

Memorandum



DATE February 12, 2016

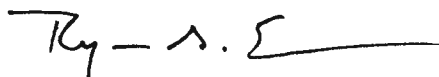
TO Members of the Economic Development Committee:
Rick Callahan (Chair), Casey Thomas, II, (Vice Chair), Adam Medrano, Lee M. Kleinman,
Carolyn King Arnold, Adam McGough

SUBJECT **Dallas Development Fund: Upcoming NMTC Projects**

On Tuesday, February 16, 2016, the Economic Development Committee will be briefed on the Dallas Development Fund: Upcoming NMTC Projects.

Briefing material is attached.

Should you have any questions, please contact me at (214) 670-3296.



Ryan S. Evans
First Assistant City Manager

- C: The Honorable Mayor and Members of the City Council
- | | |
|--|--|
| A.C. Gonzalez, City Manager | Mark McDaniel, Assistant City Manager |
| Warren M.S. Ernst, City Attorney | Joey Zapata, Assistant City Manager |
| Craig D. Kinton, City Auditor | Jeanne Chipperfield, Chief Financial Officer |
| Rosa A. Rios, City Secretary | Sana Syed, Public Information Officer |
| Daniel F. Solis, Administrative Judge | Karl Zavitkovsky, Director, Office of Economic Development |
| Eric D. Campbell, Assistant City Manager | J. Hammond Perot, Assistant Director, Office of Economic Development |
| Jill A. Jordan, P.E., Assistant City Manager | Elsa Cantu, Assistant to the City Manager – Mayor & Council |

Dallas Development Fund: Upcoming NMTC Projects

February 16, 2016
Economic Development Committee



Briefing Purpose

Summarize key elements of the New Markets Tax Credit (NMTC) program

Provide overview on two potential NMTC projects: C.H. Guenther and Resource Center

Request approval of C.H. Guenther and Resource Center Projects

New Markets Tax Credit (NMTC) Overview

NMTC attract private investment for business and real estate developments in **Low Income Neighborhoods**

NMTC is a **federal tax credit program** created in 2000

- U.S. Treasury administers
- Allocations made directly to local Community Development Entity (CDE)
- Tax credit is **39% of original investment over 7 years** (5% first three years, 6% last four)

NMTC program offers **additional financial tool** to achieve Dallas' development goals, particularly in southern Dallas

NMTC Overview (cont'd)

Funds can be used for debt or equity financing in combination with Public Private Partnership and TIF subsidies

Targets commercial, industrial, not-for-profit, operating businesses and mixed use development

Community development entity (CDE) must be formed to apply for program

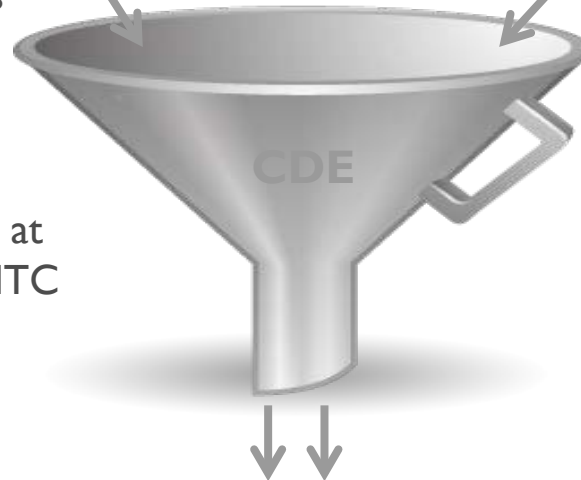
City created Dallas Development Fund (DDF) in 2009 as a non-profit CDE to apply, accept and allocate any NMTC allocation

Capital Funnel

Capital the project was already able to obtain (Commercial debt, philanthropy, sponsorship equity and other sources equals leverage sources)

(About a 4:1 ratio of Leverage Sources to NMTC Equity)

