

City of Detroit



Downtown Development Authority

500 Griswold, Suite 2200, 22<sup>nd</sup> Floor

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**DOWNTOWN DEVELOPMENT AUTHORITY  
FINANCE COMMITTEE MEETING  
MONDAY, NOVEMBER 12, 2018 – 12:30 P.M.**

**COMMITTEE MEMBERS PRESENT:**

Sonya Delley  
John Naglick, Chair  
Steve Ogden

**COMMITTEE MEMBER ABSENT:**

David Blaszkievicz

**OTHERS PRESENT:**

Gay Hilger (DEGC/DDA)  
Paul Kako (DEGC/DDA)  
Jennifer Kanalos (DEGC/DDA)  
Steve Kantor (Hilltop Securities)  
Glen Long (DEGC/DDA)  
Rebecca Navin (DEGC/DDA)  
Jarrod Smith (Dykema)

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**MINUTES OF THE DOWNTOWN DEVELOPMENT AUTHORITY  
FINANCE COMMITTEE MEETING  
MONDAY, NOVEMBER 12, 2018  
DETROIT ECONOMIC GROWTH CORPORATION  
500 GRISWOLD STREET, SUITE 2200 –12:30 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 12:35 p.m.

**Approval of Minutes of September 26, 2018 Meeting**

Mr. Naglick asked if there were any additions, deletions or changes to the minutes of the September 26, 2018 Finance Committee meeting.

Hearing none, the Committee took the following action:

On a motion by Ms. Delley, seconded by Mr. Ogden, the minutes of the September 26, 2018 Finance Committee meeting were unanimously approved.

**PROJECTS**

**Catalyst Development Project Refinancing -- Bond Authorizing Resolution**

Mr. Long advised that the Board of Directors of the City of Detroit Downtown Development Authority (the "DDA") (the "Board") authorized the issuance of bonds in 2014 (the "2014 Bonds") and in 2017 (the "2017 Bonds") (together, the "Prior Catalyst Development Bonds") to: (a) assist in the financing and development of the Events Center Project, now named Little Caesars Arena ("LCA"); (b) finance other eligible costs of construction of the "catalyst development project" undertaken by the DDA, of which the LCA is a part, and (c) finance other related public facilities, public infrastructure and public spaces in the DDA's Development Area No. 1 (collectively, the "Catalyst Development Project").

The Prior Catalyst Development Bonds were sold at interest rates of 4.125% (2014) and 4.50% (2017) that will each automatically increase to 10% on January 1, 2019 unless the Prior Catalyst Development Bonds are refinanced. At the time of issuance, DDA staff and the DDA's financial and legal advisors believed that the economic activity in the Catalyst Development Project would improve so that the Prior Catalyst Development Bonds would be able to be refinanced on favorable terms on or before January 1, 2019. Their belief was based upon a projected improvement in the financial condition of City of Detroit, specifically the completion of the LCA, the economic growth resulting from the Catalyst Development Project, and other growth in Development Area No. 1.

Following a July 2018 Request for Proposals, DDA's financial and legal advisors engaged in discussions with potential bond underwriters to structure a plan of financing that would enable the DDA to issue long-term fixed rate debt. No firm proposed a financing plan that provided an affordable long-term fixed rate and no firm believed that the refunding bonds would achieve an investment grade rating (BBB- or better). As a result, DDA staff proposed to the Board the issuance of bonds with a 3-year interest reset, which was a similar structure to the Prior Catalyst Development Bonds. In connection with this proposal, on August 22, 2018, pursuant to Resolution DDA 18-08-123-66, the Board approved the selection of Jefferies LLC as the underwriter for the DDA's issuance of revenue refunding bonds through a public sale (the "Series 2018 Bonds").

Following the August 2018 Board approval, recognizing the Board's preference to issue long-term fixed rate bonds and eliminate the interest rate risks associated with another short-term refinancing, DDA's financial advisor also engaged in conversations with potential bond insurers, and, relying on the Board's September 26, 2018 approval (DDA 18-09-123-67), the DDA applied for bond insurance. Insuring the Series 2018 Bonds would allow the DDA to issue fixed rate long term bonds at an investment grade rating.

DDA has received a commitment letter from Assured Guaranty ("Assured"), a bond insurer rated AA, to provide bond insurance for a 30-year bond issue, allowing the Series 2018 Bonds to achieve a AA investment grade insured rating. Assured's proposal is conditional upon the issue receiving an investment grade rating from a national rating agency. Kroll Bond Rating Agency ("Kroll") has evaluated the proposed structure and is prepared to provide an investment grade rating to the Series 2018 Bonds.

As part of the review of the proposed transaction structure by Assured and Kroll, both entities have required that the DDA's \$24 million of Series 1998A Bonds secured by a senior lien on General Tax Increment Revenues, be refunded on a subordinate lien basis.

