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Detroit Regional Convention Facility Authority

Solicitation for Proposals to Provide Underwriting Services **Solicitation for Proposals to Provide Direct Loan/Private Placement**

Issue Date: July 11, 2014

Due Date: July 29, 2014 (by 5:00pm ET)

The Detroit Regional Convention Facility Authority (the “Authority”) is requesting proposals to provide 1) underwriting services, and/or 2) private placement services. Respondents can respond to either or both services. The Authority reserves the right to reject any and all proposals, and conduct additional negotiations with one or more proposers at its discretion.

Underwriting Services

The Authority is requesting proposals from qualified firms to provide underwriting services for the Authority’s refinancing of the \$303.5 million outstanding convention facility special tax revenue bonds originally issued to enhance Cobo Center. The bonds will be secured by a first lien pledge of revenues deposited into the State of Michigan’s Convention Facility Development Fund.

The Authority was statutorily created in 2009, and is authorized to issue debt to fund:

- Acquisition of an existing parking facility and Cobo Arena from the City of Detroit, and
- Capital renovation/enhancement/development of Cobo Center (the “Project”), a convention facility with 725,000 square feet of exhibit space and home to the North American International Auto Show.

Pursuant to the legislation establishing the Authority (see: [Attachment 1](#)), the Authority has the ability to issue up to \$299,000,000 in bonds to fund the cost of the Project. However, capitalized interest and funding of a debt service reserve are not considered costs of the Project and may be financed with the proceeds of bonds.

Bonds issued to fund the Project are secured by a first lien on all revenues deposited into the State Convention Facility Development Fund (“CFDF” or “Fund”). A pledged statewide liquor tax and a 3-county accommodations tax are dedicated to the CFDF and have been deposited into the Fund since 1986. The tax rates for these two taxes

have remained the same since inception, and state legislative action would be required to change the rates. The taxes are collected by the State Treasurer and sent directly to the bond trustee for deposit in the debt service fund. Pledged revenues are dedicated to repayment of the Bonds regardless of whether Cobo Center remains in operation. Please refer to [Attachment 2](#) for historical collection information for each tax since 1986. For financial information on the convention facility itself, please refer to [Attachment 3](#).

The CFDF also receives annual distributions from the State Health & Safety Fund. The amounts to be transferred annually from the Health & Safety Fund to the CFDF are defined in the provisions of the Health and Safety Fund Act, Act 264, Michigan Public Acts of 1987, as amended, provided as [Attachment 4](#).

It should be noted that under the provisions of the State Convention Facility Development Act of 1985, Act 106, Michigan Public Acts of 1985, as amended (“Act 106”), the Authority is unable to pledge CFDF liquor and accommodations tax revenues to the repayment of the bonds prior to October 1, 2015. Thus, the Authority has received, or expects to receive the following annual amounts¹ from the Health & Safety Fund transfer to the CFDF to pay debt service prior to October 1, 2015:

- FY 2014 - \$8 million
- FY 2015 - \$8 million

The Authority recently defeased (December 2013) the outstanding \$20.9 million in special tax revenue bonds outstanding (Series 2003). The defeased bonds have been escrowed until maturity (September 30, 2015).

Current bond covenants for the Authority’s outstanding note include a two-pronged historical coverage test, with debt service coverage from total revenues at least 2.0x, and 1.25x from liquor taxes alone. It also includes a debt service reserve funded at maximum annual debt service. As noted above, the Authority intends to fund the reserve with bond proceeds.

Any questions regarding this supporting information, or requests for additional documentation, should be directed to the Authority’s Independent Registered Municipal Advisor as provided below.

¹ *Amounts represent the total annual transfer to the CFDF from the Health and Safety Fund less the amount to be used to fund operational deficit costs of the convention facility pursuant to Section 10 of Act 106.*

Please be specific and concise in responding to the following questions. Please limit your response to 15 pages:

1. Please list your firm's primary contact(s) for this engagement. Also list the principal members of the team (quantitative, underwriter, backup) to be assembled for this proposed transaction. In a separate attachment, please provide brief biographies of each team member. (NOTE: Biographies will not be counted against the 15-page limit.)
2. Please indicate whether you wish to be considered for senior managing underwriter or co-manager.
3. Please list all special tax revenue bond transactions your firm has been involved since May 1, 2013. Please describe your firm's role in the marketing of these transactions.
4. Please describe your recommended marketing approach. Specifically, describe the role of retail investors and institutional investors in your marketing plan. Please estimate the "Southeast Michigan" premium and provide your plan as to how to mitigate it.
5. Please provide your proposed takedown by maturity, expenses and any other proposed compensation. Please refer to **Q. 11** for structuring assumptions and underlying ratings of "A". Please assume underwriter's counsel expense of \$25,000. Please itemize any additional underwriter's expenses you would include in the transaction. How would your answer change if the Authority's rating increased to AA?
6. The Authority's outstanding debt is currently rated "A" by Standard & Poor's (see: **Attachment 5**.) Based on the covenants described above, do you think the Authority will be able to maintain its "A" rating with the issuance of \$299 million in bonds? Can the Authority achieve a "AA" rating? What effects, if any do you believe a change in covenants from 2.00x to 1.50x on total revenues and 1.25x to 1.10x on liquor taxes alone will have on the rating and the transaction? What provisions should the Authority make for potential future new money needs?
7. Please provide your opinion as to how many ratings will be needed to market the bonds at the lowest possible yield. If more than one, please specify from which rating agency(s) the Authority should seek a rating and what level should the Authority expect.
8. Please indicate whether you believe bond insurance would provide a pricing benefit to the transaction. If so, please estimate the amount of the expected benefit?

9. The Authority would like to enter the market as quickly as possible. What is your proposed timing to enter the market with this transaction?
10. Please provide your indicative pricing as of close of business July 24, 2014 using the following bond structuring assumptions. Please note the factors you used in preparing your analysis. The Authority recognizes that market conditions are dynamic, but would like you to describe your firm's analytical process of arriving at pricing decisions.
 - Dated Date: October 15, 2014
 - Capitalized Interest through and including 10/1/2015
 - Debt service reserve funded at maximum annual debt service
 - \$303.5 million deposit into project fund
 - First Interest payment: 4/1/2016
 - First Principal payment: 10/1/2016
 - Last Principal payment: 10/1/2039
 - 10-year par call
 - Cost of Issuance : \$1 million
11. What size underwriting group would you recommend for a \$303.5 million issue? What would be an equitable division of liability among the managers.
12. If you believe that there is a more optimal bond structure for the Authority than described in question 10, please provide your structure and a rationale as to why it is an improvement.

Direct Loan/Private Placement

As an alternative to a public sale, the Authority is willing to consider the direct sale and/or private placement of bond anticipation notes (BAN) to a qualified investor(s). As previously noted, the Authority has limited resources each year through fiscal 2015 available to pay interest on the BAN. The annual amounts are as follows:

- FY 2014 - \$8 million
- FY 2015 - \$8 million

The Authority expects to retire the BANs at maturity through the issuance of long-term bonds secured by revenues deposited into the Convention Facility Development Fund (see: Attachment 2). The Authority will not obtain a credit rating for the BANs; however, the Authority's outstanding bonds are rated "A" from Standard and Poor's (see: Attachment 5).

If your firm is interested in preparing a proposal to purchase the BAN, please respond to the following questions.

1. What is the maximum amount of BANs you would be willing to purchase? What is the maximum maturity?
2. If selected, how long will it take for the Authority to receive final credit approval from your institution?
3. Which law firm would you select as counsel and would you place a limit on their fees?
4. How would you calculate interest on the BAN during the period?
5. If the Authority is unable to issue long-term bonds to take out the BANs at maturity, what would the term-out provision of the loan be for the Authority?
6. In addition to interest, are there any other fees you would request as purchaser?
7. Why is your proposal better than a long-term fixed rate financing?

Please send your completed responses with the comment "Responses to Authority Underwriting Proposal", or "Responses to Authority Direct Loan/Private Placement Proposal" via e-mail by 5:00p.m. Eastern Time, July 29, 2014 to the following parties:

Authority

Patrick S. Bero CEO/CFO
Detroit Regional Convention Facility Authority
pbero@drcfa.org

Independent Registered Municipal Advisor

Steven J. Kantor
First Southwest Company
steven.kantor@firstsw.com
(212) 642-4350

Any questions you have regarding this RFP or requests for additional information should be directed by phone, or e-mail to Steven J. Kantor, Independent Registered Municipal Advisor. The Authority reserves the right to select one or more proposers and to reject all proposals. Any contact with Authority officials can be grounds for dismissal from the selection process. Thank you for your interest in serving the Authority and for your effort in preparing this response.

STATE CONVENTION FACILITY DEVELOPMENT ACT

Act 106 of 1985

AN ACT to impose a state excise tax on persons engaged in the business of providing rooms for dwelling, lodging, or sleeping purposes to transient guests in certain counties; to provide for the levy, assessment, and collection of the tax; to provide for the disposition and appropriation of the collections from the tax; to create a convention facility development fund; to authorize the distributions from the fund; to authorize the use of distributions from the tax as security for any bonds, obligations, or other evidences of indebtedness issued to finance convention facilities as provided by law; to prescribe certain other matters relating to bonds, obligations, or other evidences of indebtedness issued for such purposes.

History: 1985, Act 106, Imd. Eff. July 30, 1985.

The People of the State of Michigan enact:

207.621 Short title.

Sec. 1. This act shall be known and may be cited as the "state convention facility development act".

History: 1985, Act 106, Imd. Eff. July 30, 1985.

207.622 Legislative finding.

Sec. 2. The legislature of this state finds that there exists in this state a continuing need for programs to promote tourism and convention business in order to assist in the prevention of unemployment and the alleviation of the conditions of unemployment, to preserve existing jobs, and to create new jobs to meet the employment demands of population growth. To achieve these purposes, it is necessary to assist and encourage local units of government to acquire, construct, improve, enlarge, renew, replace, repair, furnish, and equip convention facilities and the real property on which they are located and to refinance these activities.

History: 1985, Act 106, Imd. Eff. July 30, 1985;—Am. 1993, Act 58, Eff. Apr. 1, 1994.

Compiler's note: On March 31, 1993, the Senate passed SB 537 and transmitted it to the House of Representatives, which, on April 29, 1993, passed SB 537, voted to give the bill immediate effect, and returned it to the Senate. On May 5, 1993, the Senate voted to give SB 537 immediate effect and ordered it enrolled. Enrolled SB 537 was presented to the Governor at 8:59 a.m. on May 6, 1993. On May 18, 1993, the Senate sent a message to the Governor respectfully requesting the return of enrolled SB 537; the Governor voluntarily complied with this request and returned enrolled SB 537 to the Senate; following the return of the bill to the Senate chamber, the Senate voted to vacate the enrollment of SB 537; a motion to reconsider the vote by which the bill had been given immediate effect was then made, and its consideration postponed.

A letter dated June 9, 1993, from Stanley D. Steinborn, Chief Assistant Attorney General, to Phillip T. Frangos, Deputy Secretary of State, advised him that "Senate Bill No. 537 is now law and it should be assigned a public act number." At 4:15 p.m. on June 9, 1993, the Secretary of State accepted for filing at the Department of State's Great Seal Office a copy of SB 537 and assigned Public Act No. 58 to the filed document. The filed copy of SB 537 was not the copy presented to the Governor and did not carry the Governor's signature.

On June 11, 1993, Dick Posthumus, Majority Leader of the Michigan Senate, John J.H. Schwarz, Assistant President Pro Tempore of the Michigan Senate, and Willis H. Snow, Secretary of the Michigan Senate filed a Complaint for Declaratory Judgment in the 30th Judicial Circuit Court on June 11, 1993, (Docket No. 93-74943), requesting the court to enter judgment in their favor, as follows:

"1) Declaring that Senate Bill 537, the original linen of which is in the possession of the Michigan Senate, and which has never been signed into law by the Governor, has not become law;

"2) Declaring that Senate Bill 537, the original linen of which is in the possession of the Michigan Senate, and which has never been signed into law by the Governor, rightfully remains before the Michigan Senate;

"3) Declaring that any action taken by the Defendants inconsistent with the above declarations is unauthorized and unlawful;

"4) Ordering the Defendant RICHARD H. AUSTIN to vacate the enrollment of Senate Bill 537 as a Public Act of 1993.

"5) Ordering any and all other relief declared appropriate by this Court."

On July 1, 1993, the Senate voted to reconsider its vote giving the bill immediate effect and then defeated a motion to give the bill immediate effect. Senate Bill 537 was ordered enrolled on the same date and presented to the Governor at 3:23 p.m. on July 6, 1993.

Also on July 1, 1993, the Senate adopted Senate Resolution No. 179 authorizing the Michigan Senate to seek legal action to vacate the assignment of a public act number to SB 537. In accordance with that resolution, an amended complaint was filed on July 14, 1993, adding the Michigan Senate as a plaintiff and requesting the court to enter judgment in plaintiffs' favor, as follows:

"1. Declaring that Senate Bill 537 has not become law, and will not become law until such time as the newly enrolled bill has been duly signed by the Governor, or until such time as the bill is passed by a two-thirds vote of both houses of the Legislature, in the event that the newly enrolled bill should be vetoed by the Governor, or until such time as the newly enrolled bill has remained in the possession of the Governor for a period of more than 14 days, during which time the Legislature has remained in session, without having been signed, vetoed, or otherwise returned to the Legislature by the Governor;

"2. Declaring that Senate Bill 537 was lawfully returned to the Senate, and its enrollment lawfully vacated, on May 18, 1993, and that the bill rightfully remained before the Michigan Senate from that date until its subsequent presentment to the Governor on July 6, 1993;

"3. Declaring that any action taken by the Defendants inconsistent with the above declarations is unauthorized and unlawful;

"4. Ordering the Defendant RICHARD H. AUSTIN to vacate the assignment, to Senate Bill 537, of Public Act No. 58 of the Public Acts of 1993.

"5. Declaring that Senate Bill 537 shall not take effect until the expiration of 90 days after the final adjournment of the current legislative session, in accordance with Article IV, § 27 of the Michigan Constitution, if the newly enrolled bill is signed by the Governor, is passed by a two-thirds vote of both houses of the Legislature, overriding a gubernatorial veto, or if the newly enrolled bill remains in

the possession of the Governor for a period of more than 14 days, during which time the Legislature has remained in session, without having been signed, vetoed, or otherwise returned to the Legislature by the Governor, in accordance with Article IV, § 33 of the Michigan Constitution.

"6. Ordering the Defendant RICHARD H. AUSTIN to assign a new public act number to Senate Bill 537 if the newly enrolled bill is signed by the Governor, is passed by a two-thirds vote of both houses of the Legislature, overriding a gubernatorial veto, or if the newly enrolled bill remains in the possession of the Governor for a period of more than 14 days, during which time the Legislature has remained in session, without having been signed, vetoed, or otherwise returned to the Legislature by the Governor, in accordance with Article IV, § 33 of the Michigan Constitution.

"7. Ordering any and all other relief declared appropriate by this Court."

The Governor signed enrolled Senate Bill 537 at 8:10 a.m. on July 16, 1993, and filed it with the Secretary of State at 11:02 a.m. on that date. A public act number was not assigned to this filing.

On September 7, 1993, the Ingham County Circuit Court, Giddings J., determined that Plaintiffs lacked standing and that Defendants had raised a meritorious defense and were entitled to judgment as a matter of law. Defendants' Motion for Summary Disposition was granted.

Plaintiffs filed an appeal of the Circuit Court ruling with the Michigan Court of Appeals on September 13, 1993. (Court of Appeals Docket No. 168092). This appeal is currently pending.

Sec. 2 of Act 106 of 1985, being MCL 207.622 of the Michigan Compiled Laws, as originally enacted, reads:

"Sec. 2. The legislature of the state finds and declares that there exists in this state a continuing need for programs to promote tourism and convention business in order to assist in the prevention of unemployment and the alleviation of the conditions of unemployment, to preserve existing jobs, and to create new jobs to meet the employment demands of population growth. In order to achieve these purposes it is necessary to assist and encourage local units of government to acquire, construct, improve, enlarge, renew, replace, repair, furnish, and equip convention facilities and the real property on which they are located."

