

Memorandum



DATE May 16, 2008

TO Members of the Economic Development Committee: Ron Natinsky (Chair), Tennell Atkins (Vice Chair), Jerry R. Allen, Dwaine Caraway, Sheffie Kadane, Linda Koop, Mitchell Rasansky and Steve Salazar

SUBJECT **United Front of Dallas, Inc. dba Southern Skates Skating Rink**

On Monday, May 19, 2008, the Economic Development Committee will be briefed on the Southern Skates Skating Rink.

A copy of the briefing is attached. Staff will be available at the meeting to answer questions.

Should you have any questions, please contact me at (214) 670-3314.



A.C. Gonzalez
Assistant City Manager

C: Mary K. Suhm, City Manager
Ryan S. Evans, First Assistant City Manager
Deborah Watkins, City Secretary
Tom Perkins, City Attorney
Craig Kinton, City Auditor
Judge Jay Robinson, Judiciary
Ramon Miguez, P.E., Assistant City Manager
Jill Jordan, P.E., Assistant City Manager
David O. Brown, Interim Assistant City Manager
David Cook, Chief Financial Officer
Jeanne Chipperfield, Interim Budget Director, Office of Financial Services
Karl Zavitkovsky, Director, Office of Economic Development
Hammond Perot, Assistant Director, Office of Economic Development
Lee McKinney, Assistant Director, Office of Economic Development
Chandra Marshall-Henson, Assistant to the City Manager

United Front of Dallas Inc., d/b/a Southern Skates Skating Rink

Economic Development
Committee

May 19, 2008



PURPOSE

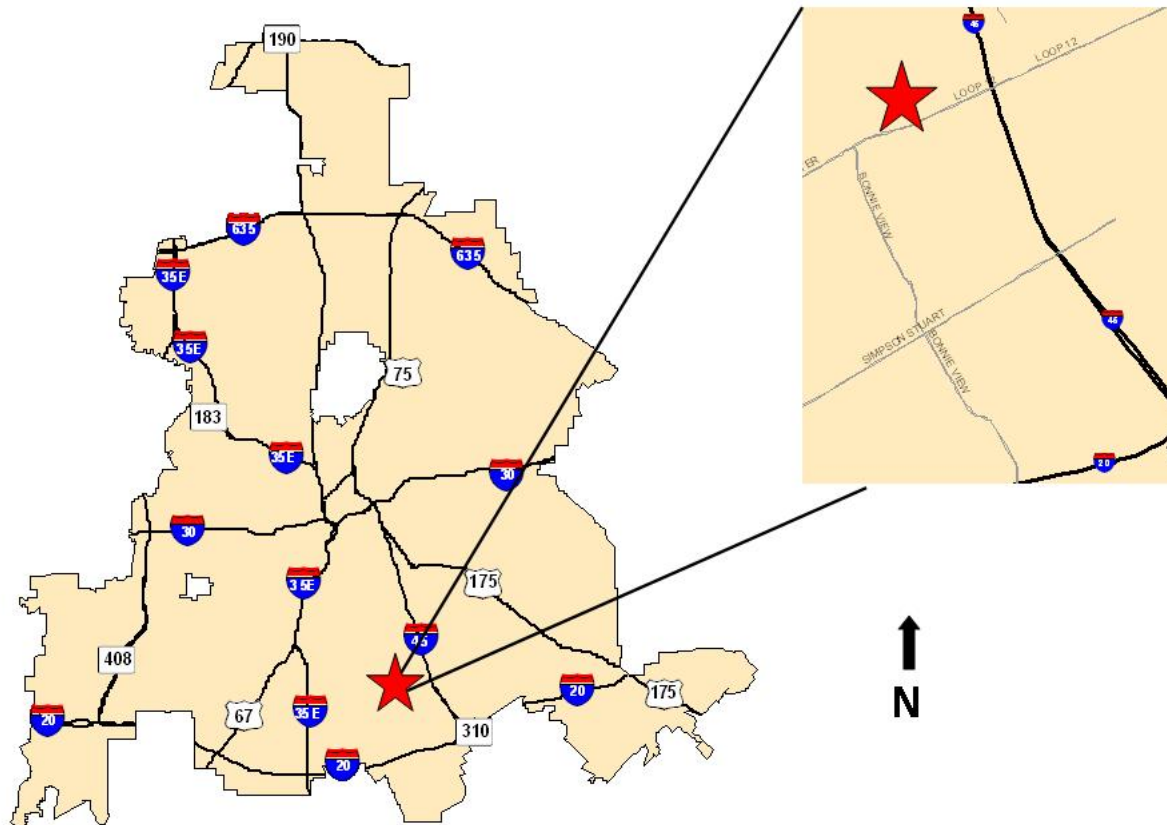
- ❑ Review Southern Skates HUD project
 - Introduction
 - Facility
 - Funding
 - History
- ❑ Current status
- ❑ Review options for building
- ❑ Impact of options
- ❑ Next Steps



