

Revisiting Development Finance in Detroit

Financing Economic Development

December 12, 2016

Questions/Issues for Discussion

- How effectively is Detroit using economic development finance tools and models?
 - Which one are used most effectively?
 - Which ones seems best suited to Detroit's ED goals and needs?
 - Which ones seems most important for our projects?
- How does the overall development finance system look:
 - Capital market imperfections affecting Detroit?
 - Ecosystem framework : key resource provides, problem makers, intermediaries, complimentary orgs, environmental factors,?
 - Under capital absorption functions: vision and legitimacy, enabling environment, project pipeline and financing , innovation?
 - Observations/lessons from term project work?
- What are the system's strengths, weaknesses and gaps?
- What to do/recommendations to strengthen the system?
 - Specific system oriented proposals for our clients?

Finance Ecosystem

Resource Providers

Financial

- Banks
- Insur Cos.
- CDFI Fund
- Fed. Govt
- Foundations
- Capital Mkts
- Tax Credit Investors
- Local Govt/RDAs

Human

Knowledge

- Consultants
- Academics/Think Tanks
- OFN, SAHF, HPN
- Federal Reserve

Technology



- Policy and Administration
- Economics and Market
- Geography and Infrastructure
- Cultural and Social Fabric

Financial Intermediaries

- CDFIs and SPEs
- Banks
- Local Government
- RE Equity Funds
- SBA Lenders

Borrowers

- Developers
- CDCs
- Non-profits
- Small businesses
- QALICBs

Complementary Orgs

- Anchor institutions
- Community groups
- Businesses

Problem-Makers

- Speculators

Living Cities Adapted from Stanford Social Innovation Review Article "[Cultivate Your Ecosystem.](#)"

Impact: Increase economic opportunity and promote revitalization of low-income communities

[Community Investment Functions](#)" graphic from Page 5 of Wood, David, Katie Grace, Robin Hacke, and John Moon. "The Capital Absorption Capacity of Places: A Research Agenda and Framework." Cambridge, MA: Living Cities and the Initiative for Responsible Investment at Harvard University (2012) has been removed due to copyright concerns.

Approaches to Fixed Asset Financing Gaps

- Detroit Development Fund (Invest Detroit)
 - Second position on assets
 - Combined junior and senior LTV of 90%
 - Terms up to 7 years; amortization up to 15 years
 - Urban Retail Fund finance tenant and leasehold improvements
- Michigan Business Growth Fund (MEDC) Collateral Support Program
 - Cash deposit with bank to provide additional loan collateral
 - Up to 49.9% of loan and \$5 million maximum
 - Origination and annual fee of 1 to 3%
- SBA 504 Program
 - 4 Michigan based CDCs; Michigan Certified Development Corporation the largest
 - 259 SBA 504 loans totaling \$143.6 million in FY2013

Comparative PAB Bond Use 2015 (\$ millions)

USE	MA	MI
Exempt Facilities*	\$679.5	\$207.1
Multifamily Housing	\$429.5	\$104.6
Home Mortgages	\$75.0	\$7.8
IDBs	\$27.6	\$8.0
Student Loans	\$200.0	NR
Total PAB Issuance	\$982.1	\$222.8
Annual Capacity (Annual Cap + Carryover)	\$1,005.3	\$3,749.9
Issuers	MDFA, MHFA, MEFA	MEDC, MSHDA, MFA

*Per IRC S.142 includes airports, water, sewer & waste disposal facilities, etc.

Michigan and QECCBs

- \$103.8 million allocation
 - \$25.7 million issued or 25% use
 - \$78.1 million unused allocation
 - Detroit allocated \$9.5 million
 - \$22.5 million allocated for MI Saves municipal & residential EE loan programs
 - Municipal and school EE investments

State energy office QECCB web site

- http://www.michigan.gov/energy/0,4580,7-230-72052_72054_73979---,00.html

Detroit and TIF Authorities

- Downtown Development Authority
 - Oldest & most used TIF district: hotel, office, retail, housing projects; parking, transportation , public realm.
 - Sports complexes: Events Center/Detroit Red Wings facility
- Tax Increment Finance Authority
 - Financed GM plant, hotel and office building
- Brownfield Redevelopment Authority
 - Uses TIF revenue to reimburse developers for environmental remediation and other site development costs; > 200 projects
- Local Development Finance Authority
 - Chrysler plant & Wayne State Univ. Tech Town Development
- Eight Mile Woodward Corridor Improvement
 - Shopping center at former state fair grounds

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DDA TIF District Area

[City of Detroit Downtown Development Authority, Exhibit A to Section 102](#)"
from inter-office memo re: Expansion of DDA Downtown District and Amendments to
Tax Increment Financing Plan and Development Plan for Development Area No. 1,
June 26, 2013 has been removed due to copyright restrictions.

