

Bendzinski & Co.



municipal finance advisors

December 28, 2005

RECEIVED

JAN 10 2006

CITY OF TROY
CITY MANAGER'S OFFICE

Mr. John Szerlag, City Manager
City of Troy
500 W. Big Beaver Road
Troy, Michigan 48084-5285

RE: Misrepresentation of our statements on Page 5 of our letter dated October 19, 2005
Regarding the Impact of Reducing the Boundaries of the Troy Downtown Development
Authority

Dear Mr. Szerlag:

Thank you for your recent telephone call regarding our statement on page 5 of the above
referenced letter, which reads in part as follows:

“ISSUANCE OF BONDS

When the DDA was formed in 1993, it **was formed for the initial expressed purpose
of providing a revenue source to the City in order to comply with a Court judgment**
permitting the developers to build Somerset North despite the fact that they did not have the
parking spaces required to provide parking for the proposed Somerset North as required by the
City's zoning ordinance, ...” [Emphasis Provided]

At the October 24, 2005, Council Meeting, various citizens used that sentence as a basis
for concluding that the DDA was illegally and improperly formed in 1993. **Nothing could be
further from the truth.** As a matter of fact, both Bendzinski & Co. and Miller, Canfield,
Paddock and Stone, P.L.C., bond counsel on the 1995 Bonds, reviewed the history of the
property valuations within the District and determined that property values had, in fact, declined
in the prior years and because of the decline in property values within the proposed DDA District
the City could proceed with the development and adoption of a Tax Increment and Financing
Plan, which the City Council did by adopting Ordinance No.78 on July 12, 1993.

We all know that, for whatever reasons, these citizens have been opposed to the DDA
since its inception and has made every attempt to question its legality and the use of the captured
tax increments for the implementation of the Plan.

Bendzinski & Co.

Mr. John Szerlag, City Manager

January 9, 2006

Page 2

As we indicated in our October 19 letter, the DDA was formed for the initial express purpose **of providing a revenue source to the City** in order to comply with a Court judgment. For those familiar with the **“facts”** at the time, the City Council had two options to comply with the Court decision:

1. The City could issue General Obligation Limited Tax bonds of the City, which would carry a Limited Tax City Full Faith and Credit Pledge of the City and pay the debt service on those bonds from it's General Fund. (It should be pointed out that in 1993 it was the opinion of most bond counsel that the City could issue General Obligation Limited Tax “judgment” bonds without a vote of the electorate and without any “right of referendum”.); or,
2. Form the DDA and use the captured tax increment revenues to pay for the parking structures and the other improvements to Big Beaver Road.

The then City Council elected option 2 **as the means of providing the revenues** to comply with the Court decision.

As you will also recall, the City staff, with our assistance, and the developers of Somerset North entered in lengthy negotiations to write a binding Development Agreement that would assure **the City that it would not be required to pledge it's full faith and credit nor would it be required to use it's General Funds for the payment of the debt service on the DDA Bonds**. Upon completion of the negotiations, the Agreement provided, amongst other things, that the City would NOT purchase the parking deck from Somerset North, until Somerset North (a) constructed, at it's sole expense, and occupied the new mall including the parking deck; and, **(b) the new mall generated captured tax increment revenues equal to 125% of the debt service on the 1995 Bonds (both Series A and B)**. Therefore the **captured tax increment revenues** had to be in place before the DDA could release the funds to Somerset North to purchase the Parking Deck. As a matter of fact, it is my recollection that the City actually placed the parking deck on the tax rolls and collected taxes on the Parking Deck for several years because the 125% coverage of the debt service condition of the Development Agreement was not met.

Because of the City Council's position on full faith and credit at time of formation of the DDA, the 1995 DDA Bonds (both Series A and B) and all subsequent DDA financings **do not have a pledge the City's credit and are ONLY payable from the captured tax increment revenues within the DDA District.** .

Bendzinski & Co.
Mr. John Szerlag, City Manager
January 9, 2006
Page 3

As you can see by the above history, **it is not only wrong and improper, but is a misrepresentation to take our statements, appearing on page 5 of our October 19, 2005 letter, out of context and use them as a basis of arguing that the Troy DDA was improperly and illegally formed.**

We hope this responds to your recent inquiry and as usual should you have any questions, or require any additional information, please do not hesitate to call.

Sincerely,

BENDZINSKI & CO.
Municipal Finance Advisors



Robert C. Bendzinski, CIPFA

RCB/jll

S:\wpdocs\City\Troy\Troy DDA misrepresentation letter