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AUDIT MEMORANDUM

DATE: August 9, 2018

TO: Honorable City Council
Honorable Mayor Mike Duggan

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

RE: **THE CASINO DEVELOPMENT FUND**
Paradise Valley Cultural and Entertainment District Project

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

Attached for your review is our audit memorandum on the Casino Development Fund Paradise Valley Cultural and Entertainment District project. It contains our audit purpose, scope, objectives, methodology and conclusions; background; our audit summary and recommendations.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Economic Development Corporation.

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).

Audit of the Casino Development Fund
Project: Paradise Valley Cultural and Entertainment District

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AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE

The audit of the Casino Development Fund - Paradise Valley Cultural and Entertainment District project was performed in accordance with the Office of the Auditor General's (OAG) charter mandate to conduct audits of the financial transactions, performance and operations of City agencies based on an annual risk-based audit plan prepared by the Auditor General, or as otherwise directed by the City Council, and report findings and recommendations to the City Council and the Mayor.

City Council requested that the OAG perform an audit of the Casino Development Fund in relation to a Legislative Policy Division report dated October 11, 2016.

AUDIT SCOPE

The scope of this audit was an independent review and assessment of the Paradise Valley Cultural and Entertainment District project (PVCED) and is being presented for informational purposes since the Casino Development Funds were used to reimburse the Downtown Development Authority (DDA) for purchases of property it had already made. At the time of the first reimbursement from Casino Development Funds, the DDA had already purchased eight of nine properties for the redevelopment.

Note: The appropriateness of the development awards were not reviewed because the auditors were not present at the interviews to hear the presentations for the final scoring.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the Office of the Auditor General within the last three years.

AUDIT OBJECTIVES

The overall audit objectives were:

- 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.
- 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.

Project Objectives for PVCED

The project objectives and goals for the PVCED as stated in the City of Detroit and EDC funding agreement were to:

- Assist in the establishment of the PVCED.

- Use funding first for land assembly, then matching City, State and Federal grants, and finally to establish a loan program.
- Provide economic assistance to retail, commercial and entertainment businesses operating in the established district in the form of low interest rate loans.

AUDIT METHODOLOGY

To accomplish our audit objectives, our audit work included:

- Reviewing the Casino Development Agreements, project funding agreements, City Charter, the project budget reports, and organization charts.
- Gathering policies and procedures of core operations and similar data.
- Conducting an audit-planning meeting to determine the scope and audit objectives, and to determine the financial transactions and/or areas to audit.
- Developing questions regarding the Casino Development Fund project's transactions, controls, functions, records, and personnel.
- Identifying risks relative to financial transactions and mitigating controls with appropriate personnel.
- Interviewing appropriate personnel, reviewing documentation, and making observations to aid in developing audit programs.

CONCLUSIONS

As a result of our audit of the Paradise Valley Cultural and Entertainment District (PVCED) project, we have concluded that:

Overall Audit Objective

- DDA spent the casino development funds in accordance with the project objectives.

Project Objectives

- The DDA purchased properties and used casino development funds from EDC to reimburse the purchases of properties previously acquired by DDA and to obtain one final property for the project to establish PVCED.
- The DDA did use the \$10 million in initial funding to purchase land.
- The DDA has not provided economic assistance to retail, commercial and entertainment businesses operating in the established district in the form of low interest rate loans. (See the Audit Summary and Recommendations on page 10 for additional information on this objective).

BACKGROUND

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, 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 \$2.5 million from MotorCity Casino during the period of the initial Casino Development agreements (1998-1999). The City received \$30 million from the three casinos (\$10 million from each casino) in accordance with the revised Casino Development agreements.

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. 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 a private non-profit 501c.4 organization and is an agent of the EDC that acts as a liaison between the EDC and the City.

Paradise Valley Cultural and Entertainment District¹

The Detroit City Council wanted to create a business district showcasing the rich culture and significant achievements of African Americans in the City of Detroit (City). In an effort to improve the economic and social environment within the City, they authorized the creation of PVCED in an October 2004 resolution.

The vision was to use African-American cultural influences to honor the legacy of Paradise Valley. In the first half of the 20th Century, a thriving business, cultural and residential community known as "Paradise Valley" existed in what was then known as Detroit's "Black Bottom." It was a sixty-six square block area on the near-east side of Detroit's downtown. From the 1920's through the 1950's it was where the vast majority of Detroit's African-American population lived. The crowded neighborhood was one of the very few areas blacks were allowed to reside. The needs of the residents were generously met by more than 300 black-owned businesses in Paradise Valley, ranging from drugstores, beauty salons and restaurants to places of leisure such as nightclubs, bowling alleys with bars, theaters and mini-golf courses. This area had its own medical offices and retail shops, as well as swank restaurants and hotels created and patronized by the newly established African-American community comprised of Southern immigrants. The area once hosted the performances of entertainers like Ethel Waters, Pearl Bailey, Ella Fitzgerald, the Inkspots, Duke Ellington, Billie Holiday, Louis Armstrong, and Dizzy Gillespie. In the late 1950's and early 1960's, Detroit's Paradise

¹ Within the scope of the casino development fund and the casino development agreements, the Paradise Valley Cultural and Entertainment District (PVCED) is formerly known as the African American Business District.

