

City of Detroit



Downtown Development Authority

500 Griswold, Suite 2200, 22nd Floor

Detroit, Michigan 48226

Phone: 313 963 2940

Fax: 313 963 8839

**DOWNTOWN DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING
WEDNESDAY, SEPTEMBER 26, 2018 – 2:30 P.M.**

COMMITTEE MEMBERS PRESENT:

Sonya Delley
John Naglick, Chair
Steve Ogden

COMMITTEE MEMBERS ABSENT:

David Blaszkiewicz

OTHERS PRESENT:

Bowden Brown (Dykema)
Gay Hilger (DEGC/DDA)
Malinda Jensen (DEGC/DDA)
Paul Kako (DEGC/DDA)
Jennifer Kanalos (DEGC/DDA)
Steve Kantor (Hilltop Securities)
Glen Long (DEGC/DDA)
Rebecca Navin (DEGC/DDA)

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**MINUTES OF THE DOWNTOWN DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING
WEDNESDAY, SEPTEMBER 26, 2018
DETROIT ECONOMIC GROWTH CORPORATION
500 GRISWOLD STREET, SUITE 2200 – 2:30 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 2:36 p.m.

Approval of Minutes of September 11, 2018 Meeting

Mr. Naglick asked if there were any additions, deletions or changes to the minutes of the September 11, 2018 Finance Committee meeting.

Hearing none, the Committee took the following action:

On a motion by Mr. Ogden, seconded by Ms. Delley, the minutes of the September 11, 2018 Finance Committee meeting were unanimously approved.

PROJECTS

Catalyst Development Project: Authorization of Actions Preliminary to the Issuance and Sale of Tax Increment Revenue Refunding Bonds, Series 2018 (Development Area No. 1 Projects)

Mr. Navin advised that the DDA financed the development of a “catalyst development project” (as defined in Act 197), including the development of the Little Caesars Arena (the “LCA”). In December 2014, the Michigan Strategic Fund issued its tax-exempt bonds in the principal amount of \$250,000,000.00, the proceeds of which were loaned to the DDA in exchange for its bond of the same amount (collectively, the “Series 2014A Bonds”) to finance a portion of the development costs of the LCA. In August 2017, the DDA issued its tax-exempt bonds in the principal amount of \$36,000,000.00 (the “Series 2017 Bonds” and together with the 2014A Bonds, the “Outstanding Bonds”) for additional development costs to assist with the relocation of the Detroit Pistons to the LCA. Under the transaction structure for both the Series 2014A Bonds and the Series 2017 Bonds, the Outstanding

Bonds have a mandatory tender date of January 1, 2019 (the “2019 Tender Date”), by which time the Outstanding Bonds must be refunded, remarketed, or redeemed. The DDA intends to refund the Outstanding Bonds prior to the 2019 Tender Date by issuing its refunding bonds, the proceeds of which will redeem the Outstanding Bonds (the “Series 2018 Refunding Bonds”)

DDA staff and the DDA’s financial and legal advisors have engaged in discussions with potential bond purchasers to structure a plan of financing for the Series 2018 Bonds that would reduce the DDA’s debt service without imposing new or burdensome covenants, terms and conditions and was otherwise likely to achieve beneficial results for the DDA. On August 22, 2018, pursuant to Resolution DDA 18-08-123-66, the Board approved the selection of Jefferies, LLC (the “Underwriter”) as the underwriter for the Series 2018 Bonds pursuant to a public marketing and sale of unrated Series 2018 Refunding Bonds. Since such approval, DDA staff and advisors have worked with Jefferies towards the anticipated transaction.

However, also during that time, discussions have been occurring with a potential insurer for the Series 2018 Refunding Bonds, and DDA has also received significant interest by financial institutions seeking to purchase the Series 2018 Refunding Bonds for their own account via a direct placement.

Although discussions are ongoing, presently the potential insurer requests a long term fixed interest rate structure and other terms and covenants for the Series 2018 Refunding Bonds that are materially different from those proposed by and reflected in the documentation process with the Underwriter, which contemplate a variable interest rate structure with a short-term mandatory tender requirement. Further, terms proposed by the other interested financial institutions would differ in some material respects from those proposed by the Underwriter.