207.623 Definitions.

Sec. 3. As used in this act:

(a) "Accommodations" means the room or other space provided to transient guests for dwelling, lodging, or sleeping, including furnishings and other accessories, in a facility that is not a campground, hospital, nursing home, emergency shelter, or community mental health or community substance abuse treatment facility. Accommodations do not include food or beverages.

(b) "Commissioner" means the state treasurer.

(c) "Convention facility" means 1 or more facilities owned or leased by a local governmental unit or metropolitan authority created under the regional convention facility authority act, 2008 PA 554, MCL 141.1351 to 141.1379, that are any combination of a convention hall, auditorium, meeting rooms, and exhibition areas that are separate and distinct and contiguous to each other, and related adjacent public areas generally available to members of the public for lease on a short-term basis for holding conventions, meetings, exhibits, and similar events and the necessary site or sites, together with appurtenant properties necessary and convenient for use in connection with the facility. Convention facility includes a qualified convention facility as defined under section 5 of the regional convention facility authority act, 2008 PA 554, MCL 141.1355.

(d) "Convention hotel" means a facility used in the business of providing accommodations that has more than 80 rooms for providing accommodations to transient guests and that complies with all of the following:

(i) Located within a county having a population according to the most recent decennial census of 700,000 or more.

(ii) Located within a county that is 1 or more of the following:

(A) A county that has a convention facility with 350,000 square feet or more of total exhibit space.

(B) A county that has 2,000 or more rooms to provide accommodations for transient guests.

(e) "Local governmental unit" means a county, township, city, village, or a metropolitan authority formed under the regional convention facility authority act, 2008 PA 554, MCL 141.1351 to 141.1379.

(f) "Person" means a natural person, partnership, limited partnership, fiduciary, association, corporation, limited liability company, or other entity.

(g) "Room charge" means the charge imposed for the use or occupancy of accommodations, excluding charges for food, beverages, telephone services, the use tax imposed under the use tax act, 1937 PA 94, MCL 205.91 to 205.111, or like services paid in connection with the charge. Room charge does not include reimbursement of the assessment imposed by the community convention or tourism marketing act, 1980 PA 395, MCL 141.871 to 141.880, the convention and tourism marketing act, 1980 PA 383, MCL 141.881 to 141.889, or this act.

(h) "Transient guest" means a natural person staying less than 30 consecutive days.

History: 1985, Act 106, Imd. Eff. July 30, 1985;—Am. 2006, Act 609, Imd. Eff. Jan. 3, 2007;—Am. 2008, Act 553, Eff. Mar. 31, 2009;—Am. 2009, Act 61, Imd. Eff. July 2, 2009.

207.624 Excise tax; rates; exemption.

Sec. 4. (1) There is hereby levied upon and there shall be collected from any person engaged in the

business of providing accommodations to transient guests in a convention hotel, whether or not membership is required, an excise tax at the following rates:

(a) For a convention hotel located within a qualified local governmental unit under section 9(4), the following:

- (i) A rate of 3% of the room charge for accommodations in a convention hotel with 81 to 160 rooms.
- (ii) A rate of 6% of the room charge for accommodations in a convention hotel with more than 160 rooms.
- (b) For all other convention hotels not subject to the tax rates imposed by subdivision (a), the following:
 - (i) A rate of 1.5% of the room charge for accommodations in a convention hotel with 81 to 160 rooms.
 - (ii) A rate of 5% of the room charge for accommodations in a convention hotel with more than 160 rooms.

(2) Beginning with the state fiscal year 1987, a person engaged in the business of providing accommodations to transient guests in a convention hotel is exempt from the tax imposed by this act for any state fiscal year in which appropriations of the tax collections pursuant to this act from that convention hotel have not been made for distributions pursuant to section 9 that would be received by a qualified local governmental unit from the collections of the tax under this act or section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, that the qualified local governmental unit is eligible to receive.

History: 1985, Act 106, Imd. Eff. July 30, 1985;—Am. 2009, Act 61, Imd. Eff. July 2, 2009.

207.625 Excise tax; time and manner of collection; administration of tax.

Sec. 5. (1) The excise tax shall be collected at the same time and in the same manner as the use tax pursuant to the use tax act, Act No. 94 of the Public Acts of 1937, being sections 205.91 to 205.111 of the Michigan Compiled Laws.

(2) The tax imposed by this act shall be administered by the revenue division of the department of treasury pursuant to Act No. 122 of the Public Acts of 1941, being sections 205.1 to 205.30 of the Michigan Compiled Laws.

History: 1985, Act 106, Imd. Eff. July 30, 1985.

207.626 Tax cumulative.

Sec. 6. The excise tax imposed and levied by the state pursuant to this act shall be in addition to any other taxes, charges, or fees imposed by law upon accommodations.

History: 1985, Act 106, Imd. Eff. July 30, 1985.

207.628 Convention facility development fund; creation; disposition of collections; use of fund; contract requirement; appropriation, transfer, and deposit of amount.

Sec. 8. (1) The collections from the tax imposed by section 4 shall be deposited in the state treasury, to the credit of the convention facility development fund, which is hereby created within the state treasury. Collections from the additional tax imposed under section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, funds appropriated from the 21st century jobs trust fund under subsection (4), and amounts designated under section 5(b)(iii) of the health and safety fund act, 1987 PA 264, MCL 141.475, shall also be deposited to the credit of the convention facility development fund.

(2) The convention facility development fund shall be distributed for certain state purposes and to local governmental units for use only for 1 or more of the following purposes:

- (a) Acquiring, constructing, improving, enlarging, renewing, replacing, or leasing a convention facility.
- (b) In conjunction with an activity listed in subdivision (a), repairing, furnishing, and equipping the convention facility.
- (c) Refinancing an activity listed in subdivision (a) or (b).
- (d) General fund expenditures.

(e) In the case of a local governmental unit that is a metropolitan authority, for any purpose authorized under the regional convention facility authority act, 2008 PA 554, MCL 141.1351 to 141.1379.

(3) A contract made by a local governmental unit for the purposes included in subsection (2)(a) or (b) concerning a convention facility funded by distributions pursuant to section 9 shall contain a fixed price or guaranteed maximum price for the total cost of activities conducted for these purposes pursuant to that contract.

(4) For the fiscal year ending September 30, 2010, \$9,000,000.00 is appropriated from the 21st century jobs trust fund described in section 2 of the Michigan trust fund act, 2000 PA 489, MCL 12.252, and transferred to and deposited in the convention facility development fund for purposes authorized under subsection (2)(e).

History: 1985, Act 106, Imd. Eff. July 30, 1985;—Am. 1993, Act 58, Eff. Apr. 1, 1994;—Am. 2007, Act 72, Imd. Eff. Sept. 30, 2007;—Am. 2008, Act 553, Eff. Mar. 31, 2009;—Am. 2009, Act 61, Imd. Eff. July 2, 2009.

Compiler's note: On March 31, 1993, the Senate passed SB 537 and transmitted it to the House of Representatives, which, on April 29, 1993, passed SB 537, voted to give the bill immediate effect, and returned it to the Senate. On May 5, 1993, the Senate voted to give SB 537 immediate effect and ordered it enrolled. Enrolled SB 537 was presented to the Governor at 8:59 a.m. on May 6, 1993. On May 18, 1993, the Senate sent a message to the Governor respectfully requesting the return of enrolled SB 537; the Governor voluntarily complied with this request and returned enrolled SB 537 to the Senate; following the return of the bill to the Senate chamber, the Senate voted to vacate the enrollment of SB 537; a motion to reconsider the vote by which the bill had been given immediate effect was then made, and its consideration postponed.

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"3) Declaring that any action taken by the Defendants inconsistent with the above declarations is unauthorized and unlawful;

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"5) Ordering any and all other relief declared appropriate by this Court."

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"2. Declaring that Senate Bill 537 was lawfully returned to the Senate, and its enrollment lawfully vacated, on May 18, 1993, and that the bill rightfully remained before the Michigan Senate from that date until its subsequent presentment to the Governor on July 6, 1993;

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"4. Ordering the Defendant RICHARD H. AUSTIN to vacate the assignment, to Senate Bill 537, of Public Act No. 58 of the Public Acts of 1993.

"5. Declaring that Senate Bill 537 shall not take effect until the expiration of 90 days after the final adjournment of the current legislative session, in accordance with Article IV, § 27 of the Michigan Constitution, if the newly enrolled bill is signed by the Governor, is passed by a two-thirds vote of both houses of the Legislature, overriding a gubernatorial veto, or if the newly enrolled bill remains in the possession of the Governor for a period of more than 14 days, during which time the Legislature has remained in session, without having been signed, vetoed, or otherwise returned to the Legislature by the Governor, in accordance with Article IV, § 33 of the Michigan Constitution.

"6. Ordering the Defendant RICHARD H. AUSTIN to assign a new public act number to Senate Bill 537 if the newly enrolled bill is signed by the Governor, is passed by a two-thirds vote of both houses of the Legislature, overriding a gubernatorial veto, or if the newly enrolled bill remains in the possession of the Governor for a period of more than 14 days, during which time the Legislature has remained in session, without having been signed, vetoed, or otherwise returned to the Legislature by the Governor, in accordance with Article IV, § 33 of the Michigan Constitution.

"7. Ordering any and all other relief declared appropriate by this Court."

The Governor signed enrolled Senate Bill 537 at 8:10 a.m. on July 16, 1993, and filed it with the Secretary of State at 11:02 a.m. on that date. A public act number was not assigned to this filing.

On September 7, 1993, the Ingham County Circuit Court, Giddings J., determined that Plaintiffs lacked standing and that Defendants had raised a meritorious defense and were entitled to judgment as a matter of law. Defendants' Motion for Summary Disposition was granted.

Plaintiffs filed an appeal of the Circuit Court ruling with the Michigan Court of Appeals on September 13, 1993. (Court of Appeals Docket No. 168092). This appeal is currently pending.

Sec. 8 of Act 106 of 1985, being 207.628 of the Michigan Compiled Laws, as originally enacted, reads:

"Sec. 8. (1) The collections from the tax imposed pursuant to section 4 shall be deposited in the state treasury, to the credit of the convention facility development fund which is hereby created within the state treasury. Collections from the additional tax on spirits imposed pursuant to the convention facility promotion tax act shall also be deposited to the credit of the convention facility development fund.

"(2) The convention facility development fund shall be distributed to local governmental units for use only for the purpose of acquiring, constructing, improving, enlarging, renewing, replacing, or leasing a convention facility, or in conjunction with these activities repairing, furnishing, and equipping the convention facility.

"(3) Any contract made by a local governmental unit for the purposes included in this section concerning a convention facility funded by distributions pursuant to section 9 shall contain a guaranteed maximum price for the total cost of activities conducted for these purposes pursuant to that contract."

207.629 Distribution from fund; transferee as qualified local governmental unit; distribution to certain building authorities; "qualified local governmental unit" defined; certain payments prohibited; "qualified city" defined; building authority as qualified local governmental unit.

Sec. 9. (1) Except as provided in subsection (5) or (6), on or before the thirtieth day of each month, the state treasurer shall make a distribution from the convention facility development fund to a qualified local governmental unit. The distribution shall be an amount equal to the sum of the collections from the excise tax levied for accommodations under this act for the previous month from the convention hotels in the county in which the convention facility is or is to be located and in any county in which convention hotels are located that is contiguous to the county in which the convention facility is located, or is to be located, the additional tax imposed under section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, for the previous month received in the fund, and any distribution received under section 5(b)(iii) of the health and safety fund act, 1987 PA 264, MCL 141.475, and from the 21st century jobs trust fund under section 8(4). However, distributions for any state fiscal year to any qualified local governmental unit under this section shall not exceed an amount equal to the amount pledged, assigned, or dedicated by the qualified local governmental unit pursuant to section 11 for the payment during that state fiscal year of bonds, obligations, or other evidences of indebtedness incurred for the purposes specified in this act or the regional convention facility authority act, 2008 PA 554, MCL 141.1351 to 141.1379, plus operating deficit cost expenditures and other expenditures authorized under section 10, plus any amount necessary to maintain a fully funded debt reserve or other reserves intended to secure the principal and interest on the bonds, obligations, or other evidences of indebtedness as contained in the resolution or ordinance authorizing their issuance.

(2) Notwithstanding the distributions provided by subsection (1), if a local governmental unit becomes a qualified local governmental unit entitled to receive distributions from the tax imposed under section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, or from the tax imposed by this act in counties in which the convention facility is located or in a county in which a convention hotel is located that is contiguous to the county in which the convention facility is located, and from any distribution under section 5(b)(iii) of the health and safety fund act, 1987 PA 264, MCL 141.475, no other qualified local governmental unit is entitled to distributions pursuant to this section for which that qualified local governmental unit has previously become entitled, until such time as that qualified local governmental unit ownership or leasehold interest described in subsection (3) is transferred to another local governmental unit. If that transfer renders the transferee a qualified local governmental unit, the transferee shall, immediately upon that transfer, be entitled to the distributions to a qualified local governmental unit provided in subsection (1) and the priority provided to a qualified local governmental unit in this subsection, notwithstanding that the amount of the distributions may increase as a result of that transfer. A transfer under this subsection includes a transfer that occurs on a transfer date under the regional convention facility authority act, 2008 PA 554, MCL 141.1351 to 141.1379.

(3) Notwithstanding the provisions of subsection (2), if the transfer and lease of a qualified convention facility to an authority is disapproved and the authority is dissolved under section 19(1) of the regional convention facility authority act, 2008 PA 554, MCL 141.1369, then a distribution from the convention facility development fund of proceeds received under section 5(b)(iii) of the health and safety fund act, 1987 PA 264, MCL 141.475, shall be made to a building authority for a county having a population of not less than 1,000,000 and not more than 1,500,000 according to the most recent federal decennial census for the purpose of developing, leasing, or operating a convention facility as defined in this act and no other qualified local governmental unit is entitled to any distribution of proceeds received under section 5(b)(iii) of the health and safety fund act, 1987 PA 264, MCL 141.475.

(4) As used in this act, "qualified local governmental unit" means, except as otherwise provided in this subsection, a city, village, township, county, or authority that is located in, or includes within its territory or jurisdiction, a county in which convention hotels are located and that either is the owner or lessee of a convention facility with 350,000 square feet or more of total exhibit space on July 30, 1985 or, if such a convention facility does not exist, will be the owner or lessee of a convention facility with 350,000 square feet or more of total exhibit space through the application of distributions under this section to the purchase or lease of a convention facility. Qualified local governmental unit includes a metropolitan authority that leases, develops, operates, and maintains a qualified convention facility under the regional convention facility authority act, 2008 PA 554, MCL 141.1351 to 141.1379. If the transfer and lease of a qualified convention facility to an authority is disapproved and the authority is dissolved under section 19(1) of the regional convention facility authority act, 2008 PA 554, MCL 141.1369, then for purposes of any distribution from the convention facility development of proceeds under section 5(b)(iii) of the health and safety fund act, 1987 PA 264, MCL 141.475, qualified local governmental unit means a building authority for a county having a population of not less than 1,000,000 and not more than 1,500,000 according to the most recent federal decennial census.

(5) Before the 2015-2016 fiscal year, collections from the excise tax levied for accommodations under this act and collections from the tax imposed under section 1207 of the Michigan liquor control code of 1998,

1998 PA 58, MCL 436.2207, shall not be paid to a qualified local governmental unit for the repayment of bonds, obligations, or other evidences of indebtedness incurred after 2007.

(6) Beginning in fiscal year 2015-2016, and each fiscal year thereafter, if a transfer and a lease of a qualified convention facility is disapproved and an authority is dissolved under section 19(1) of the regional convention facility authority act, 2008 PA 554, MCL 141.1369, then the collections from the excise tax levied for accommodations under this act shall be distributed to each county in which it was levied based on the amount collected in that county. However, if an excise tax for accommodations is levied in a qualified city at a rate greater than the rate levied in that portion of the county in which the qualified city is not located, the qualified city shall receive the collections of the excise tax for accommodations in an amount equal to the difference between the rate levied in the qualified city and the rate levied in that portion of the county in which the qualified city is not located. The funds described in this subsection are not available for a distribution of subsection (1). As used in this subsection, "qualified city" means that term as defined in section 5 of the regional convention facility authority act, 2008 PA 554, MCL 141.1355.

