



# City of Detroit

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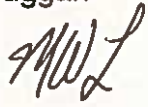
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**Mark W. Lockridge**  
AUDITOR GENERAL

## MEMORANDUM

**DATE:** October 2, 2017

**TO:** Honorable City Council  
Honorable Mayor Mike Duggan

**FROM:** Mark W. Lockridge, CPA   
Auditor General

**RE:** **UPDATE OF THE CASINO DEVELOPMENT FUND (CDF) AUDIT**

**CC:** Stephanie Washington, Esq., City Council Liaison  
Laura Bassett, Attorney, Law Department  
Glen Long, COO, DEGC/EDC  
David Whitaker, Director, Legislative Policy Division  
Casino Representatives

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Attached for your review is information concerning the Casino Development Fund. This communication is based on our on-going preliminary audit work of collecting, reviewing and analyzing information received in preparation of a risk assessment for the Casino Development Fund audit. In accordance with internal audit standards, communications such as these may be used to report the status of long, sensitive, or otherwise special engagements to the responsible officials.

We will issue a series of reports in relation to the eleven programs listed on page three of this Memorandum. The information contained in this communication includes background information on the Casino Development Fund, the Detroit Economic Growth Corporation, the Economic Development Corporation of the City of Detroit and loans made from the National/Regional Retail/Restaurant Chain Loan Program.

Copies of all of the Office of the Auditor General reports can be found on our website at [www.detroitmi.gov/How-Do-I/View-City-of-Detroit-Reports/Auditors-General-Audits](http://www.detroitmi.gov/How-Do-I/View-City-of-Detroit-Reports/Auditors-General-Audits).

## **Background**

City Council requested that the Office of the Auditor General (OAG) perform an audit of the Casino Development Fund in relation to a Legislative Policy Division report dated October 11, 2016. The report suggested that the OAG review the following items concerning the Casino Development Fund:

1. Conduct an internal control and financial audit of the casino development funds, including the Economic Development Corporation's (EDC) administration of these funds, including the interest earning and loan repayments associated with these funds, the expenditure of these funds and the distribution of these funds to sub-grantees in accordance with the EDC/City of Detroit and EDC/sub-grantee funding agreements.
2. Review financial reports and audited financial statements from each sub-grantee to ensure the casino development funds are properly accounted for and spent in accordance with program objectives and guidelines as stated in the revised casino agreements, EDC/City of Detroit and EDC/sub-grantee funding agreements.
3. Consider doing a performance audit of each sub-grantee to ensure the casino development funds are effectively and efficiently received and spent in accordance with best practices and in support of program objectives and guidelines.

## **Origination of Casino Development Fund**

The Casino Development Fund is a commitment made by the three Detroit casinos (MGM Grand Detroit, MotorCity, and Greektown) and the City of Detroit (City), to contribute money for the purpose of assisting minority business development in a specified area within the City. The assistance to business development focuses on: financing façade improvements, GAP financing, loan guaranties, rehabilitation, equipment and working capital for existing and new businesses.

The City received \$30 million from the three casinos (\$10 million from each casino) in accordance with the revised Casino Development agreements.

On April 27, 2005, the Detroit City Council passed a resolution to commit additional monies to the fund, as follows:

- \$2.5 million in funds collected by the City under the initial Casino Development agreements (from MotorCity Casino) for business development; and
- \$250,000 from the 2005-2006 Community Development Block Grant (CDBG) to go toward the African-American business district development.

With the additional fund commitments from the City, the total for the Casino Development Fund would be \$42.75 million.

The \$42.75 million fund was intended to assist in the revitalization of the City's central business district and surrounding areas of the City. The focus was on assisting the

small Detroit-based, women-owned, and minority-owned businesses, both throughout the City and within the targeted district celebrating the City's rich African-American heritage. This would be accomplished through employment opportunities which consisted of partnering with existing businesses and the creation of entrepreneurial opportunities for new businesses, both of which could, to the greatest extent possible, provide goods and services to the casinos. Equally as important was the investment into employee development programs.