Therefore, in order to accomplish the best outcome for the DDA and the Series 2018 Refunding Bonds, and to allow time for a full due diligence process to take place, it is recommended that a bond authorizing resolution be presented to the Board when the structure of the Series 2018 Refunding Bonds transaction, including whether it is economically viable to insure the Series 2018 Refunding Bonds, is more certain. It is anticipated that the bond authorizing resolution will be presented within the next month.

However, it has also been determined that certain approvals and authorizations would be presently necessary to continue developing the Series 2018 Refunding Bond transaction.

The resolution presently for the Committee’s consideration for referral to the Board authorizes certain actions to be taken by Authorized Officers and Authorized Agents of the DDA, including seeking the necessary approvals, confirmations and waivers (if necessary) from the Michigan Department of Treasury with respect to compliance with Michigan Public Act 34 of 2001, as amended, to negotiate with the potential bond insurer, and to take such other preliminary actions as may be necessary and appropriate in connection with the ultimate issuance and sale of the Series 2018 Refunding Bonds.

Ms. Navin added that the final deal will come back to the Board for approval.

Mr. Kantor explained that they want to explore all of the options on the table for DDA and the City. This odd insurance opportunity came up out of the blue. Nobody thought they

would be interested, but they recognize the strength of the credit, and even though the rating agencies don't, the bond insurer is very interested. We don't have all the details yet, but we hope to be able to come back to you and say this is the best deal we've got.

Mr. Long stated that ideally, we would love to come to the Committee just once, but there is competition out there and the deal just keeps getting a little bit better. If we can figure out a way to do this and take the interest rate risk out of things and do 30 years, that would be ideal.

Mr. Naglick added that the best way to sell bonds is with an investment rating. But we all know that to get an investment grade rating, you either must have stellar credit, even if you are working with a wealthy individual, that person only has so much capacity. So even if that person guarantees the loan, banks will look at what all you have pledged. Absent some person or organization that can get something to investment grade by pledging some security, the rating agencies look at it in a formulaic way. They look at what kind of bridge is there and at the time, we didn't have the Municap report and we now have a draft. We kind of thought the coverage wouldn't be enough to get an investment grade rating and doing an unrated bond for 30 years could be done, but as much as we want that 30-year bond, locking in a high interest rate when we know the district is only to grow over time, why not do a short-term deal. What I am enthused at is the other way to get at an investment grade rating is to have another organization, a bond insurer, step up and say I'll guarantee those bonds, in which case you could sell it long term at a good interest rate. My question is, just how expensive is that insurance?

Mr. Kantor replied that it is expensive. The rating agencies are going to look at the projections, but they are really going to look at what has happened, and we don't have five years of historically strong revenues. We think that if we waited three years, we would have a much stronger position, plus the Municap report would say that things are going to get better and stronger. Right now, we only have the Municap report that says things are going to get better under certain assumptions. That is one of the things that we have to do in the analytics is to see if we can get qualified insurance and whether it is affordable and economical to do so. It may be so expensive that it is not worth it. In the meantime, we need you consent to continue looking at these deals to figure out which one would be the best for the DDA.

Mr. Ogden asked what the "drop dead date" is. Mr. Kantor replied that it depends on which deal turns out to be the best. He expects to be able to come back with his recommendation in the next two weeks.

Mr. Naglick stated that for the Committee's comfort, it is best to keep all of these paths open. Mr. Ogden supported that strategy. At some point, a decision has to be made. Mr. Long advised that it definitely will happen sometime in October in order to meet the January 1 deadline.

Mr. Naglick asked what the interest rate would be after January 1 on the existing bonds. Mr. Kantor answered that right now it is at 4.25 and it would go up to 8 percent.

The Committee all agreed that a 30-year deal would be much better if it is financially feasible. Interest rates are only going to go up and there is a lot of unknown currently as we look at the big picture.

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

On a motion by Ms. Delley, seconded by Mr. Ogden, 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 2:58 p.m.