Valley and Black Bottom along with the dense, and important cultural contributions and economic support of the area were demolished to make room for the Interstate 75 Freeway. At the time, insufficient consideration was given to what was being lost by the destruction of the area.

Presently, PVCED is the area around the small triangular public space often called Harmonie Park. The area is bordered by East Grand River, Centre and Randolph. The district will include a boutique hotel, a jazz club, an expansion of the current Detroit Seafood Market restaurant, another restaurant possibly affiliated with the nearby Central Kitchen and Bar, luxury and affordable housing, a new 190,000-square-foot building and a 150-space parking garage.

The EDC received Casino Development Funds to administer various programs per their funding agreement including the PVCED. Through the signing of an assignment agreement, the EDC decided that the PVCED should become a Downtown Development Authority (DDA) project since the district would be located in the Harmonie Park area of downtown Detroit, which was a DDA project. The EDC transferred their project management responsibilities to the DDA.

Funding Agreement

In a resolution dated March 15, 2007, the EDC Board of Directors approved the DDA to assume the responsibilities of the EDC in connection with the PVCED, and the transfer of the funds appropriated for the PVCED, in the amount of \$10,000,000, to the DDA for all purposes consistent with the funding agreement including the reimbursement of the DDA for the acquisition of the properties to be devoted to the PVCED.

According to the EDC Casino Development Funds Budget and Expenditure report dated March 31, 2017, PVCED had a budget of \$10 million and the EDC disbursed \$10 million for the project. The following disbursements were made by EDC for the PVCED project:

Date	Description	Amount
8/2/2006	Rob Millard, Expense Reimbursement	\$ 10
8/16/2006	Michigan Chronicle-Advertising	1,664
8/16/2006	Detroit Legal News-Advertising	100
4/21/2007	Downtown Development Authority	6,500,000
10/8/2008	Downtown Development Authority	3,498,226
	TOTAL	\$ 10,000,000

Property Information

The DDA acquired the following properties for the PVCED project:

Address	Property Type	Current Use	Future Use
1407 Randolph St. *	Building	Centre Park Bar	Jazz Club, Restaurant, Offices
1427 Randolph St.	Building	Harmonie Park Music	Jazz Club, Restaurant, Offices
1435 Randolph St. *	Building	Offices, Detroit Seafood Market, PV Lounge	Office Space and Restaurant Expansion
1468 Randolph St. *	Parking Lot	Parking Lot	Apartments, Retail, Parking Deck
1480 Randolph St. *	Parking Lot	Parking Lot	Apartments, Retail, Parking Deck
1496 Randolph St. *	Parking Lot	Parking Lot	Apartments, Retail, Parking Deck
1502 Randolph St. *	Building	Cigar Lounge, Apartments	Cigar Lounge, Apartments
1455 Centre St. *	Parking Lot	Parking Lot	Office Space and Restaurant Expansion
311 E. Grand River Ave. *	Building	Carr Center/Colors Restaurant	Boutique Hotel

* Property purchased prior to the 2007 DDA funding agreement.

Acquisition of Properties

The DDA began purchasing several key properties around Harmonie Park in 2006. When the assignment agreement between the EDC and DDA was signed in March 2007, the DDA had already purchased eight of the nine properties in the PVCED project. The \$10 million in the Casino Development Funds designated for the PVCED were used to reimburse the DDA for the property expenditures which did not cover the total amount expended by DDA. The details for the purchases are listed below:

	Address	Purchase Date	Purchase Amount	Seller
1	1407 & 1502 Randolph St.	10/5/2006	\$1,949,260.76	Sterling Bank & Trust, FSB
2	1435 Randolph St. & 1455 Centre St.	10/12/2006	2,994,022.46	TCF National Bank
3	311 E. Grand River Ave.	11/9/2006	3,091,470.16	The New Harmonie Group, LLC/Charles Mady, Broker
4	1468, 1480 & 1496 Randolph St.	3/15/2007	2,003,685.89	Randolph Development Group, LLC
5	1427 Randolph St	9/16/2013	462,729.39	Flagstar Bank, FSB
	Total		\$10,501,168.66	

Based upon the four (4) purchases made in 2006 and 2007 listed above (items 1-4), the EDC reimbursed \$6,500,000 on March 21, 2007 and \$3,498,226 on October 8, 2008 to the DDA for the properties they had acquired.

