

Memorandum



CITY OF DALLAS

DATE May 15, 2009

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

SUBJECT **1600 Pacific Avenue LTV Tower Project – Downtown Connection TIF District.**

Attached is the briefing material on the 1600 Pacific Avenue LTV Tower Project – Downtown Connection TIF District to be presented to the Economic Development Committee on Monday, May 18, 2009.

Please contact me if you have any questions.

A handwritten signature in black ink, appearing to read 'A.C. Gonzalez', with a large circular flourish around the end of the signature.

A.C. Gonzalez
Assistant City Manager

c: The Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Deborah Watkins, City Secretary
Tom Perkins, City Attorney
Craig Kinton, City Auditor
Judge C. Victor Lander, Judiciary
Ryan S. Evans, First Assistant City Manager
Forest Turner, Interim Assistant City Manager
Ramon Miguez, P.E., Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Dave Cook, Chief Financial Officer
Jeanne Chipperfield, Director, Budget & Management Services
Karl Zavitkovsky, Director, Office of Economic Development
Hammond Perot, Assistant Director, Office of Economic Development
Verna Martin, Assistant Director, Office of Economic Development
Helena Stevens-Thompson, Assistant to the City Manager

1600 Pacific Avenue LTV Tower Project – Downtown Connection TIF District

Economic Development Committee
May 18, 2009



Office of Economic Development
WWW.DALLAS-ECODEV.ORG



Purpose

1. To give background information on the proposed 1600 Pacific LTV Tower project.
2. To detail the Developer's application for financial assistance from the Downtown Connection Tax Increment Financing District (DCTIF) in the context of DCTIF resources.
3. To receive input from the Economic Development Committee.

Background – 1600 Pacific Avenue

- On August 29, 2005, the Downtown Connection TIF District was created and the District's Project Plan was approved by the Dallas City Council.
- Since the inception of the TIF District, only one residential project, City Walk at 511 N. Akard, has included affordable housing units.
- On December 11, 2007, City Council approved a Conditional Development Agreement with 1600 Pacific LP for an amount not to exceed the lesser of (a) 25% of the added DCAD value one year after project completion plus \$4,000,000 for additional assistance for affordable housing development, or (b) \$15,908,777 for the redevelopment of 1600 Pacific and 1511 Elm Street Garage into 307 residential units (including 61 affordable units) and over 26,000 square feet of retail space.
- The agreement expired on December 31, 2008 without the conditions ever having been satisfied.

Background – 1600 Pacific Avenue

- The Office of Economic Development and the Housing Department have been working with Curtis Lockey and Craig MacKenzie, representing 1600 Pacific LTV L.P., on the development of an expanded project at 1600 Pacific Avenue.
- On December 11, 2008, the Dallas Housing Finance Corporation (DHFC) approved an inducement for \$102M in Housing and Economic Recovery Act (HERA) Private Activity Bonds, conditioned upon application to the Texas Bond Review Board (TBRB), for the 1600 Pacific project: 700-units, with 240-units affordable set aside (140-units at 50% AMFI and 140-units at 80% AMFI).
- On February 5, 2009, the Dallas Housing Finance Corporation imposed a 30-day deadline of March 9, 2009 for the applicant to submit their application to the TBRB.