INTRODUCTION

- ❑ June 1998, Dallas City Council authorized a contract with United Front of Dallas, Inc., a non-profit entity, to fund the construction of a 23,000 sq. ft. building on land they owned to operate a skating rink to be known as Southern Skates, located at 2939 E. Ledbetter Rd., Dallas
- ❑ The project was funded from the City's CDBG
- ❑ Executive Director of United Front of Dallas, Inc. and contact person for the project was Mr. Fahim Minkah

LOCATION MAP



FACILITY EXTERIOR



FACILITY EXTERIOR



FACILITY INTERIOR



FACILITY GROUNDS



ORIGINAL FUNDING

- ❑ December 1998, a loan agreement was executed for:
 - \$500,000 Community Development Block Grant Loan
 - \$500,000 Section 108 Loan

- ❑ Other City secured funding to the project included:
 - \$50,000 Enterprise Community Funds Grant (ECF)
 - \$60,000 CDBG Loan

FUNDING

- ❑ A conventional loan for the project was provided to the United Front of Dallas by Chase Bank in the amount of \$400,000
- ❑ Chase took a 1st lien position in the building, the City took 2nd, 3rd and 4th liens
- ❑ Total Project Cost \$1,510,000
- ❑ Pro rata funding:

HUD	\$1,000K	-	66.2252%
Chase	\$ 400K	-	26.4901%
HUD	\$ 60K	-	3.9735%
ECF/City	\$ 50K	-	3.3112%

HISTORY

- ❑ October 1999 - Building opened.
- ❑ November 2003 – Eleven months short of the required Survival Period, United Front of Dallas, Inc. defaulted on the City’s loan and the Chase loan
- ❑ March 2004 – City foreclosed due to arrearage and threatened 1st lien foreclosure by Chase Bank. Made an agreement with Chase Bank for monthly payment of the debt. Park and Recreation Department (PKR) assumed operation of the skating rink
- ❑ At foreclosure, annual debt service on the Chase loan was approximately \$50,000. Loan balance was approximately \$400,000



HISTORY

- ❑ May 2004 – City Council authorized debt service to Chase Bank not to exceed \$407,000 to maturity
- ❑ May 2005 – Real Estate department obtained an Appraisal on the building in the amount of \$980,000
- ❑ June 2005 – City Council approved advertising the property for sale with minimum bid of \$980,000.
- ❑ August 2005 – Sealed Bids with a minimum were due. None were submitted. City Council approved a reduction in the Bid price of 50% to \$490,000

HISTORY

- ❑ June 2006 – City Council declined to accept an offer from Mr. Paul Kim in the amount of \$520,123 to purchase the building, citing his plan to use the building to house a Bazaar as undesirable. City Council requested that City staff look for other uses for the building
- ❑ Staff learned that sale of the building constituted change of use and per HUD guidelines required a public hearing before the building could be sold.
- ❑ Public Hearing was held on December 13, 2006. There were no speakers present. City Council voted to hold the Public Hearing open until April 25, 2007, requesting that staff continue to look for viable uses for the building

HISTORY

- ❑ To expand the public hearing a Community meeting was held on February 28, 2007 at the neighborhood community center. The majority of those attending were in favor of keeping the skating rink open
- ❑ On April 13, 2007, a memo was sent to Council to inform them of a briefing on possible use for Southern Skates facility scheduled for May 16, 2007
- ❑ Public Hearing closed on April 25, 2007
- ❑ Briefing scheduled for May 16, 2007 to discuss options for building use was postponed to allow City staff to meet with HUD to clarify what the City could and could not do with the building in compliance with HUD regulations.

HISTORY

- ❑ On June 20, 2007 City staff wrote a letter to HUD, requesting a meeting to discuss Southern Skates with a goal of reaching a conclusion to guide the City
- ❑ Met with HUD on November 11, 2007 for additional discussion
- ❑ The City staff confirmed with HUD in an email dated December 4, 2007, the criteria for the options of selling the building and continuing to own the facility

CURRENT STATUS

- ❑ Building is owned by the City of Dallas through foreclosure
- ❑ Current Chase loan balance is \$192,468.40
- ❑ Monthly payments are \$4,166
- ❑ Cost of ongoing capital repairs and improvements are paid for by the City. Repairs and improvements are underway and ongoing
- ❑ City covers operating cost at the expense of other recreation programs