The remaining \$1,774.00 was used to pay for various printed advertisements in July and August 2006 to announce a Request for Qualifications/Proposals (RFQ/P). This RFQ/P was to provide a district plan to guide the development of a cultural and entertainment district in the City of Detroit.

Development Proposal Process

On September 28, 2015, the DDA released a Request for Proposals (RFP) seeking proposals from qualified developers to acquire the DDA properties to establish a district with the cultural vibrancy and economic vitality and resilience of the old Paradise Valley. The RFP established:

- Format requirements.
- Selection criteria that would be evaluated, which included proposer capacity, project financials, development plan, and local participation.

NOTE: Proposals were also to incorporate the mission and goals of the PVCED.

A news release regarding the RFP was issued on September 28, 2015, by the DEGC. The news release detailed information on how to download or pick up the RFP. The news release also provided information regarding a pre-bid conference that was held on October 15, 2015. Completed proposals were to be submitted by November 11, 2015 at 3:00 pm.

Twelve proposals were submitted timely² and reviewed by an evaluation committee comprised of DDA staff, City personnel and other stakeholders. Seven respondents were invited to interviews and further examination. Of the seven respondents, six respondents were invited to submit best and final offers. Based on the procurement analysis that was used for scoring, five developers were selected. Resolutions approving the five proposals were approved during summer 2016 by the DDA. The five developers were awarded development agreements. The five developers and the details of the agreements for the PVCED properties are detailed below:

	Address	Agreement Date	Sale Amount	Developer	Development Name	Expected Investment
1	1502 Randolph St.	11/17/2016	\$1,170,000	La Casa Properties, LLC	La Casa Cigars & Lounge	\$ 1,470,000
2	1407 & 1427 Randolph St.	4/12/2017	\$976,000	Gotham Capital Partners, LLC	Harmonie Pointe	2,700,000
3	311 E. Grand River Ave.	4/12/2017	\$1,600,000	311 E. Grand River, LLC	Harmony Club Hotel	13,600,000
4	1468, 1480 & 1496 Randolph St.	6/8/2017	\$1,000,000	Paradise Valley Real Estate Holdings II, LLC	Hastings Place	27,000,000

² Fifteen proposals were submitted for the RFP, however three of the 15 were submitted after the 3:00 pm, November 11, 2015 deadline. Those three proposal were received but not evaluated.

	Address	Agreement Date	Sale Amount	Developer	Development Name	Expected Investment
5	1435 Randolph St. & 1455 Centre St.	7/14/2017	\$2,001,000	Randolph Centre 2020, LLC	Randolph Centre Building	7,500,000
	Total		\$6,747,000			\$52,270,000

1. La Casa Properties, LLC proposed to redevelop the property it was occupying and leasing from the DDA. In the proposed redevelopment plan, they would continue with their current live music and cigar lounge venue, which establishes live music entertainment from local talent four nights per week. The redevelopment proposal for La Casa also included the renovation and leasing of the five (5) apartment units located on the 3rd and 4th floors of 1502 Randolph.

STATUS OF THE PROJECT: Purchase completed. They are currently renovating the property per their proposal.

2. Gotham Capital Partners, LLC proposed to develop multipurpose facilities through the connection of two buildings. The buildings, 1407 and 1427 Randolph St. would be connected on the 2nd and 3rd floors by opening the walls and creating a corridor. The properties would feature two floors of office space and a first floor hospitality area. Included in the properties would be Centre Park Bar (the current commercial resident), or Congress Hospitality restaurant Blvd Content marketing agency, The Fortuity Group, Longfellow's, an upscale music and art-centric lounge, and Ignition Media Group.

STATUS OF THE PROJECT: In the financial planning/due diligence phase.

3. 311 E. Grand River, LLC (formerly known as BASCO) proposed to develop a 1920s feel boutique hotel with modern contemporary conveniences. This hotel would offer a one of a kind lodging experience. The hotel entrance and lobby would also serve as a welcome center and gateway to the extensively restored theatre, and grand ballroom banquet and presentation center to be named the "Virgil Carr Theatre." This space would be a premier destination for weddings, corporate presentations, celebratory banquets, art exhibitions and community events.

STATUS OF THE PROJECT: In the financial planning/due diligence phase.

4. Paradise Valley Real Estate Holdings II, LLC proposed to develop luxury loft apartments, offices and shops. This development would feature a 83,340 square foot building that will house a community of 60 luxury loft apartments (10 of which will be affordable apartment units), 12,620 square feet of first floor retail space, 17,800 square feet of Class A office space and a 5 story, 150-car parking deck. The project would accommodate the expansion of Hamilton Anderson & Associates, a 60 employee, minority-owned, PVCED based, Detroit headquartered architectural firm.