Background – 1600 Pacific Avenue

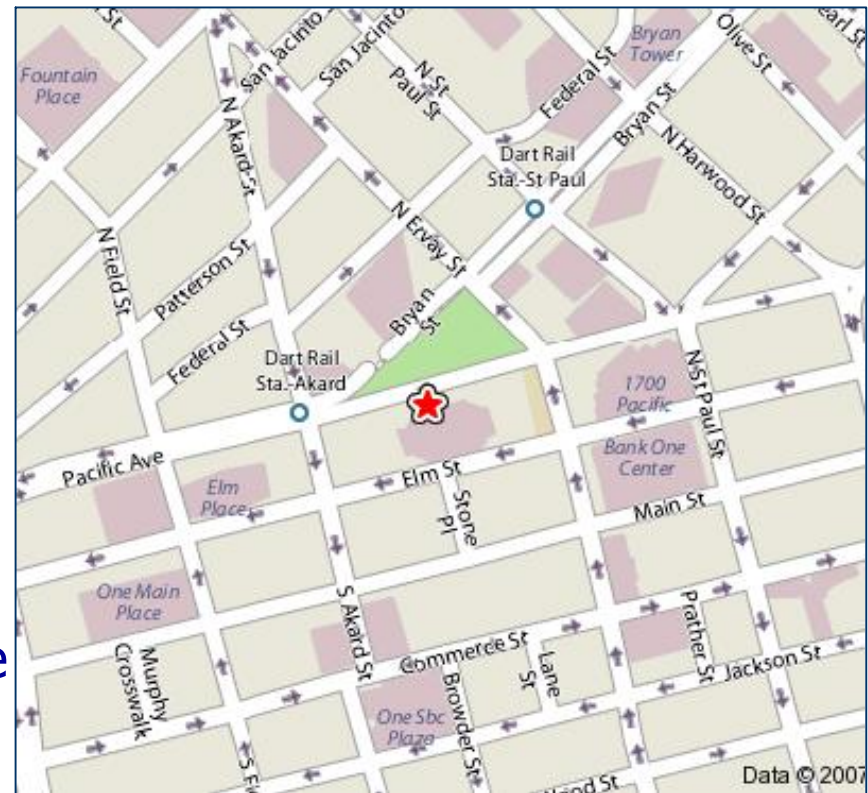
- On February 12, 2009, the Downtown Connection TIF Board meeting was held to review the 1600 Pacific Avenue LTV TIF Funding request. However, the Board deferred a decision regarding DCTIF financial support pending the submission of additional information related to structural engineering reports, floor plan, rent schedules, etc.
- On February 24, 2009, the TIF Application was amended by the Developer reducing the proposed number of units from 700 to 590 and proposing a financing structure that included Tax Increment Finance (TIF) Reimbursements and HUD Section 108 Funding.
- On March 5, 2009, the DHFC voted to rescind the inducement resolution adopted on December 11, 2009. No new DHFC consideration of this project until the DCTIF Board approves a subsidy amount and Council approves the DCTIF Board recommendation and a HUD 108 loan amount.

Background – 1600 Pacific Avenue

- The Downtown Connection TIF Board was scheduled to review the 1600 Pacific Avenue LTV TIF Funding request on March 30, 2009. However, this item was removed from the meeting agenda at the Developer's request. The meeting was cancelled due to a lack of a quorum and rescheduled to April 14, 2009.
- The 1600 Pacific project was removed from the April 14, 2009 TIF Board meeting agenda at the Developer's request.

Project Details – 1600 Pacific Avenue

- The 32-story building was constructed in 1964.
- 1600 Pacific Avenue is situated near Thanksgiving Square and contains over 500,000 square feet of obsolete office space.
- It is one of the initial 35 downtown vacant buildings required to register under the Vacant Building Registration and Inspection Ordinance.



Project Details – 1600 Pacific Avenue

- The proposed renovation of the 1600 Pacific LTV Tower includes the development of approximately 590 residential units (including 236 affordable units), 15,000 square feet of retail space, and 120 parking spaces.



1600 Pacific Developer's Proposal: Sources and Uses of Funds

SOURCES (Interim Financing)

\$75,000,000	Construction Loan (HERA Bonds)
\$ 18,750,000	Section 108 Loan
<u>\$ 18,750,000</u>	Equity
\$112,500,000	Total Project Cost

USES

\$59,155,000	Hard Costs
\$28,345,000	Soft Costs
<u>\$25,000,000</u>	Acquisition
\$112,500,000	Total Project Cost

SOURCES (Permanent Financing)

\$75,000,000	HERA Private Activity Bonds
\$ 18,750,000	Bridge Loan (Collateralized by future TIF reimbursements.)
<u>\$ 18,750,000</u>	Equity
\$112,500,000	Total Project Cost

USES

\$59,155,000	Hard Costs
\$28,345,000	Soft Costs
<u>\$25,000,000</u>	Acquisition
\$112,500,000	Total Project Cost

1600 Pacific Developer's Proposal: Public Support Sought

Equity

Low Income Housing Tax credits (LIHTC)	\$8,000,000	
Affordable Housing Grant (City of Dallas)	\$4,000,000	
Sustainable Dev. Grant (NTCOG)	\$3,750,000	\$15,750,000

1st Mortgage Debt

HERA Private Activity Bond Inducement (85% LTV, 1.20 DSC, 5.25%/30 yrs w/swap option)		\$75,000,000
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HUD Section 108 Loan

- To be repaid by Developer's Bridge Loan at stabilization

\$18,750,000

Collateral Sought to Support Bridge Loan

TIF Funding - Principal: \$71M plus TIF Funding - Interest Accrual: \$52M		\$123,000,000*
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* TIF funding request could be reduced by up to \$15,750,000 if publicly supported equity sources are received.

