the Committee should be aware of. Mr. Long responded that there were no deficiencies, and Mr. Esshaki agreed.

Mr. Naglick called for a motion to approve the DDA Draft Audit for FY 2023-2024.

> Mr. Hollowell made a motion approving the DDA Draft Audit for FY 2023-2024, as presented. Mr. Ogden seconded the motion. All were in favor with no opposition, and the DDA Draft Audit was unanimously approved.

OTHER
None.

PUBLIC COMMENT
None.

ADJOURNMENT
With there being no other business to be brought before the Committee, Mr. Ogden made a motion to adjourn the meeting, which was seconded by Mr. Blaszkiewicz, and Mr. Naglick adjourned the meeting at 3:48 p.m.