Event Center Project and TIF Financing

TIF Revenue Bonds	\$250 million
DDA Cash Investment	\$35 million
Concession Revenue Bonds	\$200 million
Private operator equity	\$50 million
Total	\$535 million

- Expanded DDA district for Catalyst Development Area
- \$200 million private investment + tax increment
- TIF Bonds: six month debt service reserve and \$10 million capitalized interest reserve
- “The Detroit DDA will covenant not to issue any additional obligations secured by Tax Increment Revenues that are senior or on parity with the Series 2014A Bonds...”

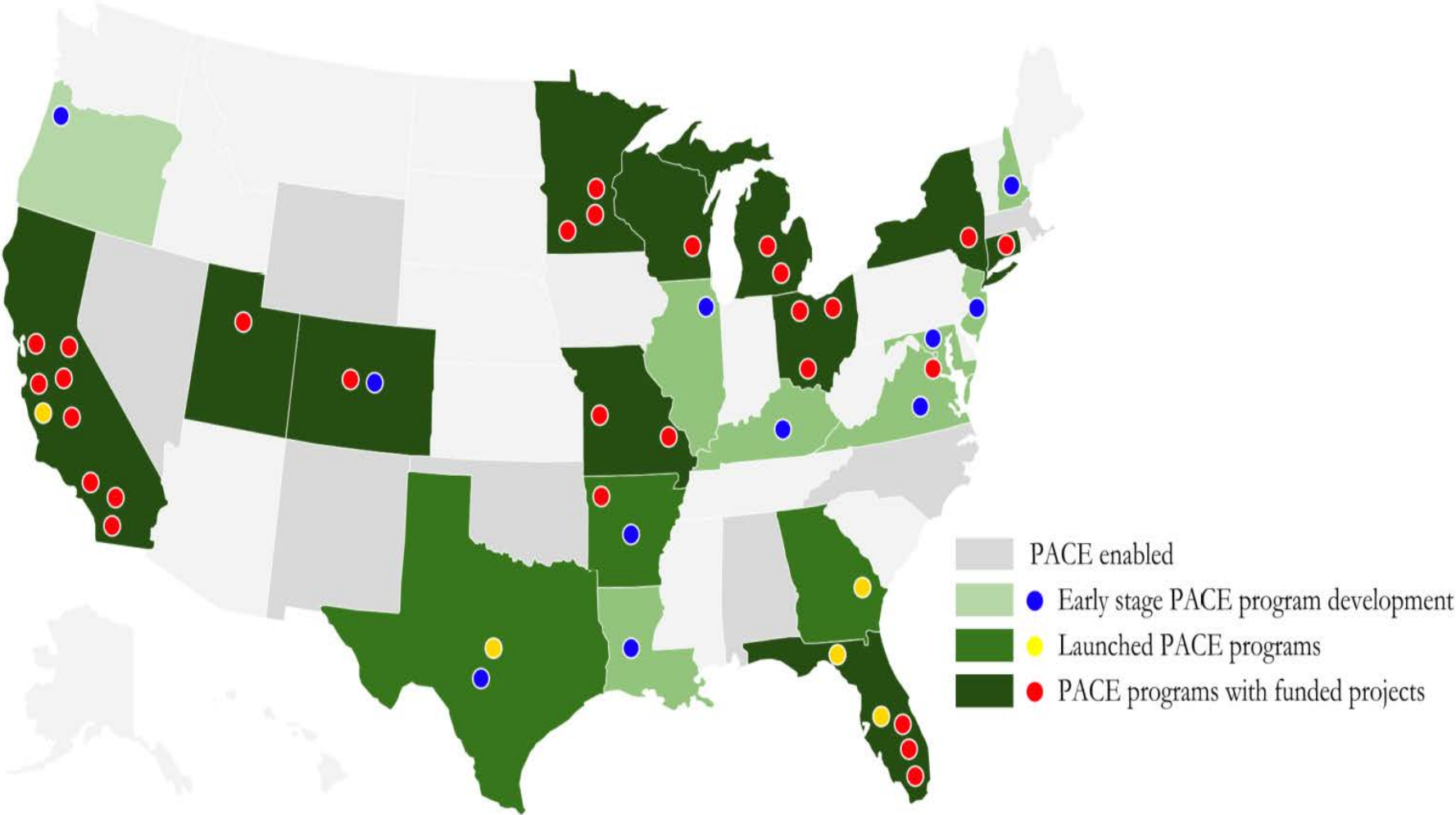
Genesee County Land Bank & TIF District

- Flint, MI: large number of tax foreclosed & abandoned property
- Reuse required reform of the tax foreclosure process and a way to raise funds to clean-up, assemble and improve abandoned properties
- Three-part financing strategy
 - A land bank to hold and sell properties and use fees and sales proceeds to reuse properties
 - A *scattered site* TIF district to use tax-increment on reused properties to fund other projects
 - County-wide scope to use revenue from stronger suburban market to fund projects in Flint