(7) If a building authority becomes a qualified local governmental unit under subsection (4), collections from distributions under section 5(b)(iii) of the health and safety fund act, 1987 PA 264, MCL 141.475, shall be paid by the state treasurer on or before the thirtieth day of each month to that building authority.

History: 1985, Act 106, Imd. Eff. July 30, 1985;—Am. 1993, Act 58, Eff. Apr. 1, 1994;—Am. 2004, Act 386, Imd. Eff. Oct. 12, 2004;—Am. 2005, Act 312, Imd. Eff. Dec. 27, 2005;—Am. 2007, Act 72, Imd. Eff. Sept. 30, 2007;—Am. 2008, Act 553, Eff. Mar. 31, 2009;—Am. 2009, Act 61, Imd. Eff. July 2, 2009.

Compiler's note: On March 31, 1993, the Senate passed SB 537 and transmitted it to the House of Representatives, which, on April 29, 1993, passed SB 537, voted to give the bill immediate effect, and returned it to the Senate. On May 5, 1993, the Senate voted to give SB 537 immediate effect and ordered it enrolled. Enrolled SB 537 was presented to the Governor at 8:59 a.m. on May 6, 1993. On May 18, 1993, the Senate sent a message to the Governor respectfully requesting the return of enrolled SB 537; the Governor voluntarily complied with this request and returned enrolled SB 537 to the Senate; following the return of the bill to the Senate chamber, the Senate voted to vacate the enrollment of SB 537; a motion to reconsider the vote by which the bill had been given immediate effect was then made, and its consideration postponed.

A letter dated June 9, 1993, from Stanley D. Steinborn, Chief Assistant Attorney General, to Phillip T. Frangos, Deputy Secretary of State, advised him that "Senate Bill No. 537 is now law and it should be assigned a public act number." At 4:15 p.m. on June 9, 1993, the Secretary of State accepted for filing at the Department of State's Great Seal Office a copy of SB 537 and assigned Public Act No. 58 to the filed document. The filed copy of SB 537 was not the copy presented to the Governor and did not carry the Governor's signature.

On June 11, 1993, Dick Posthumus, Majority Leader of the Michigan Senate, John J.H. Schwarz, Assistant President Pro Tempore of the Michigan Senate, and Willis H. Snow, Secretary of the Michigan Senate filed a Complaint for Declaratory Judgment in the 30th Judicial Circuit Court on June 11, 1993, (Docket No. 93-74943), requesting the court to enter judgment in their favor, as follows:

"1) Declaring that Senate Bill 537, the original linen of which is in the possession of the Michigan Senate, and which has never been signed into law by the Governor, has not become law;

"2) Declaring that Senate Bill 537, the original linen of which is in the possession of the Michigan Senate, and which has never been signed into law by the Governor, rightfully remains before the Michigan Senate;

"3) Declaring that any action taken by the Defendants inconsistent with the above declarations is unauthorized and unlawful;

"4) Ordering the Defendant RICHARD H. AUSTIN to vacate the enrollment of Senate Bill 537 as a Public Act of 1993.

"5) Ordering any and all other relief declared appropriate by this Court."

On July 1, 1993, the Senate voted to reconsider its vote giving the bill immediate effect and then defeated a motion to give the bill immediate effect. Senate Bill 537 was ordered enrolled on the same date and presented to the Governor at 3:23 p.m. on July 6, 1993.

Also on July 1, 1993, the Senate adopted Senate Resolution No. 179 authorizing the Michigan Senate to seek legal action to vacate the assignment of a public act number to SB 537. In accordance with that resolution, an amended complaint was filed on July 14, 1993, adding the Michigan Senate as a plaintiff and requesting the court to enter judgment in plaintiffs' favor, as follows:

"1. Declaring that Senate Bill 537 has not become law, and will not become law until such time as the newly enrolled bill has been duly signed by the Governor, or until such time as the bill is passed by a two-thirds vote of both houses of the Legislature, in the event that the newly enrolled bill should be vetoed by the Governor, or until such time as the newly enrolled bill has remained in the possession of the Governor for a period of more than 14 days, during which time the Legislature has remained in session, without having been signed, vetoed, or otherwise returned to the Legislature by the Governor;

"2. Declaring that Senate Bill 537 was lawfully returned to the Senate, and its enrollment lawfully vacated, on May 18, 1993, and that the bill rightfully remained before the Michigan Senate from that date until its subsequent presentment to the Governor on July 6, 1993;

"3. Declaring that any action taken by the Defendants inconsistent with the above declarations is unauthorized and unlawful;

"4. Ordering the Defendant RICHARD H. AUSTIN to vacate the assignment, to Senate Bill 537, of Public Act No. 58 of the Public Acts of 1993.

"5. Declaring that Senate Bill 537 shall not take effect until the expiration of 90 days after the final adjournment of the current legislative session, in accordance with Article IV, § 27 of the Michigan Constitution, if the newly enrolled bill is signed by the Governor, is passed by a two-thirds vote of both houses of the Legislature, overriding a gubernatorial veto, or if the newly enrolled bill remains in the possession of the Governor for a period of more than 14 days, during which time the Legislature has remained in session, without having been signed, vetoed, or otherwise returned to the Legislature by the Governor, in accordance with Article IV, § 33 of the Michigan Constitution.

"6. Ordering the Defendant RICHARD H. AUSTIN to assign a new public act number to Senate Bill 537 if the newly enrolled bill is signed by the Governor, is passed by a two-thirds vote of both houses of the Legislature, overriding a gubernatorial veto, or if the newly enrolled bill remains in the possession of the Governor for a period of more than 14 days, during which time the Legislature has remained in session, without having been signed, vetoed, or otherwise returned to the Legislature by the Governor, in accordance with Article IV, § 33 of the Michigan Constitution.

"7. Ordering any and all other relief declared appropriate by this Court."

The Governor signed enrolled Senate Bill 537 at 8:10 a.m. on July 16, 1993, and filed it with the Secretary of State at 11:02 a.m. on that date. A public act number was not assigned to this filing.

On September 7, 1993, the Ingham County Circuit Court, Giddings J., determined that Plaintiffs lacked standing and that Defendants had raised a meritorious defense and were entitled to judgment as a matter of law. Defendants' Motion for Summary Disposition was granted.

Plaintiffs filed an appeal of the Circuit Court ruling with the Michigan Court of Appeals on September 13, 1993. (Court of Appeals Docket No. 168092). This appeal is currently pending.

Sec. 9 of Act 106 of 1985, being 207.629 of the Michigan Compiled Laws, as originally enacted, reads:

"Sec. 9. (1) On or before the thirtieth day of each month, the state treasurer shall make a distribution from the convention facility development fund to a qualified local governmental unit. The distribution shall be an amount equal to the sum of the collections from the excise tax levied for accommodations pursuant to this act for the previous month from the convention hotels in the county in which the convention facility is or is to be located and in any county in which convention hotels are located that is contiguous to the county in which the convention facility is located, or is to be located, and the additional liquor tax received pursuant to the convention facility promotion tax act for the previous month received in the fund. However, distributions for any state fiscal year to any qualified local governmental unit shall not exceed an amount equal to the amount pledged by the qualified local governmental unit for the payment during that state fiscal year of bonds, obligations, or other evidences of indebtedness incurred for the purposes specified in this act, plus any amount necessary to maintain a fully funded debt reserve or other reserves intended to secure the principal and interest on the bonds, obligations, or other evidences of indebtedness as contained in the resolution or ordinance authorizing their issuance.

"(2) Notwithstanding the distributions provided by subsection (1), if a local governmental unit becomes a qualified local governmental unit entitled to receive distributions from the tax imposed by the convention facility promotion tax act or from the tax imposed by this act in counties in which the convention facility is located or in a county in which a convention hotel is located that is contiguous to the county in which the convention facility is located, no other qualified local governmental unit shall be entitled to distributions pursuant to this section for which that qualified local governmental unit has previously become entitled.

"(3) A qualified local governmental unit shall be a city, village, township, county, or authority that is located in a county in which convention hotels are located and that either is the owner or lessee of a convention facility with 350,000 square feet or more of total exhibit space on the effective date of this act or, if such a convention facility does not exist, will be the owner or lessee of a convention facility with 350,000 square feet or more of total exhibit space through the application of distributions under this section to the purchase or lease of a convention facility."

207.630 Distribution of money remaining in fund; priority; substance abuse treatment; quarterly distributions.

Sec. 10. (1) Any money remaining in the convention facility development fund that is not used for the bonds, obligations, or other evidences of indebtedness or other purposes as described in section 9 shall be distributed pursuant to subsection (2).

(2) Money in the convention facility development fund shall be distributed as provided in subsection (4) in the following order of priority in the following amounts:

(a) For each of the following fiscal years, the following amounts shall be distributed to a metropolitan authority created under the regional convention facility authority act, 2008 PA 554, MCL 141.1351 to 141.1379, for the operational deficit costs of a qualified convention facility operated by the authority under that act for purposes authorized under that act:

(i) \$11,000,000.00 each fiscal year for the fiscal years ending September 30, 2010 and September 30, 2011.

(ii) \$9,000,000.00 each fiscal year for the fiscal years ending September 30, 2012 and September 30, 2013.

(iii) \$8,000,000.00 each fiscal year for the fiscal years ending September 30, 2014 and September 30, 2015.

(iv) \$7,000,000.00 for the fiscal year ending September 30, 2016.

(v) \$6,000,000.00 for the fiscal year ending September 30, 2017.

(vi) \$5,000,000.00 each fiscal year for the fiscal years ending September 30, 2018 and September 30, 2019.

(vii) \$5,000,000.00 for the fiscal year ending September 30, 2020.

(viii) \$5,000,000.00 for the fiscal year ending September 30, 2021.

(ix) \$5,000,000.00 for the fiscal year ending September 30, 2022.

(x) \$5,000,000.00 for the fiscal year ending September 30, 2023.

(b) For fiscal years ending before October 1, 2009, an amount equal to the difference, if any, between the tax imposed under this act in the preceding state fiscal year that is designated under section 9 to a qualified local governmental unit and the tax imposed under this act that is designated under section 9 in the state fiscal year immediately preceding the preceding state fiscal year for the same local governmental unit shall be distributed to that local governmental unit. This subdivision does not apply unless a tax has been imposed under this act in the entire 2 state fiscal years immediately preceding the state fiscal year in which a distribution under this subdivision is made. Any amount distributed under this subdivision shall be used by the local governmental unit only for the retirement of outstanding bonds, obligations, or other evidences of indebtedness incurred for which distributions under section 9 are pledged. A distribution under this subdivision shall not be made to the extent that the obligations, bonds, or other evidences of indebtedness cannot be retired or are not outstanding.

(c) For fiscal years ending before October 1, 2015, an amount equal to that portion of the liquor tax collected under section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, from licensees in counties in which convention hotels are not located shall be distributed to those counties in which convention hotels are not located in the same proportion that the amount of tax collected under section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, in the preceding state fiscal year from the licensees in a county bears to the total tax collections under section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, in the preceding state fiscal year from all counties in which convention hotels are not located.

(d) For fiscal years ending before October 1, 2015, the remaining money available after distributions under subdivisions (a), (b), (c), (g), and (h) shall be distributed to each county in the following amounts:

(i) The amount of money available to be distributed under this subdivision multiplied by the percentage of collections in the preceding state fiscal year under section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, from licensees in counties in which convention hotels are not located shall be distributed to each county in which convention hotels are not located in the same proportion that the amount of tax collected pursuant to section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, in the preceding state fiscal year from licensees in that county bears to the total tax collections from section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, in the preceding state fiscal year from all counties in which convention hotels are not located.

(ii) The amount of money available to be distributed under this subdivision multiplied by the percentage of collections in the preceding state fiscal year under section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, from licensees in counties in which convention hotels are located shall be distributed to each county in which convention hotels are located in the same proportion that the amount of tax collected pursuant to section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, in the preceding state fiscal year from licensees in that county bears to the total tax collections from section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, in the preceding state fiscal year from all counties in which convention hotels are located. However, in the calculation of the proportion represented by a county's share of distributions under this subparagraph, the amount of the tax collected from licensees in the qualified local governmental unit that received distributions under section 9 in fiscal year 2007-2008 shall not be included.

(e) For the fiscal year ending September 30, 2016, an amount equal to the product of the total amount of tax collected under section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, and distributed to all counties in the 2014-2015 fiscal year multiplied by 1.01 shall be distributed to all counties as provided in this subdivision. For fiscal years beginning after September 30, 2016, an amount equal to the product of the amount of liquor tax distributions in the immediately preceding fiscal year multiplied by 1.01, not to exceed the total amount of tax collected under section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, shall be distributed to counties. Distributions to each county under this subdivision shall be calculated as follows:

(i) The amount of money available to be distributed under this subdivision multiplied by the percentage of collections in the immediately preceding state fiscal year under section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, from licensees in counties in which convention hotels are not located shall be distributed to each county in which convention hotels are not located in the same proportion that the amount of tax collected pursuant to section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, in the immediately preceding state fiscal year from licensees in that county bears to the total tax collections from section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, in the immediately preceding state fiscal year from all counties in which convention hotels are not located.

(ii) The amount of money available to be distributed under this subdivision multiplied by the percentage of collections in the immediately preceding state fiscal year under section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, from licensees in counties in which convention hotels are located shall be distributed to each county in which convention hotels are located in the same proportion that the amount of tax collected pursuant to section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, in the immediately preceding state fiscal year from licensees in that county bears to the total tax collections from section 1207 of the Michigan liquor control code of 1998, 1998 PA 58, MCL 436.2207, in the immediately preceding state fiscal year from all counties in which convention hotels are located. However, in the calculation of the proportion represented by a county's share of distributions under this subparagraph, the amount of the tax collected from licensees in the qualified local governmental unit that received distributions under section 9 in the 2007-2008 state fiscal year shall not be included.

(f) Beginning with the fiscal year ending on September 30, 2016, and each fiscal year thereafter, if the

revenue in the convention facility development fund exceeds the amounts distributed under section 9 and the distributions under subdivision (e), the excess shall be distributed to a qualified local governmental unit that is a metropolitan authority to be used by that qualified local governmental unit only for the retirement of outstanding bonds, obligations, or other evidences of indebtedness incurred for which distributions under section 9 are pledged and for a qualified governmental unit that is a metropolitan authority or next for the payment of any unfunded operational deficit costs incurred during the prior fiscal year by a metropolitan authority created under the regional convention facility authority act, 2008 PA 554, MCL 141.1351 to 141.1379, for the operation of a qualified convention facility under that act.

(g) For the fiscal year ending September 30, 2009, \$9,400,000.00 shall be distributed to a metropolitan authority created under the regional convention facility authority act, 2008 PA 554, MCL 141.1351 to 141.1379, for the costs incurred by the authority for the implementation of that act, creation of the authority, and transfer or lease of a qualified convention facility to the authority, and other costs relating to the management, operation, and development of a qualified convention facility.

(h) For the fiscal year ending September 30, 2009, \$6,600,000.00 shall be distributed to the general fund of this state.

(3) A distribution to a county pursuant to this section shall be included for purposes of the calculations required to be made by section 24e of the general property tax act, 1893 PA 206, MCL 211.24e. If the governing body of a taxing unit approves the additional millage rate under section 24e of the general property tax act, 1893 PA 206, MCL 211.24e, which is due to distributions pursuant to this section, then an amount equal to 50% of the distribution under this section shall be used for substance abuse treatment within the taxing unit.

(4) Beginning October 1, 2007 and each year thereafter, from the revenue collected during the previous quarter, after distributing the monthly payments under section 9(1), the state treasurer shall make quarterly distributions under subsection (2)(c) and (d) or under subsection (2)(e) and (f). From the revenue collected in the last quarter of the state fiscal year, the state treasurer shall make the distribution under subsection (2)(a) and (b) prior to any distributions under subsection (2)(c) or (d) or under subsection (2)(e) and (f).

History: 1985, Act 106, Imd. Eff. July 30, 1985;—Am. 2007, Act 72, Imd. Eff. Sept. 30, 2007;—Am. 2008, Act 553, Eff. Mar. 31, 2009;—Am. 2009, Act 61, Imd. Eff. July 2, 2009;—Am. 2009, Act 156, Imd. Eff. Dec. 4, 2009.

207.631 Refunding bonds, obligations, or other evidences of indebtedness; purposes for issuance; dedication of tax distributions from convention facility development fund; determination by state treasurer; effect of unlawful expenditure.