STATUS OF THE PROJECT: In the financial planning/due diligence phase.

5. Randolph Centre 2020, LLC proposed to develop a mixed-use property, with commercial space on the ground floor and 18 loft units on three floors. The proposal

includes the updating and repair of the Detroit Seafood Market and PV Lounge restaurants, with the goal of enhancing the dining and lounge experience for patrons and employees. The updates would include enhancements to the interior décor and furnishings. These restaurants would also began to offer quality historical and contemporary jazz and blues musical entertainment. The property would also have a shared work space/conference center with media/internet/fiber access.

Phase two of the development plan is to create a Paradise Valley Jazz Alley and a Paradise Valley Jazz Club. The plan is to transform the alley behind the properties on Randolph and Centre Streets into a safe, walkable and usable alleyway that can offer opportunities for musical performances, artist murals, retail exhibits and other creative and artistic ventures. The basement jazz club would offer a modern version of the many speakeasies that existed in the former Paradise Valley. The parking lot at 1455 Centre St. would also be used as a flexible area for music, displays and events.

STATUS OF THE PROJECT: In the financial planning/due diligence phase.

Status of the Developments

Currently, one developer, La Casa Properties, LLC has completed the property purchase. The purchase of 1502 Randolph St. was completed on September 28, 2017. The amount documented and the purchase price is the same amount in the development agreements. Based upon the benchmark requirements established in the development agreement, the renovations to redevelop La Casa Cigars & Lounge should be complete by March 2019.

The remaining four development projects are still in the financial planning/due diligence phase of the agreement. According to the benchmark requirements established in the respective development agreements:

- Gotham Capital Partners, LLC should be finished with the development of 1407 & 1427 Randolph Street by August 2019.
- 311 E. Grand River, LLC should be finished with the development of 311 E. Grand River Avenue by February 2021.
- Paradise Valley Real Estate Holdings II, LLC should be finished with the development of 1468, 1480 & 1496 Randolph Street by June 2021.
- Randolph Centre 2020, LLC should be finished with the development of 1435 Randolph Street and 1455 Centre St. by August 2021.

PVCED Conservancy

The Paradise Valley Cultural and Entertainment District Conservancy (Conservancy) was created in March 2017. The purpose of the Conservancy is to provide for the maintenance, improvement, beautification and programming of the public space within the PVCED. It is a private non-profit 501(c)(3) organization. Membership is required for the PVCED developers that were awarded development agreements. The active membership of the Conservancy is reserved for any property within the boundaries of the district, which is defined as a company, firm, corporation, partnership, club,

association or individual with an interest in the general objective of the Conservancy. These active members have voting rights. Associate memberships are offered to other individuals or associations who share the concerns of the Conservancy, however they do not have voting rights.

The Board of Directors shall not have less than nine and no more than 15 directors. The directors must serve an initial two year term, thereafter the directors are elected at each annual membership meeting (held on the last Tuesday in September) for a term of one year. There are no term limits imposed. The Conservancy is funded through initiation fees, special assessments and annual dues.

AUDIT SUMMARY AND RECOMMENDATION

Based on the assignment agreement between the EDC and the DDA, the responsibility for accomplishing the goals of the PVCED is that of the DDA. With the purchase of the properties within one area, the decision to obtain developers that would help the area emerge into an entertainment and business district showcasing the rich culture and significant achievements of African Americans. With the foresight to have the district membership create the PVCED Conservancy for the purpose of continued goal achievement, the DDA has begun to meet the project objectives listed in the funding agreement. The completion of the development projects, will allow the DDA to fully meet the goal of establishing the district.

The project objective to “provide economic assistance to retail, commercial and entertainment businesses operating in the established district in the form of low interest rate loans, and matching City, State and Federal grants, and finally to establish a loan project,” could be accomplished once the sale of the PVCED properties are complete. The excess funds from the sale of the PVCED properties to the developers could be used to continually achieve the project objectives. The process to be used for the furtherance of the objectives has not yet been decided, however this is something that should be evaluated at the proper time.

The RFP for PVCED was in-line with the goals set forth in the Funding Agreement of establishing an African American cultural and business district because the RFP provided the background of what the former Paradise Valley encompassed, therefore giving the interested developers an opportunity to expound on that heritage and bring forth a new vision that would honor the past. The developments that were selected for projects are aligned with the goal of establishing the district because they focused on the past history of art, music, socialization and the entrepreneurial spirit that is also currently present in Detroit.

Recommendation

We recommend that EDC keep City Council and the Administration apprised of the progress of this project by submitting a report on the sales and progress of each developer on an annual basis.