### **The Detroit Economic Growth Corporation (DEGC)**

The DEGC is a Michigan nonprofit corporation organized for the purpose of furthering the economic development of the City and providing services to the City and its agencies which will assist economic development.

The DEGC is not directly duty bound by any of the Funding Agreements to perform specific activities and services. The DEGC has a professional service contract with the City which indirectly designates the DEGC to perform services and activities associated with the Casino Development Funds including but not limited to the following:

- Business Development
- Marketing and Business Attraction Services
- Real Estate and Financial Services Assistance
- Project Development
- Small Business Services

All services to be performed are set forth in the "Scope of Services" section of the EDC/City of Detroit personal service contract and is coordinated and performed by the DEGC. The DEGC is an agent of the EDC and acts as a liaison between the EDC and the City.

### **Economic Development Corporation (EDC)**

EDC is a public body corporation created by the City Council of the City of Detroit by enactment of Ordinance 120-H effective June 9, 1979 under enabling state legislation Public Act 338 of 1974. The EDC engages in activities which strengthen and revitalize Detroit's economic base by promoting economic development and increased employment opportunities.

The EDC has the power to establish areas where jobs are at stake and to acquire property for public purpose or blight remediation so that new enterprises may be attracted or existing businesses can grow and/or be refurbished.

EDC acknowledges receiving \$32.5 million of Casino Development Funds which is not the entire amount of funds they anticipated per the Casino Development agreements.

The EDC Scope of Activities and Services per the Funding Agreement between the EDC and the City of Detroit, Article III states that the EDC is to perform the following functions:

- Manage the principal amount of the City Funds including investments of the funds that have not been distributed pursuant to the various loan and grant programs. Funds were to be invested as required in the Investment of Surplus Funds.
- Act as distributing agent of the City Funds in its possession.
- Supervise and retain counsel to prepare loan and grant documents.
- Service the loans and grants.
- Supervise the collection of loan payments.
- Perform general administrative functions in connection with a Project.
- Serve as project manager for the African-American Business District now known as Paradise Valley.

The funds received by the EDC were distributed in the following manner:

<b>ACTUAL DISBURSEMENTS PER EDC AS OF JUNE 30, 2016</b>	
<b>Programs</b>	<b>Amount</b>
1. National/Regional Retail/Restaurant Chain Loan Program	\$ 2,432,766.70
2. Paradise Valley Cultural and Entertainment District (African American Business District)	10,000,000.00
3. Joint Employment and Procurement Advisory Board (JEPAB)	1,251,764.00
4. Black Chamber Research	380,117.00
5. Detroit Community Loan Fund (DCLF)	3,421,053.00
6. Resident Restaurant/Retail	1,725,000.00
7. Office of Neighborhood Commercial Revitalization (ONCR)	2,924,733.00
8. ONCR Loan Fund - CEED	1,500,000.00
9. Residents/Real Estate/Downtown/Riverfront Gap Fund	724,721.77
10. Tech Town	3,040,936.00
11. EDC Administrative Fees*	3,500,000.00
<b>TOTAL AMOUNT OF CASINO DEVELOPMENT FUNDS USED</b>	<b>\$30,901,091.47</b>
* If interest income was insufficient, money could be pulled from the fund to cover administrative costs.	

### Audit Plan

We are in the process of reviewing and analyzing the information received to create a risk assessment to determine specific areas to focus on for the audit. However, based on the volume of information to be reviewed in completing City Council's request, we will issue a series of reports in relation to the eleven programs listed on page three of this Memorandum.

