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## **How Olympia Financed an Arena in a Bankrupt City.**

The Ilitch family's dream for a new home for their Detroit Red Wings was 25 years in the making.

The ambition finally becomes reality on Sept. 12, when Little Caesars Arena opens with a series of Kid Rock concerts. The \$863 million project — a 20,000-seat state-of-the-art arena anchoring 12 acres of mixed-use buildings and a parking garage — is the centerpiece of The District Detroit, the family's wider \$2 billion, 50-city-block development plan.

How the arena came to fruition amid an especially turbulent era in the city's history is a study in the marriage of timing, politics, money, influence and home team-inspired civic pride. It survived the political turmoil of ex-Mayor Kwame Kilpatrick, the global recession and Detroit's municipal bankruptcy. The legislation needed to authorize public financing for its construction sailed through Lansing in 2012 with no effective opposition. Local approvals followed with few roadblocks. A brief legal challenge earlier this year didn't delay anything.

How did they pull it off amid the chaos?

The chaos was key.

The tumult in many ways helped smooth the way for the sweeping downtown development plans by the Ilitch family (and fellow Detroit billionaire Dan Gilbert).

"It's not surprising they were able to do what's necessary, to acquire property under the radar in a period of turbulence," said Robin Boyle, professor and chairman of Wayne State University's department of Urban Studies and Planning, who has closely watched the arena project over the years. "The focus of government in Detroit was to keep the lights on, to overcome the chaos we were going through. (Ilitch and Gilbert) were able to do it without a great deal of interference. These two companies benefited from the chaos that existed (at) the time."

With one mayor in prison followed by a succession of three more in office and then an emergency manager appointed by the governor, Detroit city government wasn't able to scrutinize wealthy businessmen's plans too closely. Politicians saw new investment as a tonic for a city under scrutiny after decades of problems and decline.

"It wasn't able to impose what in other cities would be a much more stringent regulatory process. They got their approvals without much conversation," Boyle said, adding that the city hadn't updated how it handled development projects in decades.

The sheer size of the arena project, and the promise of massive investment and new jobs, was hard to resist in a city of crumbling infrastructure, poverty, bad schools and joblessness.

### **Political prowess**

The Ilitches, who declined to make anyone available to talk for this story, also employed the right players to navigate the project through potential minefields, Boyle said.

Developer Eric Larson played an especially crucial role. Larson was hired as non-executive president of Olympia Development in 2011 to oversee the Ilitch real estate holdings. He assembled the political support in Lansing to get the public financial enabling legislation passed in December 2012.

Larson, who left Olympia in 2013, is CEO of Bloomfield Hills-based Larson Realty Group and also CEO of the Downtown Detroit Partnership. Larson said the talks to get the arena bill through Lansing began in earnest about six months before the vote.

Also hired to shepherd the legislation were Lansing-based lobbying firm Muchmore Harrington Smalley & Associates and Detroit law firm Miller, Canfield, Paddock and Stone PLC.

These allies helped make the case to politicians and the public for giving a billionaire public money to build a hockey arena — and also to anticipate and tamp down public outcry.

Such pushback had become common in the decade before as taxpayers questioned the need to help pay for sports stadiums that ultra-wealthy owners wanted.

But even the Ilitch family had previously encountered difficulties in stadium financing.

In 1996, Mike Ilitch got Wayne County voters to OK a 2 percent rental car tax and 1 percent hotel room tax to finance construction of Comerica Park for his Detroit Tigers, but banks balked at his portion of private financing.

He was forced to assemble a consortium of lenders, including financiers in Japan and Europe, to get the cash.

Ilitch's pizza business wasn't as healthy then as it is today, and bankers were concerned about financing his stadium.

Now, with Little Caesars churning out billions in sales, the family's financial standing has improved to the point where lenders are happy to finance the arena.

The total up-front public cost of the arena, so far, is \$324.1 million, while Olympia is financing \$538.8 million.

Political decision-makers have come to view public financing as a practical matter — a benefit in exchange for a subsidy. And developers of large projects know that's how business is done.

Quite simply, politicians are willing to hand the money over.

To make sure that happened, Olympia had a strategy to offset potential opposition: Avoid using any general fund dollars from the cash-strapped city.