Sec. 11. (1) Refunding bonds, obligations, or other evidences of indebtedness described in subsection (2) are issued subject to the revised municipal finance act, 2001 PA 34, MCL 141.2101 to 141.2821.

(2) Pursuant to the revised municipal finance act, 2001 PA 34, MCL 141.2101 to 141.2821, a local governmental unit may issue refunding bonds, obligations, or other evidences of indebtedness to refund all or a portion of the bonds, obligations, or other evidences of indebtedness issued for purposes specified in this act. If refunding bonds, obligations, or other evidences of indebtedness are issued, an assignment or pledge of distributions of taxes from the convention facility development fund for the payment of principal or interest on the refunded bonds, obligations, or other evidences shall apply, after the issuance of the refunding bonds, only to the refunding bonds, obligations, or other evidences of indebtedness and to any bonds, obligations, or other evidences of indebtedness that were not refunded and to which the assignment or pledge previously applied.

(3) A local governmental unit that refunds bonds, obligations, or other evidences of indebtedness pursuant to subsection (2) may dedicate distributions of taxes from the convention facility development fund to the payment of principal, interest, or credit support fees or other costs of issuance or of the maintenance of any required reserves for general obligation bonds, obligations, or other evidences of indebtedness issued or to be issued for purposes specified in this act but not pursuant to the authority granted in this act or may reimburse itself for such payments from such distributions. However, distributions to a local governmental unit pursuant to this subsection in any state fiscal year shall not exceed the lesser of the following:

(a) Principal, interest, or credit support fees or other costs of issuance or of the maintenance of required reserves payable in the state fiscal year on the bonds, obligations, or other evidences of indebtedness to which the distributions are dedicated.

(b) The difference between the amount that would have been distributed to the local governmental unit had it not issued refunding bonds pursuant to subsection (2) and the amount of distribution of taxes to which an assignment or pledge applies under subsection (2).

(4) After September 30, 1999, taxes shall not be distributed from the convention facility development fund pursuant to subsection (3).

(5) If bonds, obligations, or other evidences of indebtedness are to be issued for the purposes set forth in section 8(2), for which all or a portion of the distribution of taxes that the local governmental unit is eligible to receive are pledged or assigned as set forth in subsection (1) or (2), and if as a direct result of the acquiring, constructing, improving, enlarging, renewing, replacing, or in conjunction with these activities, repairing, furnishing, equipping, or leasing of a convention facility financed from the proceeds of the bonds, obligations, or other evidences of indebtedness, it is necessary for the state to expend money from the state trunk line fund from the proceeds of bonds issued by this state payable from deposits into the state trunk line fund, or from direct appropriations for the costs of relocating, constructing, or reconstructing highways, roads, streets, or bridges, and costs ancillary thereto, then before the issuance of the bonds, obligations, or other evidences of indebtedness, the state treasurer shall determine that the total amount of these costs to be paid from the state trunk line fund, from the proceeds of bonds or notes payable from deposits into the state trunk line fund, or from direct appropriations of this state, excluding any of the cost to be reimbursed to this state by the federal government, any local unit of government or authority or agency thereof, or any other person or entity, shall not exceed 25% of the total cost of the relocation, construction, or reconstruction of highways, roads, streets, and bridges, and costs ancillary to those costs, directly resulting from the convention facility project purposes described in section 8(2). For purposes of the validity of the bonds, obligations, or other evidences of indebtedness, the determination of the state treasurer is conclusive as to the matters stated in the determination. If after the determination by the state treasurer the total costs of relocating, constructing, and reconstructing highways, roads, streets, and bridges, and costs ancillary thereto, increase, this state shall not expend from the state trunk line fund, from the proceeds from bonds payable from deposits in the state trunk line fund, or from direct appropriations of this state, any additional funds that cause the total expenditure by this state from these sources, after any reimbursement, to exceed 25% of the total cost, as increased, of the relocation, construction, and reconstruction, including ancillary costs. An expenditure by this state in violation of this subsection does not invalidate or otherwise adversely affect any previously issued bonds, obligations, or other evidences of indebtedness described in this section or any security therefor.

History: 1985, Act 106, Imd. Eff. July 30, 1985;—Am. 1993, Act 58, Eff. Apr. 1, 1994;—Am. 2002, Act 237, Imd. Eff. Apr. 29, 2002.

Compiler's note: On March 31, 1993, the Senate passed SB 537 and transmitted it to the House of Representatives, which, on April 29, 1993, passed SB 537, voted to give the bill immediate effect, and returned it to the Senate. On May 5, 1993, the Senate voted to give SB 537 immediate effect and ordered it enrolled. Enrolled SB 537 was presented to the Governor at 8:59 a.m. on May 6, 1993. On May 18, 1993, the Senate sent a message to the Governor respectfully requesting the return of enrolled SB 537; the Governor voluntarily complied with this request and returned enrolled SB 537 to the Senate; following the return of the bill to the Senate chamber, the Senate voted to vacate the enrollment of SB 537; a motion to reconsider the vote by which the bill had been given immediate effect was then made, and its consideration postponed.

A letter dated June 9, 1993, from Stanley D. Steinborn, Chief Assistant Attorney General, to Phillip T. Frangos, Deputy Secretary of State, advised him that "Senate Bill No. 537 is now law and it should be assigned a public act number." At 4:15 p.m. on June 9, 1993, the Secretary of State accepted for filing at the Department of State's Great Seal Office a copy of SB 537 and assigned Public Act No. 58 to the filed document. The filed copy of SB 537 was not the copy presented to the Governor and did not carry the Governor's signature.

On June 11, 1993, Dick Posthumus, Majority Leader of the Michigan Senate, John J.H. Schwarz, Assistant President Pro Tempore of the Michigan Senate, and Willis H. Snow, Secretary of the Michigan Senate filed a Complaint for Declaratory Judgment in the 30th Judicial Circuit Court on June 11, 1993, (Docket No. 93-74943), requesting the court to enter judgment in their favor, as follows:

"1) Declaring that Senate Bill 537, the original linen of which is in the possession of the Michigan Senate, and which has never been signed into law by the Governor, has not become law;

"2) Declaring that Senate Bill 537, the original linen of which is in the possession of the Michigan Senate, and which has never been signed into law by the Governor, rightfully remains before the Michigan Senate;

"3) Declaring that any action taken by the Defendants inconsistent with the above declarations is unauthorized and unlawful;

"4) Ordering the Defendant RICHARD H. AUSTIN to vacate the enrollment of Senate Bill 537 as a Public Act of 1993.

"5) Ordering any and all other relief declared appropriate by this Court."

On July 1, 1993, the Senate voted to reconsider its vote giving the bill immediate effect and then defeated a motion to give the bill immediate effect. Senate Bill 537 was ordered enrolled on the same date and presented to the Governor at 3:23 p.m. on July 6, 1993.

Also on July 1, 1993, the Senate adopted Senate Resolution No. 179 authorizing the Michigan Senate to seek legal action to vacate the assignment of a public act number to SB 537. In accordance with that resolution, an amended complaint was filed on July 14, 1993, adding the Michigan Senate as a plaintiff and requesting the court to enter judgment in plaintiffs' favor, as follows:

"1. Declaring that Senate Bill 537 has not become law, and will not become law until such time as the newly enrolled bill has been duly signed by the Governor, or until such time as the bill is passed by a two-thirds vote of both houses of the Legislature, in the event that the newly enrolled bill should be vetoed by the Governor, or until such time as the newly enrolled bill has remained in the possession of the Governor for a period of more than 14 days, during which time the Legislature has remained in session, without having been signed, vetoed, or otherwise returned to the Legislature by the Governor;

"2. Declaring that Senate Bill 537 was lawfully returned to the Senate, and its enrollment lawfully vacated, on May 18, 1993, and that the bill rightfully remained before the Michigan Senate from that date until its subsequent presentment to the Governor on July 6, 1993;

"3. Declaring that any action taken by the Defendants inconsistent with the above declarations is unauthorized and unlawful;

"4. Ordering the Defendant RICHARD H. AUSTIN to vacate the assignment, to Senate Bill 537, of Public Act No. 58 of the Public Acts of 1993.

"5. Declaring that Senate Bill 537 shall not take effect until the expiration of 90 days after the final adjournment of the current legislative session, in accordance with Article IV, § 27 of the Michigan Constitution, if the newly enrolled bill is signed by the Governor,

is passed by a two-thirds vote of both houses of the Legislature, overriding a gubernatorial veto, or if the newly enrolled bill remains in the possession of the Governor for a period of more than 14 days, during which time the Legislature has remained in session, without having been signed, vetoed, or otherwise returned to the Legislature by the Governor, in accordance with Article IV, § 33 of the Michigan Constitution.

“6. Ordering the Defendant RICHARD H. AUSTIN to assign a new public act number to Senate Bill 537 if the newly enrolled bill is signed by the Governor, is passed by a two-thirds vote of both houses of the Legislature, overriding a gubernatorial veto, or if the newly enrolled bill remains in the possession of the Governor for a period of more than 14 days, during which time the Legislature has remained in session, without having been signed, vetoed, or otherwise returned to the Legislature by the Governor, in accordance with Article IV, § 33 of the Michigan Constitution.

“7. Ordering any and all other relief declared appropriate by this Court.”

The Governor signed enrolled Senate Bill 537 at 8:10 a.m. on July 16, 1993, and filed it with the Secretary of State at 11:02 a.m. on that date. A public act number was not assigned to this filing.

On September 7, 1993, the Ingham County Circuit Court, Giddings J., determined that Plaintiffs lacked standing and that Defendants had raised a meritorious defense and were entitled to judgment as a matter of law. Defendants' Motion for Summary Disposition was granted.

Plaintiffs filed an appeal of the Circuit Court ruling with the Michigan Court of Appeals on September 13, 1993. (Court of Appeals Docket No. 168092). This appeal is currently pending.

Sec. 11 of Act 106 of 1985, being 207.631 of the Michigan Compiled Laws, as originally enacted, reads:

“Sec. 11. (1) Before a local governmental unit may assign or pledge all or a portion of the distribution of taxes that the local governmental unit is eligible to receive under this act for payment of bonds, obligations, or other evidences of indebtedness, the local governmental unit shall submit the plans for the proposed project and financing to the state treasurer for approval. The state treasurer shall make findings regarding whether the proposed project is reasonable, whether the revenues and other funds will be sufficient to fund the proposed project, and any other projects necessary for the completion of the proposed project, and whether the proposed project and financing comply with the provisions of this act. The state treasurer shall notify the local governmental unit of the findings pursuant to this section and shall approve or disapprove the proposed project within 30 days after submission of the plans for the proposed project and financing. The findings of the state treasurer pursuant to this section shall be reviewed by the state administrative board and shall be considered conclusive.

“(2) If bonds, obligations, or other evidences of indebtedness are to be issued for the purposes set forth in section 8(2), for which all or a portion of the distribution of taxes that the local governmental unit is eligible to receive are pledged as set forth in subsection (1), and if as a direct result of the acquiring, constructing, improving, enlarging, renewing, replacing, or in conjunction with these activities, repairing, furnishing, equipping, or leasing of a convention facility financed from the proceeds of bonds, obligations, or other evidences of indebtedness, it is necessary for the state to expend money from the state trunk line fund, or from the proceeds of bonds issued by the state payable from deposits into the state trunk line fund, or to make direct appropriations for the costs of relocating, constructing, or reconstructing highways, roads, streets, and bridges, and costs ancillary thereto, then prior to the issuance of the bonds, obligations, or other evidences of indebtedness described in subsection (1), the state treasurer shall determine, which determination, for the purposes of the validity of the bonds, obligations, or other evidences of indebtedness, shall be conclusive as to the matters stated therein, that the total amount of said costs to be paid from the state trunk line fund, or the proceeds of bonds or notes payable from deposits into the state trunk line fund, or from direct appropriations of the state for this purpose excluding any of the cost to be reimbursed to the state from the federal government, from any local unit of government or authority or agency thereof, or from any other person or entity, shall not exceed 25% of the total cost of the relocation, construction, or reconstruction of highways, roads, streets, and bridges, and costs ancillary thereto, directly resulting from the convention facility project purposes described in section 8(2). If subsequent to the date of determination by the state treasurer, as required by this subsection, these costs of relocating, constructing, and reconstructing highways, roads, streets, and bridges, and costs ancillary thereto, increase, the state shall not expend from the state trunk line fund, or the proceeds from bonds payable from deposits in the state trunk line fund, or by any direct appropriations of the state for this purpose, any additional funds which cause the total expenditure by the state from these sources, after any reimbursement, to exceed 25% of the total cost, as increased, of the relocation, construction, and reconstruction including ancillary costs. An expenditure by the state in violation of the provisions of this subsection shall not invalidate or otherwise adversely affect any then previously issued bonds, obligations, or other evidences of indebtedness described in subsection (1) or any security therefor.”

207.632 Transmitting payment to trustee or trustees for bonds, obligations, or other evidences of indebtedness; prohibition; exception.

Sec. 12. (1) Subject to approval pursuant to section 11, a local governmental unit may assign or pledge all or a portion of the distribution of taxes that the local governmental unit is eligible to receive under this act for payment of bonds, obligations, or other evidences of indebtedness for the purposes specified in section 8(2). If a local governmental unit assigns, pledges, or, pursuant to section 11(3), dedicates all or a portion of the distribution of taxes that the local governmental unit is eligible to receive under this act for payment of bonds, obligations, or other evidences of indebtedness incurred for the purposes specified in this act, the state treasurer may transmit to the duly appointed trustee or trustees for the bonds, obligations, or other evidences of indebtedness, if any, the payment of the distribution assigned, pledged, or dedicated by the local governmental unit.

(2) A local governmental unit that becomes a qualified local governmental unit before May 1, 2008 shall not issue bonds, obligations, or other evidences of indebtedness to which distributions under section 9 are pledged in a principal amount greater than \$180,000,000.00. This limit does not apply to refunding bonds, obligations, or other evidences of indebtedness issued pursuant to section 11(2) or to bonds, obligations, or other evidences of indebtedness to which distributions of taxes from the convention facility development fund are dedicated under section 11(3). A metropolitan authority that becomes a qualified local governmental unit after December 1, 2008 shall not issue bonds, obligations, or other evidences of indebtedness to which

distributions under section 9 are pledged in order to finance a total cost for all projects undertaken by the qualified local governmental unit that exceeds \$299,000,000.00. A building authority that becomes a qualified local governmental unit after May 1, 2009 shall not issue bonds, obligations, or other evidences of indebtedness to which distributions under section 9 are pledged in order to finance a total cost for all projects undertaken by the qualified local governmental unit that exceeds \$154,000,000.00. The cost of a project in addition to construction and acquisition costs may include an allowance for legal, engineering, architectural, and consulting services. The following shall not be considered costs of a project and may be financed with the proceeds of bonds, obligations, or other evidences of indebtedness for which section 9 distributions are pledged:

(a) Interest on revenue obligations issued to finance the project becoming due before the collection of the first revenues available for the payment of those revenue obligations.

(b) A reserve for the payment of principal, interest, and redemption premiums on the revenue obligations of the qualified local governmental unit, and other necessary incidental expenses including, but not limited to, placement fees, fees or charges for insurance, letters of credit, lines of credit, remarketing agreements, or commitments to purchase obligations issued pursuant to this act.

(c) Fees or charges associated with an agreement to manage payment, revenue, or interest rate exposure.

(d) Any other fees or charges for any other security provided to assure timely payment of the obligations.

(e) Refunding bonds.

History: 1985, Act 106, Imd. Eff. July 30, 1985;—Am. 1993, Act 58, Eff. Apr. 1, 1994;—Am. 2002, Act 237, Imd. Eff. Apr. 29, 2002;—Am. 2008, Act 553, Eff. Mar. 31, 2009;—Am. 2009, Act 61, Imd. Eff. July 2, 2009.

Compiler's note: On March 31, 1993, the Senate passed SB 537 and transmitted it to the House of Representatives, which, on April 29, 1993, passed SB 537, voted to give the bill immediate effect, and returned it to the Senate. On May 5, 1993, the Senate voted to give SB 537 immediate effect and ordered it enrolled. Enrolled SB 537 was presented to the Governor at 8:59 a.m. on May 6, 1993. On May 18, 1993, the Senate sent a message to the Governor respectfully requesting the return of enrolled SB 537; the Governor voluntarily complied with this request and returned enrolled SB 537 to the Senate; following the return of the bill to the Senate chamber, the Senate voted to vacate the enrollment of SB 537; a motion to reconsider the vote by which the bill had been given immediate effect was then made, and its consideration postponed.

