

CITY OF EAST LANSING

CITY COUNCIL WORK SESSION AGENDA

Tuesday, May 15, 2012

Conference Room A

6:00 PM

| <u>Time</u> | <u>Resource</u> | <u>Topic</u> | <u>Action Requested</u> |
|-------------|----------------------------|---|-------------------------|
| 6:00 PM | Secretary | Roll Call | |
| 6:02 PM | | Communication from the audience | |
| 6:05 PM | Tim Dempsey & Mary Haskell | City Center II Due Diligence - Confidentiality Parameters | Discussion Only |
| | | <i>-Attachment A</i> | |
| 7:00 PM | | Adjournment | |

The City of East Lansing will provide reasonable accommodations, such as interpreters for the hearing impaired and audio tapes of printed materials being considered at this meeting, upon notice to the City of East Lansing prior to the meeting. Individuals with disabilities requiring reasonable accommodations or services should write or call:

City Manager's Office
410 Abbot Road
East Lansing, MI 48823
Phone: (517) 319-6920
TDD Number: 1-800-649-3777
Please visit our website at:
www.cityofeastlansing.com



Attachment A



PLANNING AND COMMUNITY DEVELOPMENT

Quality Services for a Quality Community

MEMORANDUM

TO: George Lahanas, City Manager

FROM: Tim Dempsey, Director – Planning & Community Development

CC: Lori Mullins, Community & Economic Development Administrator

DATE: May 11, 2012

SUBJECT: City Center II Due Diligence

City of East Lansing
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Given the complexity of this project, staff believes it is absolutely critical that the City and developer have the same expectations with respect to all due diligence components. It is especially important that both parties clearly understand which materials will be available for public review and at what point in the process that will occur. Attached with this memo is the updated due diligence list with additional information pertaining to scope and confidentiality parameters. I am requesting that we discuss these items in detail with Council and the developer at the special Work Session scheduled for May 17.

EXHIBIT A
City Center II - Due Diligence Activities Scope

| # | Due Diligence Item | | Issue | Primary Consultant / Responsible Party | Secondary Consultant / Responsible Party | Scope of Diligence | Confidentiality Parameters |
|--------------------------|------------------------|----|---|--|--|--|--|
| CRITICAL PRIORITY | | | | | | | |
| 1 | City Debt | 1A | As completed end value appraisal and verify resulting taxable value | Oetzel-Hartman | | City Center II Project | Certain information in appraisal will need to be kept confidential. |
| | | | - Include all assumptions utilized (market comps, absorption, occupancy, etc.) | | | | Certain information in appraisal will need to be kept confidential. |
| | | | - Market value of project as stabilized | | | | Certain information in appraisal will need to be kept confidential. |
| | | 1B | Determine reasonable annual increases/decreases in taxable value | Oetzel-Hartman | City historic data | City Center II Project | |
| | | 1C | Risk assessment for interest rate swings given projected timing | Robert Baird & Co. | | City Center II Project | |
| | | 1D | Risk assessment on bond default | Plante Moran CRESA | | City Center II Project | |
| 2 | Developer's Equity | | Verify developer's market value equity position | CPA Firm (TBD) | | City Center Project, L.L.C. | |
| 3 | Developer Risk Profile | 3A | Legal and financial review of development entity and related entities | Plante Moran CRESA | City | Strathmore Development Company City Center Project, L.L.C. CADA Investment Group, L.L.C. | Confidential Confidential until loan closed Confidential until loan closed |
| | | 3B | Conduct lien searches on all properties and legal entities | City | | Strathmore Development Company City Center Project, L.L.C. CADA Investment Group, L.L.C. | |
| | | 3C | Review of Strathmore's development history | Plante Moran CRESA | City | Need to clarify what entities are relevant. | Dependent on entities |
| | | | - Complete risk profile of past & current projects including failure to complete, tax delinquencies, bankruptcies, and any TIF and parking revenue shortfalls | | | | |
| 4 | TIF Allocation | 4A | Finalize TIF plans and allocation between the parties and associated debt structure | City/Developer/MEDC | Plante Moran CRESA | | |
| | | | - Include revised estimate of all TIF revenue, including DDA & brownfield funds that directly support project | | | | |
| | | 4B | Translate TIF structure to adequate subordination/intercreditor agreements | City/Developer/MEDC | Plante Moran CRESA | | |
| 5 | Parking | | Verify revised sizing is appropriate | Carl Walker | | | |