Developer's Request for TIF Assistance

- Developer's estimated project cost is \$112,500,000.
- The Developer is requesting a TIF subsidy for the redevelopment of 1600 Pacific Avenue in an amount not to exceed \$70,919,485 plus interest at TIF Bond rate. The estimated interest amount of this request is \$52,368,467. Total Developer's TIF request: \$123,287,952.
- In addition, the Developer is seeking \$75,000,000 in HERA Private Activity Bonds (30 Years @ 5.25%) and \$18,750,000 in HUD Section 108 Loan funding.

Downtown Connection TIF Project Funding Evaluation - 1600 Pacific Avenue

- Under the Downtown Connection TIF District Project Evaluation Criteria, this project qualifies for \$23,920,000 in base TIF funding incentives. (See Appendix E.)
- This project also qualifies for \$21,528,216 in additional assistance for affordable housing. This represents the financial gap between market rate (\$1.60/ s.f.) and affordable rate (\$1.03/ s.f.) capitalized at 7% for 236-units for families at 80% AMFI.
- The interest accrual until actual TIF reimbursement funding is estimated to be \$23,693,788 at a TIF bond rate of 5.85 %.
- Total incentive qualification = \$69,142,004

Why Do The Deal?

- Need to maintain Downtown momentum.
- The building is in the downtown core and further strengthens redevelopment efforts along the 1600 block of Elm Street.
- No new affordable residential units under construction except for City Walk Project at 511 N. Akard.
- The project will create a total of 236 affordable housing units (30% more than required for TIF base funding) along an existing DART rail line.
- Redevelops nearly 500,000 square feet of vacant office space from the City's Vacant Building Registration list.

Challenges

- **Project cost** based on developer's budget is **\$112,500,000** vs. conventionally calculated **Project Value** of **\$84,430,676** (Project Value/ 7% Cap Rate), a difference of **\$28,069,334**. Assuming an estimated Section 108 loan of \$18,750,000, there could be a front end equity gap. The Developer has indicated it can infuse additional equity into the project, if required.
- **Developer's Assumptions** indicated the ability to raise debt capital from a **\$75M HERA bond inducement**. **This represents 88.83% of estimated project value**. The Developer has represented projected debt service coverage is within current HUD guidelines and feel \$75M in HERA bonds can be underwritten.
- With a balance of **\$77,994,322 remaining for redevelopment projects** in the **Downtown Connection TIF**, funds are limited and are less than the amount requested by the Developer (\$123,287,952) if interest at the TIF bond rate is included. This would exceed the remaining amount available of funds available for redevelopment projects in the DCTIF Budget. (See Appendix C: Downtown Connection TIF District Budget.) Developer has suggested alternative options to reduce the TIF request which include: Prepayment of Ad Valorem Taxes, Waiver or Rebate of Development, Building Permit, Similar Fees, and Waiver of Water and Sewer Fees.
- **Limited amount of Section 108 funds available** for the **Northern portion of Dallas**. The \$18,750,000 request represents **50% of the allocated 108 Program funds**.

Next Steps

- Downtown Connection TIF District Board meeting scheduled for May 29, 2009 to consider 1600 Pacific TIF funding application.
- Economic Development Committee scheduled to consider DCTIF Board and staff recommendations on June 1, 2009.

Appendix A – Proforma Information - Project Requirements/Other Information

	<u>1600 Pacific Avenue</u>
Total Project Cost	\$112,500,000
Hard Costs	\$59,155,000
Soft Costs	\$28,345,000
Acquisition	\$25,000,000
2008 DCAD Value	\$3,250,000
Personal Property	\$0
# units	590
# of affordable units (10% required for TIF)	236
Retail SF	15,000
Total Net Leasable Square Feet	500,000