A letter dated June 9, 1993, from Stanley D. Steinborn, Chief Assistant Attorney General, to Phillip T. Frangos, Deputy Secretary of State, advised him that "Senate Bill No. 537 is now law and it should be assigned a public act number." At 4:15 p.m. on June 9, 1993, the Secretary of State accepted for filing at the Department of State's Great Seal Office a copy of SB 537 and assigned Public Act No. 58 to the filed document. The filed copy of SB 537 was not the copy presented to the Governor and did not carry the Governor's signature.

On June 11, 1993, Dick Posthumus, Majority Leader of the Michigan Senate, John J.H. Schwarz, Assistant President Pro Tempore of the Michigan Senate, and Willis H. Snow, Secretary of the Michigan Senate filed a Complaint for Declaratory Judgment in the 30th Judicial Circuit Court on June 11, 1993, (Docket No. 93-74943), requesting the court to enter judgment in their favor, as follows:

"1) Declaring that Senate Bill 537, the original linen of which is in the possession of the Michigan Senate, and which has never been signed into law by the Governor, has not become law;

"2) Declaring that Senate Bill 537, the original linen of which is in the possession of the Michigan Senate, and which has never been signed into law by the Governor, rightfully remains before the Michigan Senate;

"3) Declaring that any action taken by the Defendants inconsistent with the above declarations is unauthorized and unlawful;

"4) Ordering the Defendant RICHARD H. AUSTIN to vacate the enrollment of Senate Bill 537 as a Public Act of 1993.

"5) Ordering any and all other relief declared appropriate by this Court."

On July 1, 1993, the Senate voted to reconsider its vote giving the bill immediate effect and then defeated a motion to give the bill immediate effect. Senate Bill 537 was ordered enrolled on the same date and presented to the Governor at 3:23 p.m. on July 6, 1993.

Also on July 1, 1993, the Senate adopted Senate Resolution No. 179 authorizing the Michigan Senate to seek legal action to vacate the assignment of a public act number to SB 537. In accordance with that resolution, an amended complaint was filed on July 14, 1993, adding the Michigan Senate as a plaintiff and requesting the court to enter judgment in plaintiffs' favor, as follows:

"1. Declaring that Senate Bill 537 has not become law, and will not become law until such time as the newly enrolled bill has been duly signed by the Governor, or until such time as the bill is passed by a two-thirds vote of both houses of the Legislature, in the event that the newly enrolled bill should be vetoed by the Governor, or until such time as the newly enrolled bill has remained in the possession of the Governor for a period of more than 14 days, during which time the Legislature has remained in session, without having been signed, vetoed, or otherwise returned to the Legislature by the Governor;

"2. Declaring that Senate Bill 537 was lawfully returned to the Senate, and its enrollment lawfully vacated, on May 18, 1993, and that the bill rightfully remained before the Michigan Senate from that date until its subsequent presentment to the Governor on July 6, 1993;

"3. Declaring that any action taken by the Defendants inconsistent with the above declarations is unauthorized and unlawful;

"4. Ordering the Defendant RICHARD H. AUSTIN to vacate the assignment, to Senate Bill 537, of Public Act No. 58 of the Public Acts of 1993.

"5. Declaring that Senate Bill 537 shall not take effect until the expiration of 90 days after the final adjournment of the current legislative session, in accordance with Article IV, § 27 of the Michigan Constitution, if the newly enrolled bill is signed by the Governor, is passed by a two-thirds vote of both houses of the Legislature, overriding a gubernatorial veto, or if the newly enrolled bill remains in the possession of the Governor for a period of more than 14 days, during which time the Legislature has remained in session, without having been signed, vetoed, or otherwise returned to the Legislature by the Governor, in accordance with Article IV, § 33 of the Michigan Constitution.

"6. Ordering the Defendant RICHARD H. AUSTIN to assign a new public act number to Senate Bill 537 if the newly enrolled bill is signed by the Governor, is passed by a two-thirds vote of both houses of the Legislature, overriding a gubernatorial veto, or if the newly enrolled bill remains in the possession of the Governor for a period of more than 14 days, during which time the Legislature has remained in session, without having been signed, vetoed, or otherwise returned to the Legislature by the Governor, in accordance with Article IV, § 33 of the Michigan Constitution.

“7. Ordering any and all other relief declared appropriate by this Court.”

The Governor signed enrolled Senate Bill 537 at 8:10 a.m. on July 16, 1993, and filed it with the Secretary of State at 11:02 a.m. on that date. A public act number was not assigned to this filing.

On September 7, 1993, the Ingham County Circuit Court, Giddings J., determined that Plaintiffs lacked standing and that Defendants had raised a meritorious defense and were entitled to judgment as a matter of law. Defendants' Motion for Summary Disposition was granted.

Plaintiffs filed an appeal of the Circuit Court ruling with the Michigan Court of Appeals on September 13, 1993. (Court of Appeals Docket No. 168092). This appeal is currently pending.

Sec. 12 of Act 106 of 1985, being 207.632 of the Michigan Compiled Laws, as originally enacted, reads:

“Sec. 12. (1) Subject to approval pursuant to section 11, a local governmental unit may assign or pledge all or a portion of the distribution of taxes that the local governmental unit is eligible to receive under this act for payment of bonds, obligations, or other evidences of indebtedness for the purposes specified in section 8(2). If a local governmental unit assigns or pledges all or a portion of the distribution of taxes that the local governmental unit is eligible to receive under this act for payment of bonds, obligations, or other evidences of indebtedness incurred for the purposes specified in this act, the state treasurer may transmit to the duly appointed trustee for the bonds, obligations, or other evidences of indebtedness, if any, the payment of the distribution which is assigned or pledged by the local governmental unit.

“(2) A local governmental unit shall not issue bonds, obligations, or other evidences of indebtedness to which distributions under section 9 are pledged in a principal amount greater than \$180,000,000.00.”

207.633 When pledge effective, valid, and binding; lien of pledge; filing or recording of instrument creating pledge; construction of section.

Sec. 13. (1) Any pledge of the distributions of the tax imposed under this act shall be effective, valid, and binding from the time when the pledge is made. The pledged distributions received shall be immediately subject to the lien of the pledge, whether or not there has been physical delivery. The lien of any pledge shall be valid and binding against all parties having claims of any kind in tort, contract, or otherwise against any person receiving the distributions of the tax, whether or not the parties have notice of the pledge. The ordinance, the resolution, or any other instrument of the local governmental unit by which a pledge of the proceeds of the tax imposed pursuant to this act is created is not required to be filed or recorded except in the records of the local governmental unit to be subject to this section.

(2) This section does not constitute a continuing appropriation and shall not be construed to create an indebtedness of the state.

History: 1985, Act 106, Imd. Eff. July 30, 1985.

207.634 Bonds, obligations, or other evidences of indebtedness not debt, liability, or obligation of state; payment or refunding; statement.

Sec. 14. Bonds, obligations, or other evidences of indebtedness of the local governmental unit issued for the purposes specified in this act shall not be in any way a debt or liability of the state and shall not create or constitute any indebtedness, liability, or obligation of the state or be or constitute a pledge of the faith and credit of the state. However, all bonds, obligations, or other evidences of indebtedness issued by the local governmental unit for the purposes specified in this act, unless paid or refunded by bonds, obligations, or other evidences of indebtedness of a local governmental unit, shall be payable from the funds pledged or available for their payment as authorized in this act or as otherwise provided by law. Each bond, obligation, or other evidence of indebtedness issued for the purposes specified in this act shall contain on its face a statement to the effect that the local governmental unit is obligated to pay the principal, of the premium, if any, and the interest on the bonds, obligations, or other evidences of indebtedness from distributions under this act or as otherwise provided by law, that the state is not obligated to pay the principal of, the premium, if any, and the interest on the bonds, obligations, or other evidences of indebtedness, and that neither the faith and credit nor the taxing power of the state is pledged to the payment of the principal of, the premium, if any, and the interest on the bonds, obligations, or other evidences of indebtedness issued by the local governmental unit.

History: 1985, Act 106, Imd. Eff. July 30, 1985.

207.635 State pledge and agreement; construction of section.

Sec. 15. (1) The state pledges to and agrees with the holders of bonds, obligations, or other evidences of indebtedness issued by a local governmental unit in accordance with law that the state shall not limit or restrict the rights vested in any person or local governmental unit to do any 1 or more of the following:

(a) Establish and collect fees or other charges as are convenient or necessary to produce sufficient revenues to meet the expenses of the local governmental unit for operating the convention facilities.

(b) Fulfill the terms of any agreement made with the holders of bonds, obligations, or other evidences of indebtedness issued by the local governmental unit, or in any way impair the rights or remedies of the holders of bonds, obligations, or other evidences of indebtedness issued by the local governmental unit until the principal amount of the bonds, obligations, or other evidences of indebtedness, together with interest, and

premiums, if any, on the bonds, obligations, or other evidences of indebtedness and interest on any unpaid installments of interest, and all costs and expenses in connection with an action or proceedings by or on behalf of the holders are fully met, paid, and discharged.

(2) This section shall not be construed to obligate or restrict any future legislature to make or from making the appropriation of distributions made under this act and shall not be construed to limit or prohibit the state from repealing or amending any law enacted for the imposition of taxes being distributed by this act.

History: 1985, Act 106, Imd. Eff. July 30, 1985.

207.636 Liberal construction.

Sec. 16. This act shall be construed liberally to effectuate the legislative intent and purposes of this act as complete and independent authority for the performance of each and every act and thing authorized by this act and all powers granted shall be broadly interpreted to effectuate the intent and purposes of this act and not as a limitation of powers.

History: 1985, Act 106, Imd. Eff. July 30, 1985.

207.637 Powers cumulative.

Sec. 17. The powers conferred in this act upon any county or local governmental unit shall be in addition to any other powers the county or local governmental unit shall possess by charter or statute.

History: 1985, Act 106, Imd. Eff. July 30, 1985.

207.638 Annual appropriation.

Sec. 18. There is appropriated each year from the convention facility development fund an amount sufficient to make the distributions under section 9.

History: 1985, Act 106, Imd. Eff. July 30, 1985.

207.639 Effective date of excise tax.

Sec. 19. The excise tax imposed pursuant to this act shall take effect on the first day of the calendar month, but not less than 29 days, after a facility becomes a convention hotel as certified by the state treasurer.

History: 1985, Act 106, Imd. Eff. July 30, 1985.

207.640 Levy of tax; time period.

Sec. 20. The tax imposed by this act shall not be levied after the earlier of December 31, 2039 or 30 days after all bonds, notes, or other obligations issued by a metropolitan authority formed under the regional convention facility authority act for purposes authorized under that act are retired.

History: 1985, Act 106, Imd. Eff. July 30, 1985;—Am. 2008, Act 553, Eff. Mar. 31, 2009.

Table 1
Convention Facility Development Fund Revenue

	<u>P.A. 106 of 1985 Accommodations Section 4(1)</u>	<u>P.A. 107 of 1985 4% Liquor Excise Sections 3 & 4</u>	<u>P.A. 264 of 1987 Health & Safety Fund Transfer</u>	<u>P.A. 106 of 1985 21st Century Jobs Section 8(4)</u>	<u>Total</u>
FY 1986	\$8,461,815	\$20,626,869			\$29,088,683
FY 1987	\$8,695,863	\$20,482,434			\$29,178,297
FY 1988	\$9,167,406	\$19,877,704			\$29,045,110
FY 1989	\$9,922,067	\$20,048,008			\$29,970,076
FY 1990	\$10,304,057	\$20,487,102			\$30,791,158
FY 1991	\$9,633,015	\$21,303,948			\$30,936,962
FY 1992	\$9,559,853	\$21,395,009			\$30,954,862
FY 1993	\$10,303,023	\$21,897,648			\$32,200,671
FY 1994	\$11,413,168	\$21,775,763			\$33,188,931
FY 1995	\$12,213,041	\$21,936,166			\$34,149,208
FY 1996	\$13,369,807	\$22,563,551			\$35,933,359
FY 1997	\$14,008,984	\$22,750,069			\$36,759,052
FY 1998	\$15,619,216	\$24,322,549			\$39,941,765
FY 1999	\$16,788,904	\$25,460,802			\$42,249,706
FY 2000	\$18,319,122	\$27,311,287			\$45,630,408
FY 2001	\$17,476,966	\$28,484,833			\$45,961,799
FY 2002	\$16,710,850	\$29,241,688			\$45,952,538
FY 2003	\$15,010,089	\$30,712,901			\$45,722,990
FY 2004	\$16,179,176	\$32,515,620			\$48,694,796
FY 2005	\$17,250,575	\$33,178,405			\$50,428,980
FY 2006	\$18,616,040	\$34,563,406			\$53,179,446
FY 2007 (1)	\$16,262,522	\$35,765,849			\$52,028,371
FY 2008 (1)	\$19,246,368	\$36,993,349			\$56,239,718
FY 2009	\$15,682,612	\$37,680,081	\$16,000,000		\$69,362,693
FY 2010	\$15,285,859	\$37,605,532	\$16,000,000	\$9,000,000	\$77,891,391
FY 2011	\$17,202,483	\$39,142,954	\$16,000,000		\$72,345,436
FY 2012	\$18,578,136	\$41,304,739	\$16,000,000		\$75,882,875
FY 2013	\$19,847,525	\$43,992,702	\$16,000,000		\$79,840,227
Total	\$401,128,540	\$793,420,967	\$80,000,000	\$9,000,000	\$1,283,549,507

(1) Revenues in FY 2007 include collections from November 2006 - September 2007. Revenues in FY 2008 include collections from October 2007 - September 2008. The October 2006 collections were included in the FY 2006 revenues. Revenues are now being kept on a cash basis due to changes made by the legislature to the Convention Facility Tax Act.

Individual amounts may not sum to totals, due to rounding.

**DETROIT REGIONAL CONVENTION
FACILITY AUTHORITY**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

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Independent Auditor's Report

To the Board of Directors of the
Detroit Regional Convention Facility Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Detroit Regional Convention Facility Authority (the "Authority" or "DRCFA"), as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Auditor's Responsibility - Continued

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Detroit Regional Convention Facility Authority as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, the Authority implemented the provisions of Governmental Accounting Standards Board Statements No. 62 and No. 63. Our opinion was not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2014 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



DOEREN MAYHEW

April 29, 2014
Troy, Michigan

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

BACKGROUND

The Cobo Hall Convention Center (“Cobo”), located in the City of Detroit, Michigan (“City”), is one of the 20th largest convention facilities in the United States consisting of approximately 2.4 million gross square feet and an attached 11,000 seat arena. The arena was recently converted into a 40,000 square foot ballroom with an additional 21,000 square feet of meeting space and a food court. Cobo was originally developed and has continuously been operated since the 1960’s by the City and was expanded to its present size in 1986.

In 2008, the State of Michigan adopted the Regional Convention Facility Authority Act, being Act 554, Michigan Public Acts of 2008, which was amended in early 2009 (as amended “Act 554”) providing for the transfer of Cobo from the City to a newly created Detroit Regional Convention Facility Authority (the “Authority”).

Pursuant to Act 554, Cobo was transferred by lease to the Authority effective September 15, 2009. Under the terms of the 30-year capital lease, the Authority has full operational control and responsibility for Cobo, subject only to a potential reversion of Cobo to the City after 2039. This lease and related payment was paid in full during the year ended September 30, 2011.

Starting in September 2009, the Authority had to restructure and create an ongoing operation from the original transfer of the facility. There were many contracts and conditions that were not as well developed as they could have been from the original City of Detroit financial records. As a result, the operating expenses comprised of vendor expenses and open payables at the date of assumption are estimated to have exceeded \$21 million.

After assuming control of the facility, management embarked on a complete restructuring of the operation’s finances and contracts. The Authority commenced a comprehensive review of all major service contracts. Most contracts were either renegotiated or subject to a competitive bidding process with the objective of securing better and more efficient production methods that would maximize value for the Authority. Many of these contracts are short-term, less than two years, and will be available for rebidding as necessary. As a result of the board actions in 2009 and 2010, these changes reduced the operating expense for the facility by approximately \$6 million.