“Matching funds” subsidy (NMTC Equity)



KEY: All funding must flow at the same time through NMTC structure

Increased financing available for project (15-20% more than otherwise available)

DDF Previous Projects

DDF has funded seven completed projects with its previous allocations

	Project	Net NMTC Cash Benefit	Type	Total Project Cost	Date
First Allocation	NYLO	\$3.7 M	Hotel	\$19.1 M	7/11
	Kroger	\$2.8 M	Grocery store	\$12 M	7/11
	Lancaster Urban Village	\$2.0 M	Mixed-use housing	\$27.8 M	9/12
	CitySquare Opportunity Center	\$2.6 M	Community facilities	\$13.8 M	6/13
Second Allocation	Vogel Alcove	\$1.2 M	Community facilities	\$5.9 M	12/12
	Hatcher Station Clinic	\$3.4 M	Medical facility	\$19.8 M	7/14
	Serta/Dormae	\$1.9 M	Manufacturing facility	\$15.5 M	7/15

Current Allocation

\$45 million awarded in most recent award cycle

\$11.5 million allocated to The Family Place
(Council approved on January 13, 2016)

\$8 million to be considered today for C.H.
Guenther

\$6.5 million to be considered today for Resource
Center

\$19 million remaining for future projects

DDF intends to apply for additional allocation
in the next funding cycle

C.H. Guenther

Manufacturer of grain-based food products, gravies, sauces, and seasonings for retail, foodservice, and industrial customers

2,000 employees at 16 manufacturing facilities worldwide

Headquartered in San Antonio, TX with closest existing plant in Duncanville (to remain open)

NMTC Project

Retrofitting and equipping vacant 134,000 SF Dallas Morning News building that was built in 2008

Facility will manufacturer biscuits and dough for Pioneer Foods, a wholly owned subsidiary of CHG

\$36 million project includes:

- \$4MM retrofit of building for food production

- \$20MM of equipment for first production line

- \$12MM 71,000 SF new storage freezer

In future, potential to add a second production line

In March 2015, the City authorized a 75 percent business personal property tax abatement agreement for 8 years with Pioneer Frozen Foods, (Recruitment Subsidy).