As a result, the following actions are proposed in connection with the refunding of the Prior Catalyst Development Bonds, as more particularly described in the Executive Summary attached hereto as Exhibit A:

- **Series 2014A Bonds and Series 2017 Bonds** – The Prior Catalyst Project Bonds will be refunded through an issuance of approximately \$290.4 million of 30-year fixed rate debt, insured by Assured's bond insurance policy (the "Series 2018A Bonds"), with a lien on DDA's General Tax Increment Revenues and Catalyst Project Revenues (as defined below, being the same revenues previously securing the 2014A and 2017 Bonds).

- **Series 1998A Bonds** – The DDA will deposit approximately \$4 million, plus the proceeds of the issuance of bonds maturing in 2025 (the "Series 2018B Bonds"), into an escrow account to defease the Series 1998A Bonds. The Series 2018B Bonds will be secured on a subordinate basis to the Series 2018A Bonds with a subordinate lien on DDA's General Tax Increment Revenues only, and the Series 2018B Bonds will likewise be insured by Assured's bond insurance policy.
- **Series 1996C and 1998B** – These bonds are not callable and will remain outstanding and maintain a senior lien on DDA's General Tax Increment Revenues. However, upon closing the Series 2018 Bonds, the 2019 debt service of approximately \$4.1 million for these senior bonds will be prepaid into an escrow account, and each year thereafter until maturity, the next year's debt service will likewise be escrowed using debt service savings from the prior year's pre-funding. The initial \$4.1 million will come from tax General Tax Increment Revenues to be released to the DDA by the Series 2018 Bonds trustee in December.

The Series 2018 Bonds will be sold by the underwriters pursuant to a public sale as contemplated by the August 2018 Board Approval; however, as the structure of the proposed bond issuance has changed, staff is recommending the inclusion of an additional underwriter (Siebert Cisneros Shank & Co.) to assist Jefferies in the marketing of the Series 2018 Bonds.

Following Mr. Long's presentation, the Committee expressed that they were very happy that he was able to work with Hilltop Securities and get insurance and a long-term financing deal. The Committee was also pleased about the inclusion of a local underwriter.

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

On a motion by Mr. Ogden, seconded by Ms. Delley, the Committee unanimously agreed to recommend approval of the proposed resolution to the Board.

#### OTHER MATTERS

#### PUBLIC COMMENT

#### ADJOURNMENT

With there being no other business to be brought before the Committee, Mr. Naglick adjourned the meeting at 1:16 p.m.

**EXHIBIT A**  
**Executive Summary**

Significant terms of the Series 2018 Bonds are summarized below.

**Series 2018 Bonds**

***Issuer:***

- DDA will issue
  - Approximately \$290.4 million Tax Increment Revenue Refunding Bonds, Series 2018A (Catalyst Development Project) (the "Series 2018A Bonds") and
  - Approximately \$22.4 million Subordinate General Tax Increment Revenue Refunding Bonds, Series 2018B (Development Area No. 1 Projects) (the "Series 2018B Bonds" and, together with the Series 2018A Bonds, the "Series 2018 Bonds")

***Use of Bond Proceeds:***

- Refunding Series 2014A Bonds and Series 2017 Bonds (Series 2018A Bonds)
- Refunding Series 1998A Bonds (Series 2018B Bonds)
- Payment of certain expenses incurred in connection with the issuance of the Series 2018 Bonds, including bond insurance premiums and DDA's issuance expenses and costs

***Term:***

- Series 2018A Bonds. Final maturity date of July 1, 2048 with a projected optional call date which will be negotiated with investors (no earlier than July 1, 2024). Principal to be paid based on an annual mandatory sinking fund redemption schedule, anticipated to commence in 2021.
- Series 2018B Bonds. Final maturity date of July 1, 2025. Not anticipated to have an optional call date.

***Interest Rate:***

- Interest Rates of the Series 2018 Bonds will be fixed at the time of pricing (not exceeding a true interest cost of 7% for the Series 2018A Bonds; not exceeding 5% for the Series 2018B Bonds).

***Repayment Sources:***

- General Tax Increment Revenues. DDA's tax increment revenues specifically described under Section 1(cc)(i) of Act 197 (e.g., non-school tax increment revenue in the development area), excluding such revenues to the extent levied and collected on the real and personal property comprising the LCA and excluding other tax increment revenues shared with taxing jurisdictions pursuant to sharing agreements or other arrangements (the "General Tax Increment Revenues"),
- Catalyst Project Revenues. DDA's tax increment revenues specifically described under Section 1(cc)(vi) of Act 197 (e.g., school tax increment revenue in the development area), excluding (i) Future Brownfield Tax Increment Captures (as

defined below) (the "Catalyst Project Revenues" and collectively with the General Tax Increment Revenues, the "Tax Increment Revenues") "Future Brownfield Tax Increment Captures" means the captures of tax increment revenues that would otherwise be Catalyst Project Revenues and which are generated by future brownfield redevelopment projects in Detroit DDA Development Area No. 1, subject to various statutory criteria and governmental approvals and created pursuant to Act 381 of 1996, as amended.