As management of the Authority, we offer this narrative overview and analysis of the financial activities of the Authority for the years ended September 30, 2013 and 2012. Readers are encouraged to use this explanation of the Authority’s activity in conjunction with the accompanying financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the financial statements, which focus on the Authority as a whole, and the notes to the financial statements, which provide additional information that is essential to gain a full understanding of the data presented in the financial statements.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

The financial statements consist of the *Statements of Net Position*, the *Statements of Revenues, Expenses and Changes in Net Position* and the *Statements of Cash Flows*. These statements are prepared using the full accrual basis of accounting, which is similar to that employed by businesses in the private sector.

The *Statements of Net Position* present information on all of the assets and liabilities of the Authority, with the difference between the two reported as *net position*. Net position can be thought of as one way of measuring the financial strength of the Authority. Increases or decreases in net position over time may serve as a useful indicator of whether the financial condition of the Authority is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* present information showing how the net position of the Authority has changed over the course of the most recent fiscal year. All changes in net position are recognized as soon as the underlying transactions take place, regardless of the timing of the related cash flows. As a result, certain revenues and expenses reported in these statements are related to items that will only result in cash flows in future years.

The *Statements of Cash Flows* present detailed information about the changes in the cash positions of the Authority during the year.

The *Notes to the Financial Statements* provide additional information that is essential to gain a full understanding of the data presented in financial statements and begin on page 13 of this report.

FINANCIAL OVERVIEW

Cobo Center receives three primary streams of revenue to support its daily operations: a state operating subsidy that is scheduled to decrease over time based on a formula outlined in the DRCFA's enabling legislation; a state debt subsidy that services all outstanding principal and interest payments on bonds issued to cover capital costs associated with expansions and upgrades to the center; and operating revenues received in exchange for the goods and services provided by the center to its customers and their guests. The operating revenues include event related items such as: room, audio visual, and equipment rentals; event set-up and tear down labor fees; food and beverage catering; booth cleaning; electric service charges; internet distribution charges and parking. Other non-event sources of operating revenue come from: chilled water sales; cellular antenna rental fees; office rent; and monthly parking rental fees.

The state operations and debt service subsidies are regularly scheduled and can be predetermined several years in advance. Non-event related operating revenues are somewhat predictable and tend to be insulated from general economic conditions, however they are dependent on the weather and the usage of the neighboring Joe Louis Arena (warm weather, an extended hockey season, or concert event can increase the demand for chilled water). Event related operating revenues are based on a number of factors including both macro and micro economic forces impacting the convention, hotel, food and beverage, travel, tourism and labor markets; some of which are beyond the direct control of the Authority. Consequently, event related revenues may fluctuate significantly from year to year.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW - Continued

For the years ended September 30, 2013 and 2012, the assets of the Authority exceeded its liabilities by \$53,422,979 and \$52,477,011, respectively. Below is a summary of the statements of net position:

	September 30,	
	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 22,058,285	\$ 20,050,103
Cash and cash equivalents - restricted	68,352,234	117,494,407
Investments	3,015,569	3,000,209
Accounts receivable	993,639	973,710
State bonds receivable	20,789,604	30,468,832
Grant receivable	90,832	-
Capitalized bond issuance costs	4,264,475	4,474,179
Prepaid expenses and other assets	1,443,554	1,152,100
Capital assets, net	<u>236,655,448</u>	<u>127,991,117</u>
Total assets	<u>\$357,663,640</u>	<u>\$ 305,604,657</u>
<u>Liabilities and Net Position</u>		
Accounts payable	\$ 28,403,528	\$ 22,359,587
Accrued liabilities	1,732,794	2,419,492
Restricted deposits	3,974,735	3,974,735
Bonds payable	<u>270,129,604</u>	<u>224,373,832</u>
Total liabilities	304,240,661	253,127,646
Net position - net investment in capital assets	3,325,342	(4,266,502)
Net position - restricted	20,789,604	30,468,832
Net position - unrestricted	<u>29,308,033</u>	<u>26,274,681</u>
Total net position	<u>53,422,979</u>	<u>52,477,011</u>
Total liabilities and net position	<u>\$357,663,640</u>	<u>\$ 305,604,657</u>

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW - Continued

As indicated in the following schedule, the total net position of the Authority increased by \$945,968 and \$1,476,092 during the years ended September 30, 2013 and 2012, respectively. Revenues and expenses increased in fiscal 2013 and 2012 as a result of further convention activity.

	September 30,	
	<u>2013</u>	<u>2012</u>
State operational subsidy	\$ 9,000,000	\$ 9,000,000
Federal revenues	163,691	1,303,021
Operational revenue	6,660,928	5,834,216
Parking revenue	3,474,175	2,156,162
Miscellaneous revenue	-	80,000
Operating expenses	<u>(15,794,339)</u>	<u>(14,512,807)</u>
Operating income	3,504,455	3,860,592
State debt service subsidy	4,246,647	3,445,415
Interest (net)	(3,617,166)	(2,955,096)
Depreciation and amortization expense	<u>(3,187,968)</u>	<u>(2,874,819)</u>
Increase in net position	<u>\$ 945,968</u>	<u>\$ 1,476,092</u>

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

STATE SUBSIDY

As noted above, the State of Michigan provides an annual operating revenue subsidy for the Authority to assist in its earliest years; for both of the years ended September 30, 2013 and 2012, the operating revenue totaled \$9 million. Future subsidies are scheduled as follows for the years stated below:

2014	\$ 8 m
2015	8 m
2016	7 m
2017	6 m
2018 - 2023	5 m annually

These amounts were determined during the discussions on the structure of the Authority. Subsequent review of the operating expenses from the City of Detroit, and the further use of analysis over existing contracts, agreements and other financial information provide the basis for development of the detailed budget for the new organization.

The state also provides a subsidy in the form of debt service from the proceeds of the Convention Facility Development Fund (the “CFDF”). For the fiscal years ended September 30, 2013 and 2012, the Authority received \$4,246,647 and \$3,445,415, respectively, in debt service income from the CFDF. This revenue was off-set by the interest expense for debt service on the 2003 and 2011 Series A and B bonds.

FEDERAL FUNDING

In cooperation with the Detroit Economic Growth Corporation, the Authority applied for and was awarded a U.S. Department of Energy (DOE) grant to off-set capital improvement costs that would provide for more efficient energy usage in Cobo Center. The matching grant award provided \$1 for every \$5 of capital costs invested in energy saving initiatives by the DRCFA up to a maximum of approximately \$2.48 million. The Authority was later able to secure an additional \$168,000 in maximum grant capacity through the DOE during the 2013 fiscal year. Through the fiscal year ended September 30, 2012, the Authority received \$2.48 million in DOE funding. In the fiscal year ended September 30, 2013, the Authority was awarded an additional \$163,691 in matching grant funds from the DOE. In future years, the Authority will continue to pursue federal grant awards for which it may qualify.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Authority assumed certain assets and debt with the formation of the Authority. Such definition of the transfer of plant, facilities and movable equipment, is defined in a formal agreement between the City of Detroit and the Detroit Regional Convention Facility Authority, dated September 15, 2009.

Capital Assets

At the inception of the Authority, the capital assets referred to as Cobo and its related property were leased through a 30-year capital lease agreement for the amount of \$20 million, due to the City of Detroit upon completion of initial funding of the Authority. The one-time payment of \$20 million was made for the leasehold rights as defined in the lease and service agreement on December 2, 2010.

Long-Term Debt

Under Section 19(l)(f) of Act 554, the Authority assumed the bonds that were issued to finance or refinance the 1989 improvements to Cobo, being specifically the City of Detroit Convention Facility Special tax revenue and Revenue Refunding Bonds (Cobo Hall Project), Series 2003.

The balance of the bonds payable as of September 30, 2013 and 2012 is \$270,129,604 and \$224,373,832, respectively. Details of these bonds payable are listed in the notes to the financial statements.

In September 2010, the Authority issued \$80 million in short-term debt to support the payment of \$20 million owed to the City of Detroit under the terms of the 30-year capital lease agreement. Bond funds in the amount of \$3 million were reimbursed to the Authority operating fund for emergency repairs to the roof, electrical systems, event hall floor and loading dock area that were completed during the four month period between September 15, 2009 and the March 2010 North American International Auto Show. The remaining \$57 million provided for a series of repairs to the facility and replacement of equipment that was identified by the strategic plan as Phase 2 of the enhancement of the facility.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND DEBT ADMINISTRATION - Continued

Long-Term Debt - Continued

On November 3, 2011, the Authority simultaneously refunded the outstanding Series 2010 bonds totaling \$75,000,000 and received approval for the issuance of new bonds in the aggregate principal sum not to exceed \$315,000,000, of which \$249,340,000 is outstanding at September 30, 2013. The tax exempt portion of the new bond offering totaled \$290,000,000 and is designated as Convention Facility Special Tax Revenue and Revenue Refunding Bonds, Series 2011A. The taxable portion of the bond offering totaled \$25,000,000 and is designated as Convention Facility Special Tax Revenue and Revenue Refunding Bonds, Series 2011B. The issuance of these bonds is in accordance with State legislation.

See Note 5 for additional details of the Authority's bond issuances.

On December 19, 2013, in consultation with our financial advisors at First Southwest, Bond Counsel, Miller Canfield, and the State Treasury, the DRCFA utilized dedicated bond reserves to defease \$22,210,000 in remaining outstanding debt from the Series 2003 Tax Revenue and Revenue Refunding Bonds which were assumed from the City of Detroit when the DRCFA took control of Cobo Center on September 15, 2009. This debt was a refinancing of the debt incurred by the City of Detroit in connection with the expansion of Cobo Center in the late 1980's. Factors which influenced this decision included:

- The 2003 bonds could not be called prior to their maturity date;
- The funds existed in the debt service, reserve and redemption accounts to allow the Authority to defease the 2003 bond issue;
- The dedicated reserves being held in trust were earning a single basis point per year in interest.
- The 2003 bonds were the DRCFA's highest cost of debt;
- Defeasance secures the interests of bond holders during a time of economic uncertainty for the City of Detroit;
- The counties and the state taxpayers benefit from a return of tax revenue from the convention fund for a period of 19 months;
- Defeasance is a positive story for the Authority that enables the Authority to differentiate itself from the municipal financial difficulties.

CONTACTING THE MANAGEMENT OF THE AUTHORITY

This financial report is designed to provide the citizens, taxpayers, investors, creditors and others with a general overview of the finances of the Authority as they establish themselves as an ongoing concern. Questions concerning any information contained in this report or requests for additional information should be referred to the Chief Financial Officer, Cobo Center, One Washington Boulevard, Detroit, Michigan 48226.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

STATEMENTS OF NET POSITION

ASSETS

	September 30,	
	2013	2012
Cash and cash equivalents (note 2)	\$ 22,058,285	\$ 20,050,103
Cash and cash equivalents - restricted (notes 2 and 5)	68,352,234	117,494,407
Investments (note 3)	3,015,569	3,000,209
Accounts receivable	993,639	973,710
State bonds receivable (note 5)	20,789,604	30,468,832
Grant receivable	90,832	-
Capitalized bond issuance costs (note 5)	4,264,475	4,474,179
Prepaid expenses and other assets (note 9)	1,443,554	1,152,100
Capital assets (note 4)	236,655,448	127,991,117
Total assets	<u>\$ 357,663,640</u>	<u>\$ 305,604,657</u>

LIABILITIES AND NET POSITION

Liabilities

Accounts payable	\$ 28,403,528	\$ 22,359,587
Accrued liabilities	1,732,794	2,419,492
Restricted deposits payable (notes 2 and 5)	3,974,735	3,974,735
Bonds payable (note 5)	270,129,604	224,373,832

Total liabilities	304,240,661	253,127,646
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Net Position

Net investment in capital assets	3,325,342	(4,266,502)
Restricted	20,789,604	30,468,832
Unrestricted	29,308,033	26,274,681

Total net position	<u>53,422,979</u>	<u>52,477,011</u>
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Total liabilities and net position	<u>\$ 357,663,640</u>	<u>\$ 305,604,657</u>
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See accompanying notes to financial statements

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended September 30,	
	2013	2012
Operating Revenues		
State operating subsidy	\$ 9,000,000	\$ 9,000,000
Federal revenue	163,691	1,303,021
Operational revenue	6,660,928	5,834,216
Parking revenue	3,474,175	2,156,162
Miscellaneous revenue	-	80,000
	<hr/>	<hr/>
Total operating revenues	19,298,794	18,373,399
Operating Expenses		
Professional fees	380,672	366,838
Repairs and maintenance	1,442,306	1,576,425
Insurance expense	851,119	775,633
Contract expense	3,221,238	3,226,508
Event expense	613,636	573,691
Utilities	2,965,586	2,769,082
Payroll expenses	3,998,301	3,858,871
Parking expense	970,516	746,781
Management fees	509,987	465,458
Other expenses	840,978	153,520
	<hr/>	<hr/>
Total operating expenses	15,794,339	14,512,807
	<hr/>	<hr/>
Operating Income	3,504,455	3,860,592
Nonoperating Revenues (Expenses)		
State debt service subsidy	4,246,647	3,445,415
Interest income	629,481	496,079
Interest expense	(4,246,647)	(3,451,175)
Depreciation and amortization expense	(3,187,968)	(2,874,819)
	<hr/>	<hr/>
Total nonoperating revenues (expenses)	(2,558,487)	(2,384,500)
	<hr/>	<hr/>
Increase in Net Position	945,968	1,476,092
Net Position - Beginning	<hr/> 52,477,011	<hr/> 51,000,919
Net Position - Ending	<hr/> <u>\$ 53,422,979</u>	<hr/> <u>\$ 52,477,011</u>

See accompanying notes to financial statements

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

STATEMENTS OF CASH FLOWS

	Year Ended September 30,	
	2013	2012
Cash Flows From Operating Activities:		
Increase in net position	\$ 945,968	\$ 1,476,092
Adjustments:		
Depreciation and amortization	3,187,968	2,874,819
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(19,929)	344,744
Decrease (increase) in grant receivable	(90,832)	519,262
Increase in prepaid expenses and other assets	(291,454)	(157,504)
Increase in accounts payable	6,043,941	11,368,085
Increase (decrease) in accrued liabilities	(686,698)	1,711,065
Total adjustments	8,142,996	16,660,471
Net cash provided from operating activities	9,088,964	18,136,563
Cash Flows From Investing Activities:		
Acquisition of capital assets	(111,324,723)	(76,251,701)
Purchase of investments	(15,360)	(3,000,000)
Decrease in restricted deposits payable	-	(25,265)
Net cash used in investing activities	(111,340,083)	(79,276,966)
Cash Flows From Financing Activities:		
Proceeds from issuance of Series 2011 bonds	70,000,000	179,340,000
Payment of Series 2010 bonds	-	(75,000,000)
Payment of bond issuance costs	(317,872)	(4,657,294)
Payment of bond principal	(25,140,000)	-
Reduction of bonds receivable	10,575,000	14,565,000
Net cash provided from financing activities	55,117,128	114,247,706
Net Increase (Decrease) in Cash and Cash Equivalents	(47,133,991)	53,107,303
Cash and Cash Equivalents - Beginning	137,544,510	84,437,207
Cash and Cash Equivalents - Ending	<u>\$ 90,410,519</u>	<u>\$ 137,544,510</u>

Schedule of Noncash Financing Activities

Increase in accreted value of Series 2003 bonds payable	<u>\$ 895,772</u>	<u>\$ 857,641</u>
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See accompanying notes to financial statements

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

The Detroit Regional Convention Facility Authority (the “Authority”) is incorporated as a Michigan Public Body Corporate and Politic. It was created through an interlocal and intergovernmental agreement by and among the Mayor of the City of Detroit, Chairman of the Macomb County Board of Commissioners, County Executive of Oakland County and the Chief Executive Officer of Wayne County under the Regional Convention Facility Authority Act, Act 554, of the Michigan Public Acts of 2008. The Authority was created to oversee the development, ongoing management and operation of Cobo and to conduct any and all such activities and exercise any and all such powers as are authorized by the Regional Convention Facility Authority Act of 2008, which are necessary to the achievement of the foregoing and in furtherance of the purposes of the Authority. During the years ended September 30, 2013 and 2012, the Authority continues to be primarily funded by the State of Michigan.