BIDS in Detroit

- Recent tool in Michigan and Detroit; not widely used
- West Vernor and Springfield BID
 - Administered by Southwest Detroit Business Association
 - Complements SDBA advocacy, real estate, improvement work
 - Formed in 2007, as first Michigan BID
 - \$196,000 budget for 2013-2104
 - Emphasis on cleaning, graffiti removal, public safety
- Downtown Business Improvement Zone (BIZ)
 - Formed in 2014, \$4 mm budget, 600 commercial properties
 - Cleaning services, lighting and park maintenance
 - Ambassadors to greet and orient visitors, sense of safety

Commercial PACE Status: June 2015



Commercial PACE by State

Table 1: Total C-PACE Funding by state (2009-present)

State	# Projects Funded	Total PACE Funding Estimate (\$, rounded)
California ⁵	143	60,000,000
Connecticut	76	50,000,000
Ohio	100	21,000,000
Missouri	12	4,000,000
Florida ⁵	8	5,000,000
Wisconsin	2	3,000,000
Michigan	6	1,600,000
Colorado	29	1,500,000
Minnesota	9	900,000
D.C.	2	400,000
Utah	1	100,000
New York	2	100,000
Arkansas	1	30,000
Total	388	147,000,000

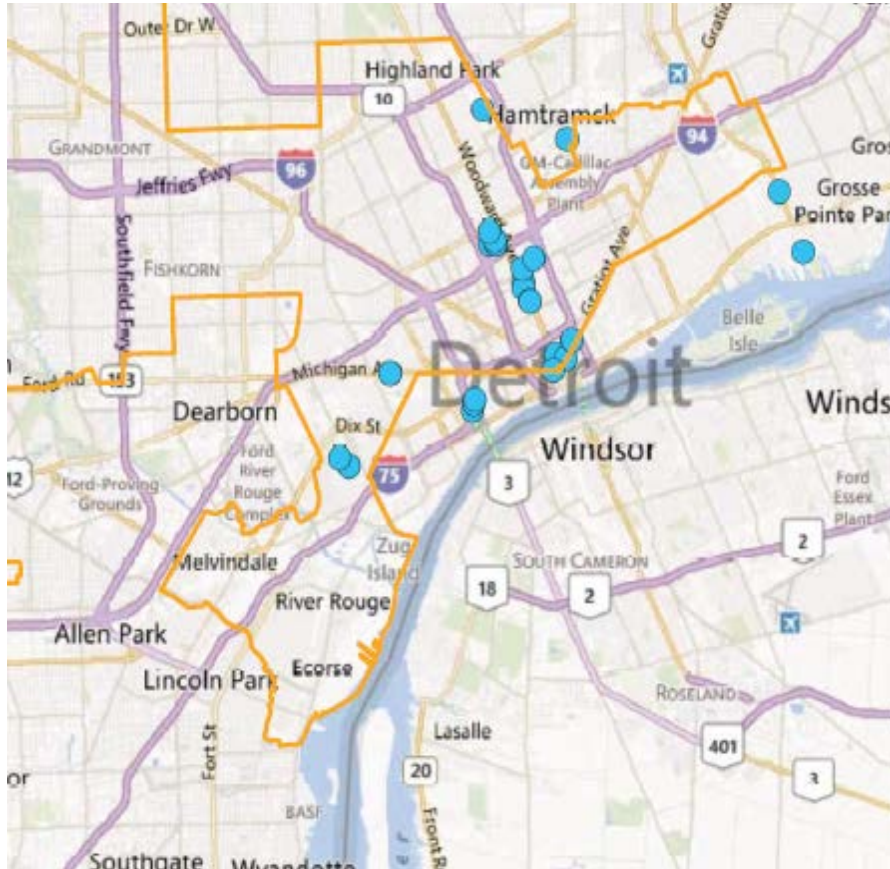
NMTC Investments in Detroit Through 2010