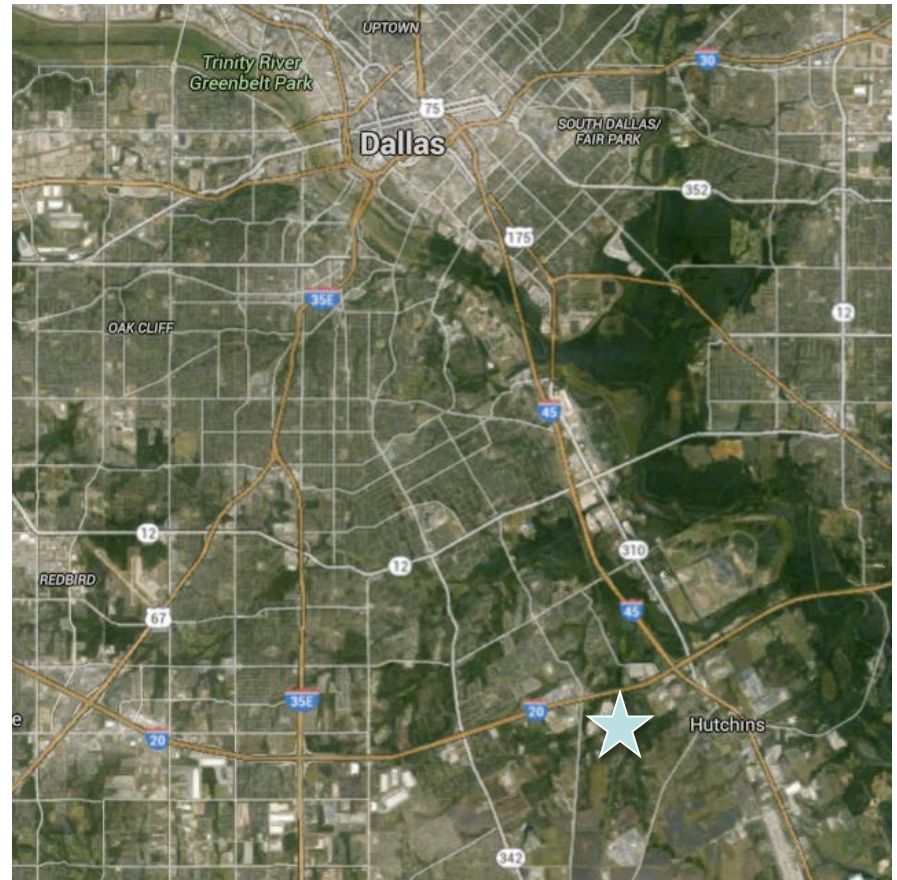


Project Location

4616 Langdon Road in
IIPOD

Good access to I-20, I-
45, I-35E

Tract (48113016703)
Highly Distressed
based on
unemployment 1.65x
the national average
and inclusion within
Enterprise Zone



Community Impacts

- Repurpose of vacant industrial building in Southern Dallas
- 93 new full-time jobs
 - 76 full-time jobs associated with first production line
 - 13 full-time jobs associated with freezer
 - If another production line is added in future, potential for 75 additional jobs
- High job quality
 - Starting salary \$18/hour + benefits
 - Average wage of \$26.90/hour + benefits
 - 100% of jobs receive benefits
- High job accessibility
 - Entry-level production line workers
 - Skilled production positions (quality tech, warehouse clerk, maintenance tech)
 - Expectation is for employee advancement
 - Have had conversations with Office of Economic Development for hiring



C.H. Guenther– Financing Summary

Base Project Budget: \$24million + \$12MM freezer

Multi-CDE Transaction with National New Markets Tax Credit Fund, Inc. (CRF), a CDE and CDFI with a national footprint

DDF NMTC allocation: \$8 million

CRF NMTC allocation: \$14.5 million

Leverage Source: Corporate credit facility at parent company level

Investor: J.P. Morgan Chase

NMTC funds primarily or solely focused on equipment

Expected closing: Q2 2016

Sources	Total
Net NMTC Equity	\$4,872,750
Sponsor Equity (as leverage loan)	\$16,014,000
Sponsor Equity (to QALICB)	\$15,915,087
Total Base Project Sources	\$36,801,837
Uses	Total
Dry Ingredient Storage, Blending & Delivery	\$2,000,000
Dough Mixing & Delivery	\$1,270,000
Dough Sheeting/Baking Process	\$4,525,000
Freezing	\$1,400,000
Packaging & Case Packing	\$2,303,000
Pallet Pattern Program, Startup	\$200,000
Ice Machine & Expandable NH3	\$3,075,000
Co2 Tank and Piping	\$350,000
Installations	\$2,900,000
Building Construction	\$4,040,000
Support Services	\$350,000
Contingency	\$1,354,650
Capitalized Interest	\$600,000
QA Equipment	\$30,000
IT Infrastructure, Licensing & Software	\$404,187
71,000 SF Freezer	\$12,000,000
GRAND TOTAL	\$36,801,837

DDF Investment Criteria

C.H. Guenther Project				
Location	<i>Southern Dallas?</i>		<i>Distressed Community?</i>	
	Yes		13% Unemployment and Enterprise Zone	
Proposed Uses	<i>Job Training?</i>	<i>TOD?</i>	<i>Mixed-use, community oriented?</i>	
	Yes, employee training programs and certifications	No	No	
Demonstrated need for NMTC	Without NMTC, freezer component would be delayed indefinitely Retrofitting of existing, vacant building into food manufacturing facility is capital intensive			
Likely community impact	<i>Job creation for LIC</i>	<i>Increased wages LIC</i>	<i>LIC owned business?</i>	<i>M/WBE owned business?</i>
	Yes, up to 93 new jobs	Yes, \$26/hour	No	No
	<i>Community services business?</i>	<i>Facilitates wealth creation for LICs?</i>	<i>Provides goods or services to LICs?</i>	<i>Environmentally sustainable?</i>
	No	Yes	No	TBD