CURRENT STATUS

- ❑ The skating rink continues being operated by Parks and Recreation Department (PKR)
- ❑ The rink is open on a part-time basis, 20 hours per week
- ❑ Average number of patrons weekly 640
- ❑ Number of FTEs deployed for operation is 5.6
- ❑ Since PKR assumed operation, costs to the City have been \$508,617 through FY 06/07
 - FY 2004-05 \$109,032
 - FY 2005-06 \$206,452
 - FY 2006-07 \$193,133

CURRENT STATUS

- ❑ Other PKR operated venues in the area
 - Cummings Recreation Center
2976 Cummings
 - Tommie M. Allen Recreation Center
7071 Bonnie View Rd.
 - Fruitdale Recreation Center
4408 Vandervoort
 - Singing Hills Recreation Center
1909 Crouch

ALTERNATIVES FOR SOUTHERN SKATES FACILITY

- ❑ Option One
 - Continue to operate building as PKR venue
- ❑ Option Two
 - Lease building to outside operator
- ❑ Option Three
 - Sell the building

OPTION ONE

- ❑ The City could continue to own the building and operate the skating rink through PKR or find another HUD eligible use (City of Dallas operations are not eligible)

- ❑ The City would:
 - Need to make capital improvements
 - Need to retrofit for other uses
 - Need to subsidize operations indefinitely
 - Be subject to HUD monitoring indefinitely
 - Continue to be subjected to repayment of HUD funding for non compliance

PROJECTED 3 YEAR COST OF CITY OPERATION

Estimated cost

Capital improvement and upgrades	\$ 125K
Annual net operating cost year 1	\$ 391K
Annual net operating cost year 2	\$ 266K
Annual net operating cost year 3	\$ 242K
Three Year Total	\$ 1.024M

OPTION TWO

The City could let a concession contract to a for-profit or non-profit entity to operate as a skating rink or other acceptable HUD use, keeping the venue available to the community

- ❑ The operators would be allowed to make a “normal/reasonable” return
- ❑ “Normal/reasonable” return methodology would be determined by HUD and City
- ❑ Operator to be chosen through RFP process
- ❑ Might require that City make building improvements
- ❑ City might have to subsidize operations for a period
- ❑ Profit in excess of “normal/reasonable” considered program income - to be reprogrammed to the City’s HUD Program
- ❑ HUD monitoring continues indefinitely
- ❑ City continues to be subject to repayment of HUD funding for non compliance

OPTION THREE

The City can sell the building under the following conditions approved by HUD

- ❑ Public bid - aggressive, comprehensive marketing
- ❑ No advertised minimum bid (HUD believes “stated minimum” depresses bidding)
- ❑ Deed restrictions (prohibiting disfavored uses)
- ❑ Proceeds of sale are pro rated to HUD and City based on contribution to purchase/construction cost
 - If City’s proportionate share is insufficient to pay off Chase, all proceeds would be used to retire Chase debt with remainder, if any, to HUD to be reprogrammed to the COD CDBG Line of Credit
- ❑ Bids to be rejected if insufficient to pay off 1st lien
- ❑ HUD pro rata share reprogrammed to City CDBG Program
- ❑ City and HUD to consult on acceptable bid



IMPACT OF OPTIONS

□ Option One

PKR continues operating skating rink

- Estimated 3 years additional net operating cost \$899K
- Needed capital improvements and upgrades \$125K
- Total projected costs of operations through September 30, 2011 \$1,024,K
- Total expended cost since PKR began operating, plus additional projected cost \$1,532,617
- Chase Bank liability continues
- HUD monitoring continues indefinitely
- Continued City liability of up to \$1,060K for non compliance with HUD Grant/Loan criteria

IMPACT OF OPTIONS

□ Option Two

- Lease skating rink/other eligible use
- City may need to subsidize operations for a period of time
- City may need to make leasehold improvements
- City absorbs administration cost of lease management

IMPACT OF OPTIONS

- ❑ Option Two continued
 - Lessee/operator will be limited to normal/reasonable” profit as determined by HUD and the City
 - Lessee/operator profit in excess of “normal/reasonable” to be returned to City CDBG program
 - Chase Bank liability continues
 - HUD monitoring continues
 - Continued City liability of up to \$1,060K for non compliance with HUD Grant/Loan criteria

IMPACT OF OPTIONS

- ❑ Option Three
Sell the building
 - End operating and capital expense to the City:
\$508,617 since operation began
\$1,024K for the next three years
 - Pay off Chase Bank Loan
 - Net proceeds after loan pay off pro rata to general fund and City CDBG program
 - If sale is to for profit entity, puts building on City tax role
 - HUD monitoring ends
 - City liability to HUD (up to \$1,060K) ends

RECOMMENDATIONS/NEXT STEPS

- ❑ Council Recommendation
 - Option One
 - Option Two
 - Option Three
 - Other

- ❑ Staff proceed to facilitate Council recommendations