- 15 projects
- \$200 million in NMTC
- ~\$650 million in total investment
- Concentrated along Woodward Corridor in downtown, Midtown and New Center

NMTC Allocations, 2002-2014

	MI	ME	MA	CT
Number of Allocations	12	10	38	1
Total Amount of Allocation (\$ million)	\$499	\$913	\$1,966	\$85
Number of Allocatees	5	1	9	1
Largest Allocatee and Share of total	Cap Fund (33%)	CEI (100%)	MHIC (37%)	Commercial & Industrial CDE (100%)

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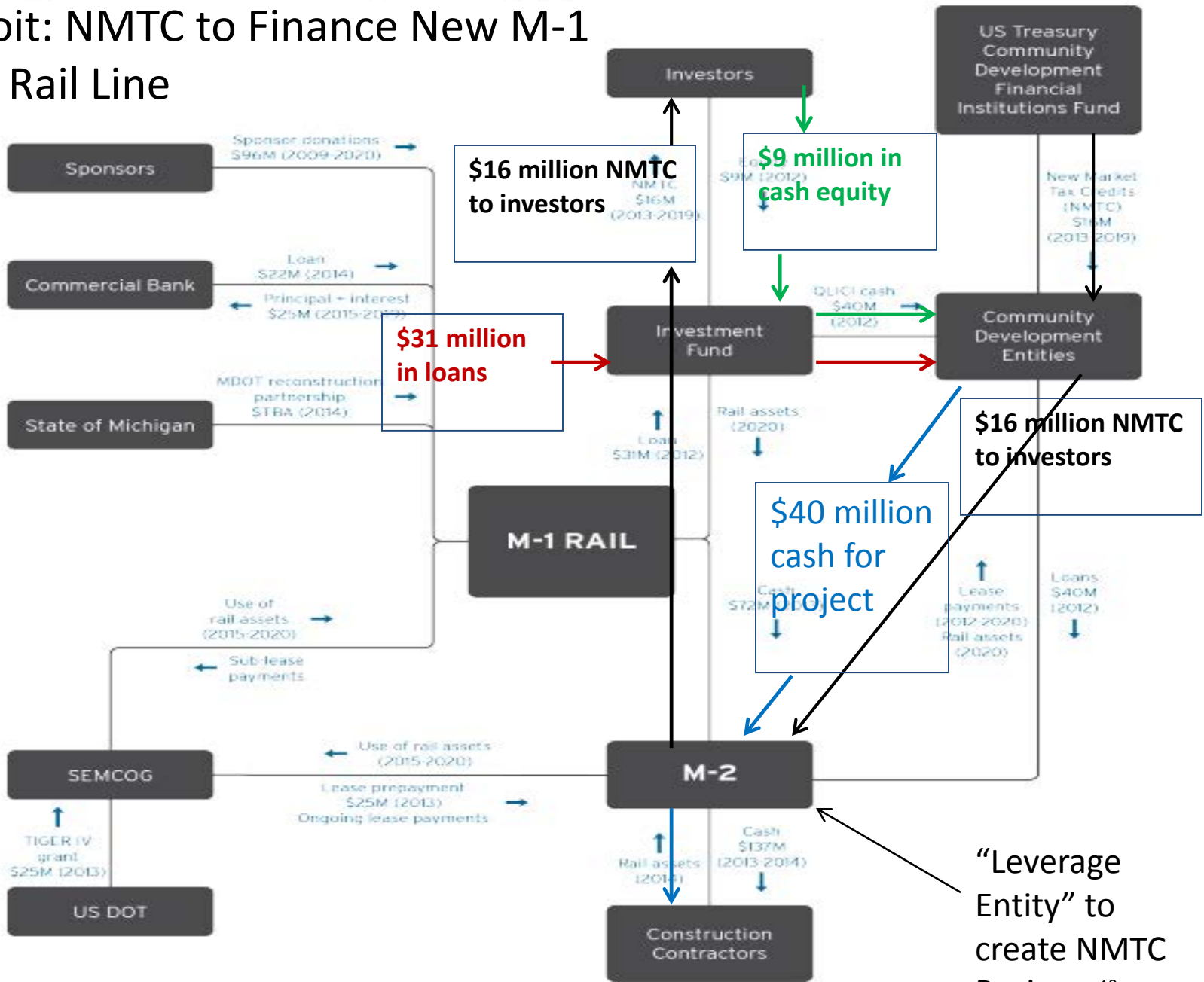
Argonaut Building, Detroit