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These audits were performed in order to prepare these statements as required by the State of Michigan. The Authority follows the “business-type” activities reporting requirements of GASB Statement No. 34 that provides a comprehensive look at the Authority’s financial activities. Accordingly, net position of the Authority and changes therein are classified and reported as follows:

Net Investment in Capital Assets - capital assets, net of accumulated depreciation and reduced by any outstanding balances of bonds, notes, or other borrowings which were attributable to the acquisition, construction or improvement of those capital assets.

Restricted - restricted cash of the Authority which is restricted in use by external groups such as grantors, creditors, or laws and regulations of other governments; or by law through constitutional provisions or enabling legislation.

Unrestricted - all of the remaining net positions which do not meet the definition of the above categories.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Note 1 - Nature of Organization and Summary of Significant Accounting Policies - Continued

Basis of Accounting

The Authority follows the rules promulgated by the Governmental Accounting Standards Board. Additionally, the Authority follows all Financial Accounting Standards Board (“FASB”) Statements and Interpretations, Accounting Principles Board (“APB”) issued, unless pronouncements conflict with or contradict GASB. The Authority is not a component unit of a government, but rather a stand-alone public body corporate and politic. The periodic determination of revenues earned, expenses incurred, and net income is appropriate for management control and accountability; therefore, the business model is followed and the full accrual basis of accounting is used.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Budget

Per the Regional Convention Facility Authority Act, No. 554 of 2008, section 141.1361, before the beginning of each fiscal year, the Board of Directors is responsible for the preparation of a budget for the Authority. This budget includes an itemized statement of the estimated current operational expenses and expenses for capital projects or debt repayment, and the estimated revenue from any and all sources for the fiscal year. The Board of Directors annually adopts an agreed upon budget in accordance with the Michigan Uniform Budget and Accounting Act.

Cash and Cash Equivalents

The Authority considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist of cash on hand, demand deposits and money market accounts. The Authority places its temporary cash investments with high credit quality financial institutions.

Capital Assets

Capital assets are stated at cost. Expenditures relating to normal repairs and maintenance are charged to operations as incurred. The assets are depreciated over their estimated useful lives using the straight-line method.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Note 1 - Nature of Organization and Summary of Significant Accounting Policies - Continued

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources until then. The Authority does not have any items that qualify for reporting in this category.

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources until that time. The Authority does not have any items that qualify for reporting in this category.

Subsidy Receivable and Revenue Recognition

The Authority receives subsidies on an annual basis from the State of Michigan. This subsidy is funded on a reimbursement basis which can lead to a receivable amount at the Authority's year end. Revenues are recorded monthly when billed to the State of Michigan. Convention and other revenue are recorded as Authority revenue in the period the convention or service takes place. Additional accounts receivable pertains to billings for convention use of the facility. Accounts receivable that are deemed uncollectible are written-off in the period that determination is made.

Management Fees

The Authority engaged SMG, a third-party management company, to provide services over operations and marketing. The agreement calls for compensation owed to SMG in a fixed annual fee of \$250,000 and an annual incentive fee limited to a maximum of \$250,000. At September 30, 2013 and 2012, the Authority's obligation applicable to the annual incentive fee under the terms of the agreement totaled \$245,833 and \$355,208, respectively. The obligation at September 30, 2012 included incentive fees of \$242,708 and \$112,500 applicable to the years ended September 30, 2012 and 2011, respectively.

Reclassification

Certain items in the financial statements for the year ended September 30, 2012 have been reclassified to conform with the presentation at September 30, 2013.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Note 1 - Nature of Organization and Summary of Significant Accounting Policies - Continued

Adoption of New Accounting Standards

Effective October 1, 2012, the Authority adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

GASB Statement No. 62 incorporates into GASB literature certain accounting and financial reporting guidance issued prior to November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting and research bulletins of the AICPA Committee on Accounting Procedure. This statement did not have a significant impact on the Authority's financial statements.

GASB Statement No. 63 incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including April 29, 2014, which is the date the financial statements were available to be issued.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Note 2 - Cash and Cash Equivalents

The Authority is authorized to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loans associations that have offices in Michigan pursuant to Public Act 20 of 1943, as amended. The Authority's cash and cash equivalents are subject to custodial credit risk as discussed in the following paragraph.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. At various times during the year, such balances may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Restricted Deposits

Unspent bond proceeds and related interest have legal requirements to be spent for specific purposes of the bond issuances as discussed in Note 5. The balances of the restricted cash and cash equivalent asset accounts are as follows:

	September 30,	
	<u>2013</u>	<u>2012</u>
2003 Bond Proceeds	\$ 36,767,464	\$ 51,388,560
2011 Bond Proceeds	<u>31,584,770</u>	<u>66,105,847</u>
Total restricted assets	<u>\$ 68,352,234</u>	<u>\$ 117,494,407</u>

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Note 3 - Investments

The investment policy adopted by the Authority in accordance with Public Act 20 of 1943, as amended, authorizes investments in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; certain certificates of deposits insured by an agency of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications that mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; mutual funds composed of investment vehicles that are legal for direct investment by a public corporation; and certain investment pools.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investment policy requires that all investments not purchased directly from an issuer must be held in the name of the Authority and be held in third-party safekeeping. At September 30, 2013 and 2012, the Authority does not have investments with custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy addresses this risk by structuring portfolio maturities to meet operating cash flow needs; investing primarily in short-term securities or investment pools; and only purchasing securities with the intent to hold-to-maturity.

Concentration of Credit Risk

Through its investment policy, the Authority limits the holdings at any given institution to a maximum of 60% of the portfolio.

As of September 30, 2013, the Authority's investments consist of thirteen brokered certificates of deposits totaling \$3,010,000 and a money market mutual fund account of approximately \$5,500 which are held in trust and invested by Wells Fargo Securities, LLC. The Authority has the positive intent and ability to hold these investments to maturity, as such, investments are classified as held-to-maturity and recorded at amortized cost. The brokered certificates of deposits mature at various dates through September 2015.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Note 4 - Capital Assets

The principal categories of capital assets may be summarized as follows:

	September 30,	
	2013	2012
Buildings	\$ 20,346,245	\$ 20,346,245
Computer equipment	312,245	193,910
Furniture and office equipment	3,639,542	1,312,064
Building improvements	181,663,053	58,265,017
Construction-in-progress	<u>37,205,406</u>	<u>51,724,532</u>
Total cost	243,166,491	131,841,768
Less accumulated depreciation	<u>(6,511,043)</u>	<u>(3,850,651)</u>
Undepreciated cost	<u>\$236,655,448</u>	<u>\$127,991,117</u>

As of September 30, 2013, the Authority is planning an additional \$86 million in future capital projects through December 2014. Of this amount, \$53 million represents the Authority's remaining commitment to various contractors at September 30, 2013. These costs will be recognized as incurred. Depreciation will begin on the capital assets as the projects are completed and placed into service. Depreciation expense charged to operations for the years ended September 30, 2013 and 2012 totaled \$2,660,392 and \$2,326,641, respectively.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Note 5 - Bonds

Long-term bond obligation activity for the year ended September 30, 2013 can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Series 2003 Bonds	\$ 45,033,832	\$ 895,772	\$ 25,140,000	\$ 20,789,604	\$ 11,105,000
Series 2011 Bonds	<u>179,340,000</u>	<u>70,000,000</u>	<u>-</u>	<u>249,340,000</u>	<u>-</u>
Total	<u>\$ 224,373,832</u>	<u>\$ 70,895,772</u>	<u>\$ 25,140,000</u>	<u>\$ 270,129,604</u>	<u>\$ 11,105,000</u>

Long-term bond obligation activity for the year ended September 30, 2012 can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Series 2003 Bonds	\$ 44,176,191	\$ 857,641	\$ -	\$ 45,033,832	\$ 25,140,000
Series 2010 Bonds	75,000,000	-	75,000,000	-	-
Series 2011 Bonds	<u>-</u>	<u>179,340,000</u>	<u>-</u>	<u>179,340,000</u>	<u>-</u>
Total	<u>\$ 119,176,191</u>	<u>\$180,197,641</u>	<u>\$ 75,000,000</u>	<u>\$ 224,373,832</u>	<u>\$ 25,140,000</u>

Series 2003 Bonds

For the purpose of financing the expansion of Cobo, the City of Detroit issued bonds in 2003 (Convention Facility Special Tax Revenue and Revenue Refunding Bonds), the proceeds of which were transferred to the Authority as of the date of its inception. The issuance consisted of current interest bonds, which pay principal annually and interest semiannually at coupon rates, and capital appreciation bonds, which are issued at a discounted amount and accrete principal to the date of maturity. Interest rates for both types of bonds range from 2% to 5%. The total values of the bonds are as follows:

	<u>September 30, 2013</u>	<u>2012</u>
Current interest bonds	\$ -	\$ 25,140,000
Capital appreciation bonds	<u>20,789,604</u>	<u>19,893,832</u>
Total	<u>\$ 20,789,604</u>	<u>\$ 45,033,832</u>

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Note 5 - Bonds - Continued

Series 2003 Bonds - Continued

The valuation of these bonds is in accordance with fair value measurement standards; disclosed at cost.

The Series 2003 bonds are special limited obligations of the Authority which are payable from and secured solely by a lien on the distributions the Authority is entitled to receive for the revenues deposited in the Convention Facility Development Fund collected from a specific tax on the sale of spirits in the State of Michigan (the "Liquor Tax" and from a State of Michigan excise tax on persons engaged in the business of providing rooms for dwelling, lodging or sleeping purposes to transient guests in certain counties (the "Hotel Occupancy Tax"). The State of Michigan is not obligated to pay principal of, the premium, if any and the interest on the Series 2003 bonds and neither the faith and credit nor the taxing power of the State of Michigan or the Authority is pledged therefore. Distributions of the Hotel Occupancy Tax and the Liquor Tax are subject to annual appropriation of the proceeds of such taxes by the Michigan Legislature. The State of Michigan has specifically reserved the right to repeal or amend the laws imposing the Hotel Occupancy Tax or the Liquor Tax. The scheduled payment of the principal of and interest on the Series 2003 bonds when due will be guaranteed under an insurance policy issued by the National Public Finance Guarantee Corporation.

The following are maturities of Series 2003 bonds for the years ending September 30th:

2014	\$ 11,105,000
2015	11,105,000

In connection with the Authority's assumption of the 2003 bonds, six bond bank accounts, totaling \$36,767,464 and \$51,388,560 at September 30, 2013 and 2012, respectively, and held by Wells Fargo Corporate Trust Services as trustee, were assumed by and redesignated in the name of the Authority. As discussed in Note 2, these funds are comprised of the unspent proceeds from the original bond issue and the related earnings, and are restricted in use to the payment or pre-payment of existing debt as authorized under the original bond resolution of 1985 or should all bond debt be paid, remaining funds in these accounts may be used for certain capital projects.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Note 5 - Bonds - Continued

Series 2003 Bonds - Continued

Defeasance

On December 19, 2013, the Authority utilized dedicated bond reserves to defease \$22,210,000 in remaining outstanding debt from the Series 2003 Tax Revenue and Revenue Refunding Bonds which were assumed from the City of Detroit when the Authority took control of Cobo Center on September 15, 2009. The bond reserves were deposited in an irrevocable trust with an escrow agent to provide for required future debt service payments on the original bonds.

As a result of the defeasance, the Authority will not realize the debt service subsidy receivable due from the State of Michigan. The net effect of forgoing receipt of the debt service subsidy is expected to result in a decrease in net position of approximately \$22 million during the year ending September 30, 2014.

Under the terms of an agreement between the Authority and the City, the City may use up to \$4 million for the cost of City improvements directly associated with the City of Detroit Civic Center Complex, which extends from Hart Plaza to Joe Louis Arena along the Detroit Riverfront. To access the funds, the City must submit a list of projects that are in compliance with Section 103 of the Sale Order and obtain an opinion from a nationally recognized bond counsel regarding the proposed use of the funds. The Authority's Chief Financial Officer must also concur that the proposed use of funds is in compliance with the agreement before authorizing the bond trustee to release the requested funds to the City. During the year ended September 30, 2012, approximately \$25,000 was distributed to the City. No funds were distributed to the City during the year ended September 30, 2013. The remaining funds are presented with the Authority's restricted cash and cash equivalents and restricted deposits payable, respectively, in the statements of net position.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Note 5 - Bonds - Continued

Series 2010 Bonds

For the purpose of financing the expansion and renovation of Cobo, the Authority issued special limited obligation bonds on September 30, 2010 (Convention Facility Special Tax Revenue Bond, Series 2010A (Series 2010A) for \$74,000,000 and Convention Facility Special Tax Revenue Bond, Series 2010B (Series 2010B) for \$6,000,000. The issuance consisted of current interest bonds, which paid interest semiannually at variable rates, except as described below. Interest rates on the Series 2010A bonds were 67% of the London InterBank Offered Rate (LIBOR) plus 120 basis points. The interest on the Series 2010B bonds was 67% of LIBOR plus 180 basis points. These two bonds were payable solely and only from and are secured by a first lien on the distributions the Authority was entitled to receive from certain revenues collected by the Treasurer of the State of Michigan and deposited in the Convention Facility Development Fund to Act 106, Act 34 and Act 554, Public Acts of Michigan, 2008, as amended, and entitled to the benefits of the resolutions authorizing the bonds. The Convention Facility Development Fund collects monies from a specific tax on the sale of spirits in the State of Michigan (the "Liquor Tax") and from a State of Michigan excise tax on persons engaged in the business of providing rooms for dwelling, lodging or sleeping purposes to transient guests in certain counties (the "Hotel Occupancy Tax"). The State of Michigan was not obligated to pay principal of, the premium, if any, or the interest on the Series 2010A and Series 2010B bonds and neither the faith and credit nor the taxing power of the State of Michigan or the Authority is pledged therefore. Distributions of the Hotel Occupancy Tax and the Liquor Tax are subject to annual appropriation of the proceeds of such taxes by the Michigan Legislature.

The State of Michigan has specifically reserved the right to repeal or amend the laws imposing the Hotel Occupancy Tax or the Liquor Tax. The registered owner of the Series 2010A and Series 2010B bonds is Wells Fargo Bank, National Association. These bonds do not represent a general corporate indebtedness of the Authority. Bond issue costs of approximately \$509,000 were incurred in connection with the issuance of the Series 2010 Bonds. These bonds were refunded during the year ended September 30, 2012.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Note 5 - Bonds - Continued

Series 2011 Bonds

On November 3, 2011, the Authority simultaneously refunded the outstanding Series 2010 bonds totaling \$75,000,000 and received approval for the issuance of new bonds in the aggregate principal sum not to exceed \$315,000,000. The tax exempt portion of the new bond offering totaled \$290,000,000 and is designated as Convention Facility Special Tax Revenue and Revenue Refunding Bonds, Series 2011A. The taxable portion of the bond offering totaled \$25,000,000 and is designated as Convention Facility Special Tax Revenue and Revenue Refunding Bonds, Series 2011B. The issuance of these bonds is in accordance with State legislation.

Interest rates on the Series 2011A bonds is 70% of the one month London InterBank Offered Rate (LIBOR) plus 150 basis points. The interest on the Series 2010B bonds is 100% of the one month LIBOR plus 230 basis points. These two bonds are payable solely and only from and are secured by a first lien on the distributions the Authority is entitled to receive from certain revenues collected by the Treasurer of the State of Michigan and deposited in the Convention Facility Development Fund to Act 106, Act 34 and Act 554, Public Acts of Michigan, 2008, as amended, and entitled to the benefits of the resolutions authorizing the bonds. The Convention Facility Development Fund collects monies from a specific tax on the sale of spirits in the State of Michigan (the "Liquor Tax") and from a State of Michigan excise tax on persons engaged in the business of providing rooms for dwelling, lodging or sleeping purposes to transient guests in certain counties (the "Hotel Occupancy Tax"). The State of Michigan is not obligated to pay principal of, the premium, if any, or the interest on the Series 2011A and Series 2011B bonds and neither the faith and credit nor the taxing power of the State of Michigan or the Authority is pledged therefore. Distributions of the Hotel Occupancy Tax and the Liquor Tax are subject to annual appropriation of the proceeds of such taxes by the Michigan Legislature. The State of Michigan has specifically reserved the right to repeal or amend the laws imposing the Hotel Occupancy Tax or the Liquor Tax.