**Security:**

- The Series 2018A Bonds will be secured by a pledge by the DDA of, and statutory liens on: (i) the Tax Increment Revenues, subordinate to the liens on such General Tax Increment Revenues securing the DDA's Tax Increment Bonds (Development Area No. 1 Projects), Series 1996C; Tax Increment Refunding Bonds (Development Area No. 1 Projects), Series 1998B (Taxable) (collectively, the "Senior Bonds"),
- The Series 2018B Bonds secured by a pledge by the DDA of, and statutory lien on the General Tax Increment Revenues, and will be further subordinate to the lien of the Senior Bonds and the Series 2018A Bonds. The Series 2018B Bonds will not be secured by the Catalyst Project Revenues,
- Debt services for the Series 2018B Bonds will be insured by the Assured bond insurance policy (as more fully described below).

**Flow of Funds:**

- General Tax Increment Revenues will be applied to the following purposes, in the order set forth below:
  1. Senior Bonds debt service, reserve replenishment, and fee requirements, if applicable.
  2. (i) Series 2018A Bonds debt service payable from scheduled amounts of General Tax Increment Revenues; (ii) additional amounts to meet 2018A Bond debt service (to the extent of deficiencies in Catalyst Project Revenues as provided for in the Indenture); (iii) reserve replenishment and fee requirements of the Series 2018A Bonds; and (iv) Series 2018B Bonds debt service requirements. To the extent that the General Tax Increment Revenues are applied to debt service on the Series 2018A Bonds in excess of the annual payments schedule, the Indenture provides a mechanism for the DDA to be reimbursed for such excess payments from future collections of General Tax Increment Revenues or Catalyst Project Revenues.
  3. Approximately \$4.1 million into a bond fund for the advance funding of the next year's debt service requirements for the Senior Bonds, if applicable.
  4. Balance to the DDA to fund other DDA Plan expenses.
- Catalyst Project Revenues will be applied to the following purposes, in the order set forth below:
  - Series 2018A Bonds debt service requirements not covered by scheduled amounts of General Tax Increment Revenues, reserve replenishment, and fee requirements of the Series 2018A Bonds.
  - Revenue Stabilization Fund to provide additional security for the 2018A Bonds, and to be applied and released to the DDA from time to time upon terms acceptable to Assured.

**Method of Sale – Public Sale:**

- As the structure of the proposed bond issuance has changed, staff is recommending the inclusion of Siebert Cisneros Shank & Co. (together with Jefferies, the “Underwriter”) in the capacity of co-manager to assist Jefferies in the marketing of the Series 2018 Bonds.
- The Underwriter has proposed to sell both the Series 2018A Bonds and Series 2018B Bonds to the public, pursuant to the terms of a Bond Purchase Agreement to be executed by the Underwriter and the DDA.
- The DDA will execute a continuing disclosure agreement pursuant to which the DDA will agree to certain ongoing financial and statistical disclosures consistent with its prior continuing disclosure undertakings for prior issues.

**Bond Insurance**

In order for the Series 2018 Bonds to be marketed as fixed rate bonds with investment grade ratings, the DDA will obtain bond insurance from Assured Guaranty (“Assured”). The insurance policy will guaranty scheduled payments to bondholders for the life of the Series 2018 Bonds, thereby allowing the Series 2018 Bonds to be priced at lower fixed interest rates.

***Premium:***

- Assured has offered the DDA two options of paying the insurance premium. One option is to pay the entire amount of premium upfront and the second option is to pay the insurance premium annually.

***Special Covenants and Conditions:***

- ***Use of Revenue Stabilization Fund:*** From the date the Series 2018 Bonds are issued to maturity, cumulative deposits of excess Catalyst Project Revenues into a Revenue Stabilization Fund created under the Indenture will be utilized for the purpose of providing supplemental liquidity and security for the Series 2018A Bonds. DDA will undertake bond redemptions as described in the Assured agreement until all Series 2018A Bonds are retired and will have the right to a release of funds from the Revenue Stabilization Fund for other purposes, including pursuant to the terms of the Assured agreement.
- ***Series 1998A Refunding:*** A condition to issuance of an investment grade rating by Kroll and bond insurance by Assured for the Series 2018 Bonds is that the DDA refund the outstanding Series 1998A Bonds by 1) depositing \$4 million of available DDA funds and 2) issuing additional bonds to complete a currently refunding of the remaining Series 1998A Bonds as subordinate lien bonds (described above as the Series 2018B Bonds).
- ***Advance funding of annual debt service for Series 1996C and 1998B Bonds:*** An additional condition to issuance of an investment grade rating by Kroll and bond insurance by Assured for the Series 2018 Bonds is the requirement that the DDA deposit approximately \$4.1 million of General Tax Increment Revenues released from the Series 2018 Indenture into the bond fund for the Senior Bonds, to pre-fund the combined debt service on the Senior Bonds becoming due and payable in fiscal year 2019. Every year thereafter, through the final maturity of the Senior Bonds in 2028, using debt service savings from

the prior year's pre-funding of debt service, the DDA will deposit funds in the same amount with the Senior Bonds trustee to pre-fund the next year's combined debt service on the Senior Bonds. This arrangement was established in very much the same form in 2014 with respect to the Series 1998A Bonds, which are now being refunded by the Series 2018B Bonds.

- Additional terms and conditions with Assured are still under negotiation and will be memorialized in an insurance agreement with the DDA and Assured.