Resource Center

Project Sponsor: Resource Center

Established 1983 to empower LGBT communities and support persons affected by HIV

Serves over 60,000 persons each year, including 2,700 low-income persons through HIV Services

Operates outreach programs in Southern Dallas, including United Black Elumment and Valor Latino Outreach

\$5.8 million annual operating budget



resourcecenter



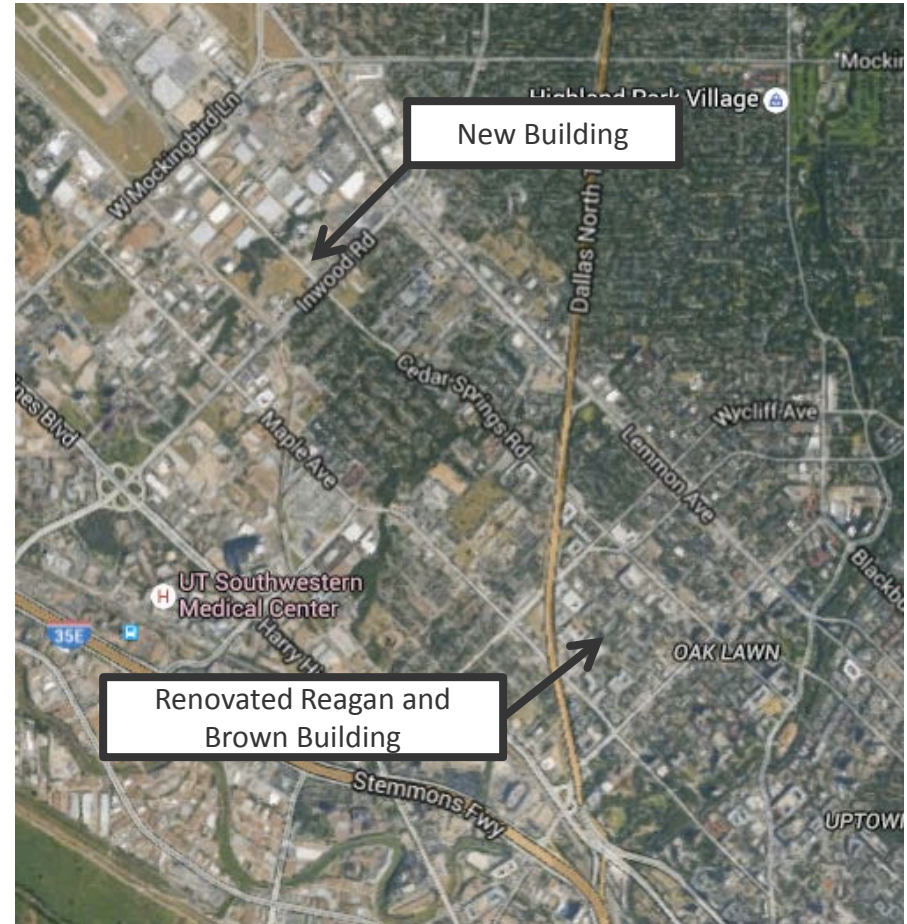
NMTC Project

- Complete construction of 20,000 SF new community center to consolidate youth and senior programs, administration, mental health, event and meeting spaces
- Rehabilitation of existing 12,000 SF Reagan and Brown building to consolidate and expand HIV Services and food pantry
- Expanded operations and launch of new programs, including behavioral health