Appendix B – Proforma Information – 1600 Pacific Avenue Project NOI

Residential, Retail, Parking and Other Income	
Market Rental Income	\$5,933,700
Affordable Rental Income	\$2,804,400
Other Income	\$262,143
Retail Rental Income	\$326,483
Retail (CAM) Reimb. Income	\$97,945
Parking Income	\$128,955
Mini-storage Income	\$147,756
Less Est Vacancy/Collection	(\$679,097)
EFFECTIVE GROSS INCOME	\$9,022,284
Residential, Retail, Parking and Other Expenses	
Multifamily Operating Expenses:	
Prop Mgt Fee	\$225,557
Payroll	\$500,000
Administrative	\$100,000
Advertising/Marketing	\$150,000
Utilities	\$450,000
Repairs/Maintenance	\$300,000
Ad Valorem Taxes	\$918,580
Property Insurance	\$125,000
Replacement Reserves	\$225,000
Social Services	\$118,000
Total Operating Expenses	\$3,112,137
NET OPERATING INCOME (NOI)	\$5,910,147

CAP RATE	7.0%	7.5%	8.0%
Net Cash Flow	\$ 84,430,676	\$ 78,801,965	\$ 73,876,842

Return on Investment (No City \$)	5.25%
Return on Investment (w/ \$70.9.0M in TIF Funds)*	14.21%

Appendix C – Downtown Connection TIF Budget

Downtown Connection TIF District Budget

	Budget in 2006 Dollars	Budget in Actual, Anticipated Dollars
Total Project Costs	\$189,807,592	\$361,155,295
Debt Service (Interest Only)		(\$150,363,000)
Catalyst Projects:	(\$68,000,000)	(\$68,000,000)
Administration and Implementation	(\$3,940,386)	(\$6,765,600)
Uptown/Downtown Connection Improvements	(\$20,500,000)	(\$23,726,823)
Park and Plaza Design and Acquisition	(\$1,500,000)	(\$1,736,109)
Affordable Housing	(\$3,000,000)	(\$3,000,000)
Retail Initiative/ Streetscape Improvements	(\$2,500,000)	(\$1,985,000)
Downtown Area Plan		(\$515,000)
Remaining for Other Redevelopment Projects	\$90,367,206	\$105,063,763
Tower Petroleum		(\$12,000,000)
Stoneleigh		(\$2,500,000)
Santa Fe IV		(\$4,296,264)
Atmos Complex		(\$23,000,000)
Arts District Garage		(\$9,000,000)
Remaining for Redevelopment Projects After Existing Commitments		\$54,267,499
Uptown/Downtown Connection Improvements		\$23,726,823
Remaining After Refunding Existing Commitments funded by Other Sources		\$77,994,322

Appendix D – Remaining TIF Funds after 1600 Pacific TIF Funding Request

Remaining Downtown Connection TIF District funds and 1600 Pacific TIF funding request:

TIF Funding as requested by Developer

Remaining after refunding Existing Commitments funded by other Sources	\$77,994,322
<i>1600 Pacific Avenue LTV Project (590-units)</i>	<i>\$70,919,485</i>
	<i>+ 52,368,467</i>
	<i>\$123,287,952</i>
Remaining for Other Redevelopment Projects	(\$45,765,848)

Appendix E – 1600 Pacific Avenue Value Point Worksheet

Value/ Point Matrix
Downtown Connection TIF District
1600 Pacific LTV Project (590-units)

VALUES	15pts	10pts	8pts	4pts	0pts
Reaching Critical Mass - Residential	200 + Units	199 - 150 Units	149 - 100 Units	99 - 1 Unit(s)	0 Units
Reaching Critical Mass - Retail	10,000 + sq. feet	9,999 - 5,000 sq. feet	4,999 - 2,500 sq. feet	< 2,500 sq. feet	0 sq. feet
Proximity to Main Street Core or Catalyst Project / Park	Within Main Street Core or Directly Adjacent to Catalyst Project / Park	Adjacent to Main Street Core	Within one block of catalyst project / park	Inside Downtown Freeway Loop	Outside Downtown Freeway Loop
Public vs. Private Investment (Benefit Analysis)	Benefit = 2x > Cost	Benefit = 1.9x - 1.5x > Cost	Benefit = 1.4x - 1.1 > Cost	Benefit = 1x > Cost	Benefit = 0.9x > Cost
Historic Restoration	Yes				No
Reuse of Existing Structure	Yes				No
Affordable Housing > 10 % (actual units not including buyout)		Yes			No
Buildings with 3 stories or less (existing/historic buildings)		Yes			No
Years to Recover Public Investment		< 5 Years	6 - 8 Years	9 -10 Years	11 + Years
New Construction				Yes	No
Permanent Jobs Created > 20				Yes	No
Commitment to Minority / Women Bus.(all funding sources) > 25 %				Yes	No
Offering Public Parking > 50 Spaces				Yes	No
Land Use - Hotel and/or Office				Yes	No
Impact Project - Bonus Points = 15 Points	Yes				No
	60	20	0	4	0