The public subsidy for the arena's construction comes in the form of tax-exempt municipal bonds sold by the Detroit Downtown Development Authority, the city's economic development agency that has its own budget and taxing authority.

That's what the legislation authorized — changing the law that allows the DDA to use an expanded tax capture in downtown Detroit to pay off the \$250 million in construction bonds it eventually issued to help pay for the arena.

Those dollars are legally obligated for new economic development projects and cannot be diverted to pay for things like city services or schools.

Most of the taxes captured come from large downtown corporations such as General Motors and Dan Gilbert's Bedrock, which owns more than 90 downtown buildings.

### **Broader vision**

The other Ilitch strategy to gain support was to make the project much more than just an arena.

Instead, they unveiled a bold pitch that was no less than the creation of an entire neighborhood.

Shortly before the arena bill vote in December 2012, Olympia unveiled its plan for a \$650 million project that included not only the arena bowl but also surrounding development of residential, retail, office and green spaces. The Ilitches had begun quietly gathering the land in the early 1990s with the intent of using the plots for an arena. They eventually decided to make it a much broader effort.

The strategy of a wider project helped Olympia burnish the playbook employed by arena and stadium developers everywhere: Sell the project with the promise of new jobs and increased economic activity that fills tax coffers and pocketbooks. With the Olympia project, it would be on an even larger scale in a city starved for new development. And they promised jobs and contracts would go to city residents and locally based companies, pledges they say they have stuck to with some exceptions. Job training and internships are part of the construction effort, too.

In July 2014, the Ilitches made public their far wider District Detroit plan of 50 city blocks remade with new investment. They paid University of Michigan professor Mark Rosentraub for a report that estimated the mammoth arena project would create 8,300 construction jobs and 1,100 permanent jobs, along with \$1.8 billion in economic impact for the city, region and state.

Decades of academic study nationally, however, cast doubt on the economic sense of public subsidies for sports stadiums.

Such caution didn't affect the political will to give Olympia the money it sought. The promise of developing a blighted section of the city was irresistible.

"Over the years (the Ilitches) were able to assemble enough land to think about where significant infill developments could occur," Larson said. "Little Caesars Arena is filling a void that was going to take a very long time, tens of years, to infill with traditional development. There was this void and nothing was going to link (downtown and Midtown) as impactfully and quickly as the arena."

Stitching together two parts of the central business district with a sprawling mixed-use project helped sell political and civic leaders on the project, Larson said.

"The return on investment, I think, ultimately, is much more significant and will be realized much faster than if it were just a standalone sport facility," Larson said.

The family's business reputation also helped their quest for public subsidies. The Ilitches have been long praised for relocating their Little Caesars pizza chain headquarters downtown in 1989 while other businesses were leaving the city.

The reality is mixed: They put a lot of money into downtown investments, but also garnered criticism for their stewardship of some blighted properties. Plans for some new developments fell through, too, fueling boos from some.

But overall, they've been heralded for their accomplishments, which include renovation of the Fox Theatre and construction of Comerica Park and MotorCity Casino and Hotel. They're currently

building a \$150 million new headquarters for Little Caesars next to the Fox.

The Ilitches also were able to rely on the Red Wings' history for support. Mike Ilitch bought the club for \$8 million in 1982. It would go on to win four Stanley Cups during a playoff streak that lasted 25 years. Winning fuels goodwill.

The arena strategy has worked so well for the Ilitches that they successfully got city approval for another \$34.5 million worth of DDA bonds to pay for retrofitting the arena to accommodate the Detroit Pistons, who announced in November they'd relocate to Little Caesars Arena to be a tenant alongside the Red Wings.

The Ilitches haven't faced the sort of resistance Dan Gilbert is facing in Cleveland, where he's seeking \$70 million in local aid for a \$140-million upgrade to Quicken Loans Arena, where his Cleveland Cavaliers play home games.

Public and political opposition to Gilbert's plan reached the Ohio Supreme Court, which ruled last month that the issue must go to a public referendum.

"Community-based push back has been really muted here. It hasn't had the same resonance you'd find in other places," Boyle said.

## **Crain's Chicago Business**

By Bill Shea

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