The registered owners of the Series 2011A bonds are JP Morgan Chase (\$100,000,000), PNC Bank (\$63,500,000) and Wells Fargo Bank, National Association (\$126,500,000). The registered owner of the Series 2011B bond is Wells Fargo Bank, National Association (\$25,000,000). These bonds do not represent a general corporate indebtedness of the Authority.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Note 5 - Bonds - Continued

Series 2011 Bonds - Continued

At September 30, 2013, a total of \$249,340,000 in bond proceeds have been drawn on by the Authority; \$236,913,000 is from Series 2011A and \$12,427,000 is from Series 2011B. The Series 2011A and Series 2011B bonds mature on October 31, 2021. As discussed in Note 2, unspent bond proceeds, totaling \$31,584,770 and \$66,105,847 at September 30, 2013 and 2012, respectively, are held by Wells Fargo Corporate Trust Services as trustee in the name of the Authority. These funds are comprised of the unspent proceeds from the bond issue and the related earnings, and are restricted in use to the payment or pre-payment of existing debt as authorized under the bond resolution or should all bond debt be paid, remaining funds in these accounts may be used for certain capital projects

The following are maturities of Series 2011 bonds for the years ending September 30th:

2022	\$ 249,340,000
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Interest Rate Cap

In order to secure full funding for the Authority's \$279 million capital improvement program and \$20 million lease payment to the City of Detroit, the lending institutions required the Authority to enter into an agreement with a third-party to hedge against the risk of an interest rate increase that would raise debt service payments to a level that could not be sustained by the convention fund. After consulting with the Authority's financial advisors and legal counsel, it was determined that the most appropriate vehicle for hedging against this risk would be an interest rate cap.

On October 26, 2011, the Authority purchased an interest rate cap from the Bank of New York for \$2,262,000. The effective date of the interest rate cap is October 1, 2014 and the termination date of the cap is October 1, 2021. The interest rate cap will effectively limit the interest rate on the Series 2011 bonds to 7% in 2014 and 7.5% for 2015 through 2021. Payment for the interest rate cap is considered a cost of issuance which does not fall under the legislative borrowing limits for the capital program and was therefore paid for through additional borrowing.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Note 5 - Bonds - Continued

Bond Issuance Costs

Bond issuance costs are recorded as deferred charges and are amortized over the term of the related debt. During the year ended September 30, 2013, the Authority incurred issuance costs totaling \$317,872 in connection with commitment fees related to the Series 2011A and Series 2011B bonds. The gross carrying amount and accumulated amortization of bond issuance costs may be summarized as follows:

	September 30,	
	<u>2013</u>	<u>2012</u>
Gross carrying amount	\$ 5,484,085	\$ 5,166,213
Accumulated amortization	<u>(1,219,610)</u>	<u>(692,034)</u>
Unamortized bond issuance costs	<u>\$ 4,264,475</u>	<u>\$ 4,474,179</u>

Amortization expense for the years ended September 30, 2013 and 2012 totaled \$527,576 and \$548,177, respectively; estimated amortization expense for each of the five ensuing years through September 30, 2018 is approximately \$528,000.

Note 6 - Retirement Plans

The Authority contributes to a defined contribution pension plan, organized as a multiple cost sharing plan through the City of Detroit's General Retirement System (GRS). At the date of the Authority's inception, an obligation existed for contributions made on behalf of the workers formerly employed by the City of Detroit. The City of Detroit has agreed that the Authority's obligation would be limited to the "normal cost" of funding the pension liability beginning at inception and going forward. Pension expense for the years ended September 30, 2013 and 2012 amounted to \$52,395 and \$52,263, respectively.

The Authority maintains a 401(k) retirement savings plan which covers all SMG employees who are not participants in the GRS plan and have completed one year of employment. The 401(k) plan requires a 3% matching contribution to be made by the Authority for all participating employees. The Authority contributed \$85,648 and \$83,434 to this plan for the years ended September 30, 2013 and 2012, respectively. The Authority also maintains a 457(b) retirement saving plan which covers all employees who are not participants in the GRS or 401(k) plans and have completed one year of employment. The 457(b) plan includes provisions for discretionary and matching contributions to be made by the Authority for all participating employees. The Authority contributed \$-0- and \$3,968 to this plan for the years ended September 30, 2013 and 2012, respectively.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Note 7 - Concentrations

For the years ended September 30, 2013 and 2012, 56% and 57% of revenues, respectively, are subsidies received through the State of Michigan, Department of Treasury. At September 30, 2013 and 2012, accounts receivable includes \$750,000 for each year, due from the State of Michigan related to these subsidies.

Note 8 - Risk Management

The Authority maintains insurance coverage for property, liability, directors and officers and terrorism. The Authority incurred expenses as follows:

	September 30,	
	<u>2013</u>	<u>2012</u>
Property and liability insurance	\$ 708,163	\$ 641,206
Workers' compensation insurance	71,558	57,723
Other insurance	<u>71,398</u>	<u>76,704</u>
Total insurance expense	<u>\$ 851,119</u>	<u>\$ 775,633</u>

The Authority requires that all vendors, exhibitors, workers, provide general liability and specific insurance requirements for activities. There is a limit of \$1 million from our exhibitors for coverage of the liability. The Authority carries a \$500,000 deductible against its liability insurance.

Note 9 - Host Committee and American Society of Association Executives Pledge

The Authority, with the assistance of the Detroit Metropolitan Convention Visitor's Bureau, has secured the 2015 American Society of Association Executives (ASAE) meeting to be held at the Cobo Center. In order to achieve the desired level of positive marketing in preparation for, and during the event, a Host Committee will be established to raise funds in anticipation of the meeting. The Authority was asked to pledge \$1,000,000 towards these efforts. The Authority contributed \$500,000 during the current fiscal year to achieve the million dollar pledge. As of September 30, 2013 and 2012, \$1,000,000 and \$500,000, respectively, are included in prepaid expenses and other current assets and unrestricted net position in the statements of net position.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

Note 10 - Contingent Liabilities

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Authority but which will only be resolved when one or more future events occur or fail to occur. The Authority's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceeds that are pending against the Authority or unasserted claims that may result in such proceeding, the Authority's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Authority's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

HEALTH AND SAFETY FUND ACT

Act 264 of 1987

AN ACT to provide for the creation of the health and safety fund; to provide for the deposit of certain money in that fund; to provide for the distribution of the money in that fund and to limit its use; to prescribe the powers and duties of certain state officials; and to provide for an appropriation.

History: 1987, Act 264, Eff. Apr. 11, 1988.

The People of the State of Michigan enact:

141.471 Short title.

Sec. 1. This act shall be known and may be cited as the “health and safety fund act”.

History: 1987, Act 264, Eff. Apr. 11, 1988.

Compiler's note: For transfer of authority, powers, duties, functions, and responsibilities of the State Budget Director under the State Revenue Sharing Act of 1971 and the Health and Safety Fund Act from the State Budget Director, within the Department of Management and Budget, to the State Treasurer, within the Department of Treasury, see E.R.O. No. 1993-6, compiled at MCL 141.991 of the Michigan Compiled Laws.

141.472 Definitions.

Sec. 2. As used in this act:

- (a) “Distribution” means the amount of money a county receives under sections 4 and 5.
- (b) “Fund” means the health and safety fund created in section 3.
- (c) “Jail facility” means a jail, holding cell, holding center, or lockup as those terms are defined in section 62 of Act No. 232 of the Public Acts of 1953, being section 791.262 of the Michigan Compiled Laws.
- (d) “Juvenile facility” means a county facility or an institution operated as an agency of the county or the juvenile division of the probate court for the housing or detention of juveniles.
- (e) “Local health department” means that term as defined in section 1105 of the public health code, Act No. 368 of the Public Acts of 1978, being section 333.1105 of the Michigan Compiled Laws.

History: 1987, Act 264, Eff. Apr. 11, 1988.

141.473 Health and safety fund; creation; deposits.

Sec. 3. (1) The health and safety fund is created in the state treasury.

(2) The state treasurer shall credit the health and safety fund with deposits of proceeds from the excise tax on cigarettes under section 12(3)(a) of the tobacco products tax act, 1993 PA 327, MCL 205.432.

History: 1987, Act 264, Eff. Apr. 11, 1988;—Am. 1998, Act 529, Imd. Eff. Jan. 12, 1999.

141.474 Distribution from fund generally.

Sec. 4. The department of management and budget upon authorization by the state treasurer shall cause to be distributed from the health and safety fund the total amount available in the 1987-88 fiscal year to each county that had a patient care management system in the 1986-87 fiscal year. The distribution under this section shall be used only for the following:

- (i) To pay outstanding obligations of the county for services rendered before March 1, 1984 under the resident county hospitalization program, the community mental health shared management and state institutions programs, and the state ward charge-back program. Distributions under this subparagraph shall be made as necessary to satisfy the obligation of the county.
- (ii) For the repayment of principal on any loans made to the county under the emergency municipal loan act, Act No. 243 of the Public Acts of 1980, being sections 141.931 to 141.942 of the Michigan Compiled Laws. The distribution shall be made as necessary to satisfy the obligations of the county.

History: 1987, Act 264, Eff. Apr. 11, 1988.

141.475 Distribution from fund; amounts.

Sec. 5. The state treasurer shall cause to be distributed from the health and safety fund the following amounts in the 1988-89 fiscal year and in each following fiscal year:

- (a) One-fourth of the collections deposited in the fund under section 3(2) shall be used for indigent volume adjusters for hospitals within the medicaid program.
- (b) After the distribution in subdivision (a), \$16,000,000.00 of the amount deposited in the fund under section 3(2) shall be distributed as follows:
 - (i) Except as provided in subparagraph (iii), to a county that received a loan authorized under section 3(2) or (3) of the emergency municipal loan act, 1980 PA 243, MCL 141.933, to pay outstanding obligations of the

county; for the repayment of principal and interest on any loans made to the county under the emergency municipal loan act, 1980 PA 243, MCL 141.931 to 141.942; and for the payment of principal, premium, if any, and interest due during a fiscal year on bonds issued by that county under the fiscal stabilization act, 1981 PA 80, MCL 141.1001 to 141.1011. The distributions under this subparagraph shall be made as necessary and only to the extent necessary to satisfy the obligations of the county.

(ii) Except as provided in subparagraph (iii), to the extent that \$16,000,000.00 is no longer necessary to satisfy the obligations under subparagraph (i), a portion of the amount not required for satisfaction of obligations shall be distributed to each county that receives or has received a loan authorized under section 3(2) or (3) of the emergency municipal loan act, 1980 PA 243, MCL 141.933, in an amount determined by multiplying the amount available for distribution under this subparagraph by a fraction, the numerator of which is the population of the county receiving the distribution and the denominator of which is the total population of the state according to the most recent decennial census. The distribution under this subparagraph shall be made at the same times and shall be used, subject to section 6, for the same purposes described in subdivision (c). The remaining amount available for distribution under this subparagraph shall be used on a per capita basis to offset the cost to the state of the assumption of the financing of the state court system in the counties not receiving a distribution under this subparagraph.

(iii) In the 2008-2009 fiscal year through the 2014-2015 fiscal year, \$16,000,000.00 of the amount deposited in the fund under section 3(2) shall be transferred to and deposited in the convention facility development fund created under the state convention facility development act, 1985 PA 106, MCL 207.621 to 207.640, for distribution and use only in the manner and for the purposes stated in that act and no amount shall be distributed under subparagraph (i) or (ii). If the transfer or lease of a qualified convention facility to a metropolitan authority takes place as provided in the regional convention facility authority act, 2008 PA 554, MCL 141.1351 to 141.1379, then in the 2015-2016 fiscal year through the 2038-2039 fiscal year, \$15,000,000.00 of the amount deposited in the fund under section 3(2) shall be transferred to and deposited in the convention facility development fund created under the state convention facility development act, 1985 PA 106, MCL 207.621 to 207.640, for distribution and use only in the manner and for the purposes stated in that act and \$1,000,000.00 shall be distributed under subparagraphs (i) and (ii). If the transfer and lease of a qualified convention facility to an authority is disapproved and the authority is dissolved under section 19(1) of the regional convention facility authority act, 2008 PA 554, MCL 141.1369, then in the 2015-2016 fiscal year through the 2029-2030 fiscal year, \$15,000,000.00 of the amount deposited in the fund under section 3(2) shall be transferred to and deposited in the convention facility development fund created under the state convention facility development act, 1985 PA 106, MCL 207.621 to 207.640, for distribution and use only in the manner and for the purposes stated in that act and \$1,000,000.00 shall be distributed under subparagraphs (i) and (ii).

(c) The remaining amount deposited in the fund under section 3(2) not distributed under subdivisions (a) and (b) shall be distributed to each county that does not receive and has never received a loan authorized under section 3(2) or (3) of the emergency municipal loan act, 1980 PA 243, MCL 141.933, on a per capita basis according to the ratio that the population of the county receiving the distribution under this subdivision, according to the most recent decennial census, bears to the total population of all counties receiving distribution under this subdivision, according to the most recent decennial census. A distribution under this subdivision shall be made each February, May, August, and November from the collections that were deposited in the fund under section 3(2) in the immediately preceding calendar quarter. Subject to section 6, 12/17 of the distribution under this subdivision shall be distributed to each local health department as defined in section 1105 of the public health code, 1978 PA 368, MCL 333.1105, in the county receiving the distribution on a per capita basis, based on the most recent decennial census, to be used only for public health prevention programs and services. This distribution is in addition to and is not intended as a replacement for any other state or county payments to these health departments. This distribution satisfies the requirements of former section 7a(3) of 1947 PA 265. The remaining 5/17 of the distribution shall be used only for 1 or more of the following:

- (i) The operation, maintenance, or expansion of an existing county jail facility or juvenile facility.
- (ii) The acquisition, construction, and equipping of a new jail facility or juvenile facility.
- (iii) Court operations.

History: 1987, Act 264, Eff. Apr. 11, 1988;—Am. 1998, Act 529, Imd. Eff. Jan. 12, 1999;—Am. 2008, Act 586, Imd. Eff. Jan. 20, 2009;—Am. 2009, Act 60, Imd. Eff. July 2, 2009.

141.476 Distribution under MCL 141.475(b)(ii) and 141.475(c).

Sec. 6. A distribution to a county under section 5(b)(ii) and 5(c) shall be included for purposes of calculations required to be made by section 24e of the general property tax act, Act No. 206 of the Public Acts

of 1893, being section 211.24e of the Michigan Compiled Laws. If the governing body of a county approves the additional millage rate under section 24e of the general property tax act, Act No. 206 of the Public Acts of 1893, that is due to distributions under section 5(b)(ii) and 5(c), then the distributions under section 5(b)(ii) and 5(c) shall be used for the purposes specified in that section.

History: 1987, Act 264, Eff. Apr. 11, 1988.

141.477 Withholding or assignment of distribution.

Sec. 7. The state treasurer may withhold from a county and a county may assign a distribution to offset what that county owes for outstanding obligations for services rendered before March 1, 1984 under the resident county hospitalization program, the community mental health shared management and state institutions programs, or the state ward charge-back program or for the repayment of principal and interest, if any, on a loan made to the county under the emergency municipal loan act, Act No. 243 of the Public Acts of 1980, being sections 141.931 to 141.942 of the Michigan Compiled Laws, or on a bond issue under the fiscal stabilization act, Act No. 80 of the Public Acts of 1981, being sections 141.1001 to 141.1011 of the Michigan Compiled Laws.

History: 1987, Act 264, Eff. Apr. 11, 1988.

141.478 Appropriations.

Sec. 8. (1) There is hereby appropriated from the health and safety fund an amount necessary to make the distributions under section 4.

(2) Beginning in the 1988-89 fiscal year and for each fiscal year thereafter, the legislative shall appropriate an amount necessary to make the distributions under this act.

History: 1987, Act 264, Eff. Apr. 11, 1988.

141.479 Conditional effective date.

Sec. 9. This act shall not take effect unless all of the following bills of the 84th Legislature are enacted into law:

- (a) Senate Bill No. 624.
- (b) Senate Bill No. 625.
- (c) Senate Bill No. 571.
- (d) House Bill No. 4452.

History: 1987, Act 264, Eff. Apr. 11, 1988.