High Ranking = 15 point maximum
 Medium Ranking = 10 point maximum
 Low Ranking = 4 point maximum
 Special Impact Project = Bonus 15 points

84 Tier Levels
 Tier 1 = 100 - 81 Points
 Tier 2 = 80 - 66 Points
 Tier 3 = 65 - 51 Points
 Tier 4 = 50 - 0 Points

Funding Levels
 25 % cap
 20 % cap
 15 % cap
 0 % cap



Appendix F – TIF Project Comparisons

DOWNTOWN PROJECT COMPARISON CHART

<u>Projects (City Center and Downtown Connection)</u>	<u>TIF Assistance</u>	<u>Tax Abatement (estimate)</u>	<u>Section 108 and other Intown Housing Funds</u>	<u>Private Investment</u>	<u># of Units</u>	<u># of Affordable Units/ Amount of Buy-Out</u>	<u>Private Investment/ Unit</u>	<u>Public Subsidy/Unit</u>	<u>Public to Private Investment</u>	
Santa Fe II (SoCo Lofts)	n/a	\$1,354,735	\$4,050,000	\$18,465,825	205	49	\$ 90,077	\$26,365	29.27%	
Majestic Lofts	n/a	\$768,181	\$4,051,760	\$10,300,000	129	51	\$ 79,845	\$37,364	46.80%	
Kirby Building	\$1,375,000	\$892,992	\$5,100,000	\$21,500,000	156	57	\$ 137,821	\$8,814	34.27%	
Davis Building	\$1,350,000	\$1,189,000	\$7,216,000	\$34,000,000	183	40	\$ 185,792	\$7,377	28.69%	
Wilson Building	\$3,800,000	n/a	n/a	\$18,000,000	133	0	\$ 135,338	\$28,571	21.11%	
Dallas Power and Light	\$6,503,000	\$997,000	n/a	\$24,000,000	154	0	\$ 155,844	\$42,227	31.25%	
Interurban Building	\$5,000,000	\$967,000	n/a	\$15,000,000	134	0	\$ 111,940	\$37,313	39.78%	
Republic Center	\$4,605,000	\$1,440,000	n/a	\$34,000,000	227	0	\$ 149,780	\$20,286	17.78%	
1200 Main (Metropolitan)	\$4,750,000	n/a	n/a	\$48,000,000	273	0	\$ 175,824	\$17,399	9.90%	
Mosaic	\$9,000,000	\$6,777,298	n/a	\$80,000,000	440		\$ 181,818	\$20,455		
(1) Stoneleigh Hotel	\$2,500,000			\$31,000,000	17	0	\$1,823,529	\$147,059	8.06%	
Mercantile Complex	\$58,000,000	\$4,000,000	n/a	\$130,000,000	375	0	\$ 346,667	\$154,667	47.69%	
(1) Tower Petroleum/1900 Pacific	\$12,000,000	\$2,887,877	n/a	\$102,000,000	255	(2)	\$455,000	\$40,000	\$47,059	14.60%
(1) Santa Fe IV	\$4,296,264		n/a	\$21,600,000	170	0	\$ 84,706	\$16,848	19.89%	
Atmos Complex	\$12,560,401	n/a	(5) \$9,000,000	\$45,491,603	225	23	\$ 202,185	\$55,824	47.39%	
(3) Arts District Garage Project	\$7,000,000	n/a	n/a	\$120,000,000	0	0	n/a	n/a	5.83%	
(4) 1600 Pacific Avenue - Developer's Request	(5) \$70,919,485	n/a	(5) \$18,750,000	\$112,500,000	590	236	\$ 190,678	\$151,982	79.71%	
Total				\$865,857,428	3666	456				

(1) Includes hotel rooms or hotel rooms and condominiums
(2) Transfer fee for 130 condominium units
(3) Includes 430,000 s.f. of office and 30,000 s.f. of retail
(4) Includes TIF subsidy for affordable housing development
(5) Requested TIF and HUD 108 Loan assistance.