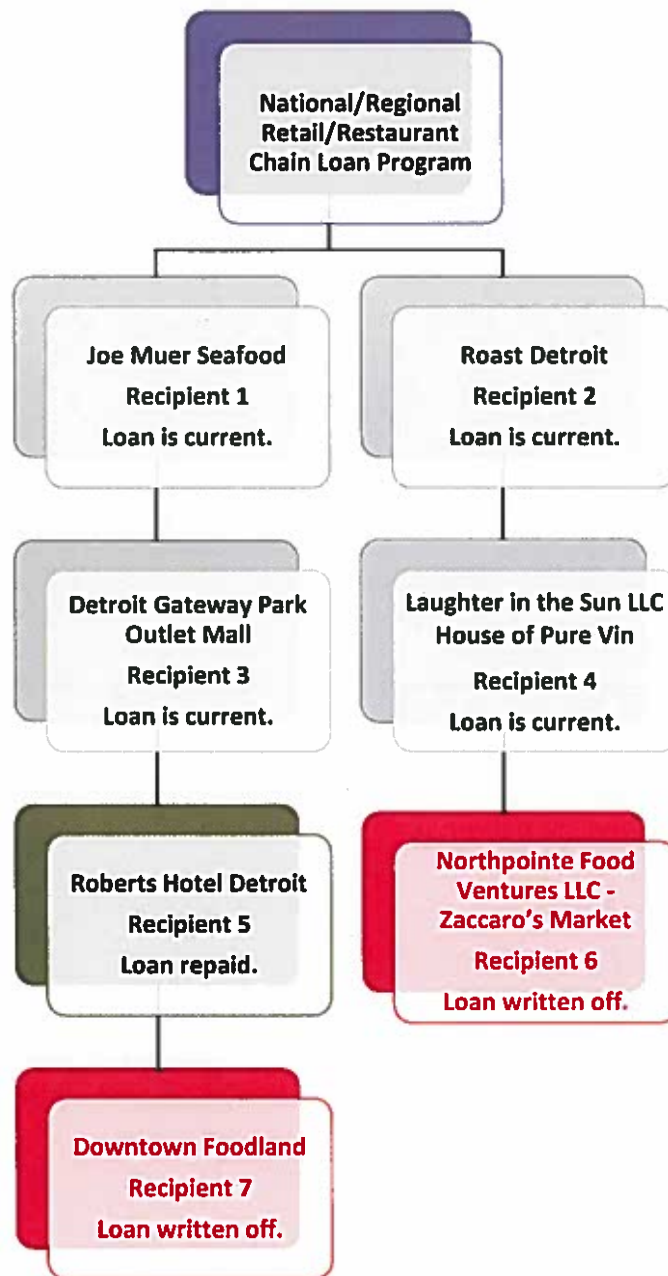
We hosted a meeting on June 1, 2017, with representatives and legal counsel from all three Casinos and a representative from the City's Law Department. The attendees shared that it was their first meeting with anyone concerning outcomes from the Casino Development Fund. The Casino representatives stated that they would be interested in learning about the uses of the Funds and welcomed the audit. The representatives also expressed two primary concerns:

- ***Unfilled positions on the Joint Employment and Procurement Advisory Board (JEPAB)*** - Since 2013, JEPAB has had only seven members and was missing Board members appointed by Council. On July 25, 2017, City Council appointed three representatives to JEPAB.
- ***Full funding for JEPAB*** - We are still working on this Casino concern and will report on this issue in a future communication.

### National/Regional Retail/Restaurant Chain Loan Program

This communication includes initial information concerning distribution of the National/Regional Retail/Restaurant Chain Loan Program (Program 1, page 3), and loan repayments of sub-grantees. We are still reviewing financial documents and performance information for this program. We will issue an audit report in the future for this loan program once we have completed our review of this program.

The National/Regional Retail/Restaurant Chain Loan Program distributed loans in the aggregate amount of \$2.28 million. Approximately \$152,766.70 remains available for future loans. The Program was established to foster investment in national or regional recognized chain retail/restaurant ventures along the East Riverfront, Woodward Corridor (from Jefferson Ave. to Warren Ave.) and within the Central Business District area. The following loans were issued under this program:



**Recipient 1 - Seafood of Detroit, LLC.** Business Location: 400 Renaissance Center #1404, Detroit, 48243 - This loan was made to pay a portion of the costs associated with establishing and operating Joe Muer Seafood Restaurant in the General Motors Renaissance Center.  
**Loan Amount - \$200,000** **Loan date: October 2011**