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| HIGH PRIORITY | | | | | | |
| 6 | MEDC Commitment | 6A | Finalize terms of ULA loan to City, including repayment structure and recourse status, assess liability | City | | |
| | | 6B | Finalize terms of CRP loan to developer, assess liability | City | | |
| 7 | Market Demand & Absorption | 7A | Confirm developer commitments for commercial space - Verify credit worthiness of developer related tenants | City | Plante Moran CRESA | Confidential until loan closed |
| | | 7B | Verify rents/absorption rates of residential units | Oetzel-Hartman | | Confidential until loan closed |
| | | 7C | Provide market demand information for theater | Wharton Center | | |
| | | 7D | Analyze market demand for hotel - Assess demand/supply, occupancy trends - Obtain opinion from PM CRESA regarding adequacy of hotel demand analysis | Oetzel-Hartman | | Confidential until loan closed |
| 8 | Market Comparables | | To be included as part of valuation and absorption assumptions | Oetzel-Hartman | | |
| 9 | Pro Forma Financial Analysis | | Review pro forma and verify all financial assumptions for components not covered under other due diligence items | Plante Moran CRESA | | Confidential until loan closed |
| 10 | Infrastructure Cost Review | | Detailed cost estimate review of proposed infrastructure | Engineering Firm | | |
| 11 | Land/Property Transactions | 11A | Appraisals of parcels to be exchanged/sold - Include all assumptions utilized | Appraisal Firm (TBD) | | |
| | | 11B | Appraisals of current DDA/city properties for future sale - Include all assumptions utilized | Appraisal Firm (TBD) | | |
| | | 11C | Land cost allocation to be verified | Appraisal Firm (TBD) | | |
| | | 11D | Complete land transfer agreement | City/Developer | | |
| | | 11E | Review all owner's policies of title insurance to ensure clear title | City Attorney | | |
| 12 | Environmental Risk | | Review due care activities to ensure compliance with state and federal regulations | City Attorney | PM Environmental (data only) | |
| 13 | Private Financing Commitments and Equity Structure | | Confirm all financing commitments are in place with primary lender and equity partners, review structure of partnership | Plante Moran CRESA | City Attorney | Confidential until loan closed |

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|----|--------------------------------------|-------|---|--|--------------------|--------------------------------|
| 14 | Permanent Financing Plan / Structure | 14A | Review of developer's term sheets for potential permanent financing | Plante Moran CRESA | City Attorney | Confidential until loan closed |
| | | 14B | Verify financial capacity of lender | Plante Moran CRESA | | |
| 15 | Brownfield and DDA TIF Plans | | Review plans for necessary updates | City | | |
| 16 | City Parking Structure | 16A | Review and update income projections | City | | |
| | | 16B | Review design and ensure consistency with city specifications | Carl Walker | | |
| | | 16C | Review all cost estimates for accuracy | Carl Walker | | |
| 17 | Theater | 17A | Review all cost estimates for accuracy | Engineering or CM Firm | | |
| | | 17B | Finalize terms of lease agreement with MSU | MSU/City/Developer | | |
| | | 17C | Assess impact of the Heights Theater at Eastwood | Wharton | | |
| 18 | Private Construction | | Review all cost estimated on Buildings A, B, E, G for accuracy | Engineering or CM Firm (TBD) | | |
| | | | - Include comparison of actual construction costs vs. end value | | | |
| 19 | People's Church Easement | | Resolution of easement or alternative design | City/Developer | | |
| 20 | Additional City Items | 20A | Top risk/rewards for city | City (using due diligence data) | | |
| | | 20B | Costs of exit strategy | City (using due diligence data) | | |
| | | 20C | Worst-case, middle-case, best-case scenarios | City (using due diligence data) | | |
| | | 20D | FRIB Funding impact | City | | |