TDC	\$145.3
NMTC (\$69 in credits)	\$14.4
Bank Loan	\$51.1
Owner Equity	\$36.0
State HTC & Brownfield Tax Credits	\$11.6
Foundation Loan	\$16.7
Deferred Developer Fee	\$15.5

Figure 8.1 M-1 RAIL Streetcar Project Delivery Capital Financial Structure

Detroit: NMTC to Finance New M-1 Light Rail Line



EDA Funding – FY 2014

National

Michigan

Program	# of Grants	EDA Funds	Program	# of Grants	EDA Funds
Economic Adjustment Assistance	102	\$59,603,472	Economic Adjustment Assistance	4	\$2,161,910
Public Works	93	\$131,798,308	Public Works	2	\$4,729,664
Planning	355	\$29,278,40	Planning	5	\$621,908
Technical Assistance	108	\$19,479,619	Technical Assistance	3	\$334,576
Disaster Assistance	4	\$1,445,491	Total	14	\$7,848,058
Total	657	\$241,605,290			

Detroit: 2 EAA grants: \$600K to DEGC;
\$200K to Wayne County

Detroit Active User of HUD 108

- HUD study of program, 2002 to 2009
 - Detroit funded 5 projects with HUD 108, 3rd highest behind LA and San Diego
 - Detroit used the largest amount of HUD 108 funds (\$80 million) among localities
 - 80% of Michigan's \$100 million use of program
- HUD 108 Projects :
 - Mercado and Welcome Center in Mexicotown
 - Garfield II project for parking garage, art gallery, theater and 58 housing units
 - Woodward Garden Block: mixed use redevelopment 8 blighted properties
 - Westin Book Cadillac & Doubletree hotels

Charts 1, 2, 3, 5 from Toussaint-Comeau, Maude, and Robin G. Newberger. "[An Analysis of SBA Loans in Lower-income and Black neighborhoods in Detroit and Michigan.](#)" *Profitwise* (2014): 1-26 removed due to copyright restrictions.

SBA 7a Lending in Detroit

- Steep drop in SBA 7a loans post recession: from 300+ in 2006 to 60 in 2012
- Drop in 7a “density” from 16 (2006) to 2 (2012) per 1000 business -same as MI
- SBA 7a loans as a share of all small business loans are 2X higher in Detroit vs. Michigan
- Higher SBA 7A lending in Detroit for low-income, moderate and Asian neighborhoods
- Lower SBA 7a loans in black & low-income neighborhoods
- Higher level in black & moderate income area

SSBCI In Michigan Thru 2014

- \$79.1 million federal grant
- All 5 programs
- 91% deployed (\$71.8 mm); \$434.9 mm in private loans-- 6:1 leverage
- 4th state in % deployed; 3rd is total loans + investments
- Average loan size: \$110,000

Program	\$ million Allocated	\$ million Deployed	Total \$MM Loans/Investments
CAP	2.2	1.1	53.4
Loan Guarantee	2	.005	.1
Loan Particip.	27.1	24.8	95.7
Collateral Support	43.8	43.8	282.5
Venture Capital	6	.7	3.1

JP Morgan Chase Focus On Detroit

- \$100 million five year commitment in 2014
 - \$50 million to CDFIs: Invest Detroit & Capital Impact Partners
 - \$20 million loan + \$ 5 million grant
 - \$50 million for small business, blight removal and neighborhoods, workforce development and infrastructure
 - Service corps to place executives with organizations
 - Urban Institute as evaluation partner
- What opportunities and connections do you see between Chase's Detroit work and our projects?
- What is your view of this type of large scale bank commitment to a city?