**Recipient 2 - Roast Detroit, LLC.** Business Location: 1128 Washington Blvd., Detroit, 48226 - This loan was made to pay a portion of the costs associated with establishing and operating a world class restaurant in the Westin Book Cadillac Hotel.  
**Loan Amount- \$400,000** **Loan date: October 2008**

**Recipient 3 - Detroit Gateway Park Outlet Mall, LLC.** Business Location: Woodward & E. Eight Mile Road - Funds were to be used for construction and other pre-development activities of the Detroit Gateway Outlet Mall. The EDC Board waived the geographical area requirements specified in Attachment 1 of the funding agreement.  
**Loan Amount - \$500,000** **Loan date: March 2012**

On March 27, 2012, the EDC approved Resolution Code EDC 12-03-74-26. This resolution was for a proposal to give the ***Detroit Gateway Park Outlet Mall, LLC*** a \$2,000,000 loan which consisted of: \$1,500,000 in recycled Urban Development Action Grant (UDAG) funds and \$500,000 in Casino Loan funds.

The Detroit Gateway Outlet Mall is a 340,000 square-foot Meijer-anchored service oriented retail center. The project is situated on 36 acres of land located at the southeast corner of Woodward Avenue and E. Eight Mile Road, in Detroit, Michigan. The resolution noted that the demographics in this area were underserved and was very strong for a retail center of this type, and that the traffic count on Woodward Ave. and E. Eight Mile Road was 39,000 and 78,000 per day, respectively.

The EDC stated in its resolution that on April 22, 2005, the Detroit City Council passed a resolution allowing the EDC to manage the Casino Loan funds on behalf of the City, and that the Detroit City Council and the EDC subsequently entered into a funding agreement on November 1, 2005. The EDC resolution also stated that:

- The Funding Agreement provides that the EDC shall provide underwriting services with respect to the National/Regional Retail/Restaurant Chain Loan Program; and
- The Detroit Gateway Park Outlet Mall project meets the requirements of the National/Regional Retail/Restaurant Chain Loan Program, ***except that it required a waiver of the geographic area by the EDC***; and
- Meijer is a nationally recognized chain retail store that currently had no stores in the City of Detroit at the time of the loan; and
- The project is consistent with the goals of the National/Regional Retail/Restaurant Chain Loan Program and would provide much needed economic development, jobs and retail to the City of Detroit and therefore the exception to the program guidelines is justifiable.

Based upon this justification, the EDC Board of Directors waived the geographic limitation placed on the Casino Loan Fund and approved the \$500,000 loan to the Detroit Gateway Park Outlet Mall.

**Recipient 4 - Laughter in the Sun, LLC.** Business Location: 1433 Woodward Ave. Detroit, 48226 - The purpose of this loan was to assist in the remodeling of space for a wine retail store: House of Pure Vin.  
**Loan Amount - \$130,000** **Loan date: November 2015**

**Recipient 5 - Roberts Hotel Detroit, LLC.** Business Location: 1000 River Place Dr., Detroit, 48207 - This loan was made to pay a portion of the costs associated with the renovation and reopening of the former Omni Hotel on the East Riverfront.  
**Loan Amount - \$700,000** **Loan date: February 2011**

**Recipient 6 - Northpointe Food Ventures, LLC.** Business Location: 3100 Woodward Ave. Detroit, 48201 - This loan was made to pay a portion of the costs associated with establishing and operating Zaccaro's Market.  
**Loan Amount - \$200,000** **Loan date: July 2008**

**LOAN WRITE OFF INFORMATION**

- The market *closed ten months* after opening.
- The owners filed bankruptcy and it was determined that the EDC would not receive future loan payments.
- Total Loan Write Off Amount: \$207,624.69

**Recipient 7 - Downtown Foodland, LLC.** Business Location: 1565 East Lafayette Blvd. Detroit, 48207 - This loan was made to pay a portion of the costs associated with establishing and operating a grocery store.  
**Loan Amount - \$150,000** **Loan date: November 2008**

**LOAN WRITE OFF INFORMATION**

- The store *closed five months* after opening.
- The original Owners filed bankruptcy and it was determined that the EDC would not receive future loan payments.
- Total Loan Write Off Amount: \$150,000