Location

Two Project Locations

- New community center
 - Inwood and Cedar Springs Road
 - Highly Distressed, 34.2% Poverty; 54.7% Median Family Income
 - Less than half-mile from Inwood-Love Field Station
- Rehabilitation of Reagan and Brown building
 - 2701 Reagan St
 - Highly Distressed, 32.7% Poverty, 34.3% Median Family Income
- Strategically located facilities to be near largest concentrations of existing clients and be regionally transit accessible (by bus and light-rail)



Key Community Impacts

Need for Resource Center Services

- Dallas County has highest HIV rate per capita in Texas
- Federal study calls for a 38% increase in capacity to meet current need
- Southern Dallas communities' gay and bisexual men are disproportionately affected by HIV
- LGBT persons experience mental illness at a rate of 2-3x non-LGBT populations
- Mental health services for LGBT persons are underfunded in Texas (ranks 49th in the nation for mental health spending)

HIV Treatment Services

- Case management, medical case management, nutrition, insurance assistance, and dental health for low-income persons with HIV
- Consolidating services into one facility to serve more than 2,700 served annually and improve well-being of these clients, including 900+ from Southern Dallas

Outreach and Prevention Services

- Increase outreach and education to vulnerable populations in Southern Dallas
- Grow United Black Ellument and Valor Latino outreach and testing programs that annually serve over 9,000
- Strengthen partnerships with Abounding Prosperity, AIDS Services of Dallas, and Legacy Founders College

Health, Wellness, and Advocacy Services

- Seven counseling rooms to double behavioral health service capacity projected to serve 560 annually
- Dedicated youth center for a safe place for vulnerable LGBT Youth

Resource Center – Financing Summary

Base Project Budget:
approximately \$8.3 million

DDF NMTC allocation: \$6.5 million

Net Subsidy: \$1.25 million

Leverage Source: Capital Campaign proceeds

Investor: TBD Bank Investor

Expected closing: Q2 2016

Sources	Total
Net NMTC Equity (Net of all up-front + reserved NMTC costs/fees)	\$ 1,264,150
Capital Campaign Cash (including recent expenditures)	\$ 7,094,091
Total Base Project Sources	\$ 8,348,241
Uses	Total
Land (New Building)	\$ 2,010,281
Hard Costs - General Contractor (New Building)	\$ 3,264,881
Hard Costs - Owner (New Building)	\$ 215,000
Soft Costs (New Building)	\$ 1,807,422
Reagan Center Remodel	\$ 600,000
Construction Loan Interest	\$ 450,657
Total Uses (non NMTC costs)	\$ 8,348,241

DDF Investment Criteria

Resource Center				
Location	<i>Southern Dallas</i>		<i>Distressed Community</i>	
	Serves 900+ annually through HIV services and has extensive outreach		Yes, both sites have poverty >30% and AMI <60%	
Proposed Uses	<i>Job Training</i>	<i>TOD</i>	<i>Mixed-use, community oriented</i>	
	No	Access to bus and light rail	Yes, community resource for at-risk population; new facility has community gathering spaces	
Demonstrated need for NMTC	<p>\$8.7 million capital campaign goal, only \$7.1 million raised in cash and \$500,000 in pledges</p> <p>Without NMTC, limited operational funding to expand services</p>			
Likely community impact	<i>Job creation for LIC</i>	<i>Increased wages LIC</i>	<i>LIC owned business?</i>	<i>M/WBE owned business?</i>
	Yes, 51.75 FTEs retained; 2 FTEs created	Yes, average wages \$40,057	No	No
	<i>Community services business?</i>	<i>Facilitates wealth creation for LICs?</i>	<i>Provides goods or services to LICs?</i>	<i>Environmentally sustainable?</i>
	Yes	No	Yes	Dallas green standards

Next Steps

Request Economic Development Committee approval of CH Guenther and Resource Center Projects prior to full Council consideration on February 24th

DDF Board unanimously approved both projects at board meeting on January 27, 2016