Michigan Crowdfunding Law (MILE)

- Business must meet SEC exemptions for security registration; be incorporated in Michigan
- Maximum raise of \$1 mm (\$2 with financial audit)
- Maximum individual investment of \$10,000 (other than accredited investor)
- Quarterly reporting to investors
- 14 firms listed as issuing under MILE ; 3 in Detroit, several microbreweries
- 10 web site operators , 2 in Detroit

Michigan “Project Crowdfunding”

- Public Spaces, Community Places Program
- Grants for projects that “focus on activation of public spaces and community places
 - Matches up to \$50,000 raised via crowd-funding
 - \$2.5 million MEDC grant pool; \$3 million in match raised
- Partnership with Patronicity: Detroit-based private crowdfunding company ; vets projects, projects platform and assistance for local campaign
- Replicated in Massachusetts as Commonwealth Places run by MassDevelopment

DEGC Loan Funds

1. Business Development Loan Fund
 - Retail/Restaurant Chain Program: national & regional retail/restaurant chains in East Riverfront, CBD, Woodward from Jefferson to Warren). Max loan: \$500,000 or 40% of project costs
 - Nonaffiliated Retail/Restaurant Program: Loans targeted to infill retail and restaurants that are not chains in same area. Maximum loan: \$200,000 or 40% of project costs.
2. Real Property Gap Fund : finances real property rehab on properties owned by Detroit residents. Same target area as BDLF, max loan: 750K; 40% of project costs
3. Detroit Revolving Loan Fund –not described
4. DDA Housing Office Retail Development Program : construction, redevelopment or improvement of residential and commercial real property in DDA's Downtown Development Area No. 1. Leverage ration of \$2: 1
5. Small Business Loan Transaction:. construction, redevelopment or improvement of real property to owners and tenants; in special cases, working capital for new and existing businesses, in DDA area no 1. Max loan: \$200K.
6. SmartBuildings Grants/Green Fund Loans – grants and loans for energy conservation improvements to commercial or industrial buildings in greater downtown Detroit.
7. Green Grocer Loan Fund --\$500,000 loan fund for grocery store

Detroit Innovate Fund

- “Civic” VC fund supported by NEI and MEDC, affiliate of Invest Detroit
- \$12.5 million under management
- 73 investments
- First Step Fund—seed fund (\$15 to 100,000)
- Detroit Innovate Fund-early state growth fund (\$100 to 500,000)
- Venture development assistance

VC Investments by State

State	2015		2010 to 2015	
	Deals	Amount \$ Millions	Deals	Amount \$ Millions
Massachusetts	426	5,713,623,700	2,393	22,309,857,500
Michigan	54	328,400,000	298	1,145,458,800
Minnesota	30	371,688,400	209	1,671,585,700
Illinois	96	1,119,035,600	546	4,681,025,400
Ohio	71	262,718,900	407	1,694,174,300
US	4,380	58,811,188,300	24,599	220,360,811,700

Michigan 2016 VC Report

Summary from CSU 2012 Report: Detroit Region with 25 VC funds

- 7 pre-seed and angel investment funds in the Detroit region: 1 in Wayne County; 1 serving multiple counties
- 10 early-stage and venture capital firms in Oakland and Wayne counties with 3 in Wayne County, and 1 with offices in both counties
- 8 late-stage venture capital firms in the Detroit region, 6 in Oakland County and 2 in Wayne County
- Wayne County has grown significantly in the number of deals and the amount of investment, from \$700,000 in 2007 to \$39.5 million in 2011

CDFIs in Detroit

- Historically weak CDFI capacity
 - Limited activity by national CDFIs
 - Small local CDFIs with limited capacity
 - Lack of capable city government partner
- Significant shifts in past 5 years
 - Entrance of national CDFIs: Capital Impact Partners (\$24 mm in 2014), IFF, others
 - Invest Detroit: certified as CDFI, NMTC allocatee, taking on new roles
 - Detroit Development Fund growth
- Increasing bank investment in CDFIs
- CDFIs meet regularly to discuss deals

Invest Detroit 2015

- 20 year old “civic” finance entity
 - Historically focused on downtown
 - CDFI certification in 2011
 - Recent growth and broader financing roles
- Now: 9 funds finance housing, mixed-use and commercial real estate, small business, high growth ventures
 - Over \$100 million in assets
 - \$34.6 million in 2015 loans, grant and investments
 - Focus on City of Detroit; region for VC

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Detroit Microenterprise Programs and Resources

1. Small Business Detroit Microloan Program: city and CEED partnership funded by Casino Business Development Fund
2. Kiva Detroit: Knight Foundation funded; with Accion
3. Prosper US Detroit: Entrepreneur Training, Technical Assistance and Micro-lending
4. Detroit Micro-enterprise Fund
5. Opportunity Resource Fund loans for the start up or expansion of a small business
6. ACCESS Growth Center: Home-based childcare program for Refugee Women
7. Generation E Institute: youth entrepreneurial education
8. Invest Detroit First Step micro-investment program
9. Other training and TA program serve microenterprises

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