

Memorandum



DATE: August 14, 2009

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

SUBJECT: **Southern Skates: Evaluating Future Options**

At the August 17, 2009 Economic Development Committee meeting, you will be briefed on the Southern Skates: Evaluating Future Options. A copy of the briefing is attached.

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



A.C. Gonzalez
Assistant City Manager

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

SOUTHERN SKATES: Evaluating Future Options

Economic Development Committee
August 17, 2009



City of Dallas

Office of Economic Development
WWW.DALLAS-EDD.ORG



PURPOSE

- ❑ To provide background information on the Southern Skates Project
- ❑ To update current status
- ❑ To discuss options and seek Council direction for 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 near the intersection of Loop 12 and Bonnie View Rd. at 2939 E. Ledbetter Rd., Dallas
- ❑ The project was funded from the City's CDBG program and a loan from Chase Bank
- ❑ Executive Director of United Front of Dallas, Inc. and contact person for the project was Mr. Fahim Minkah

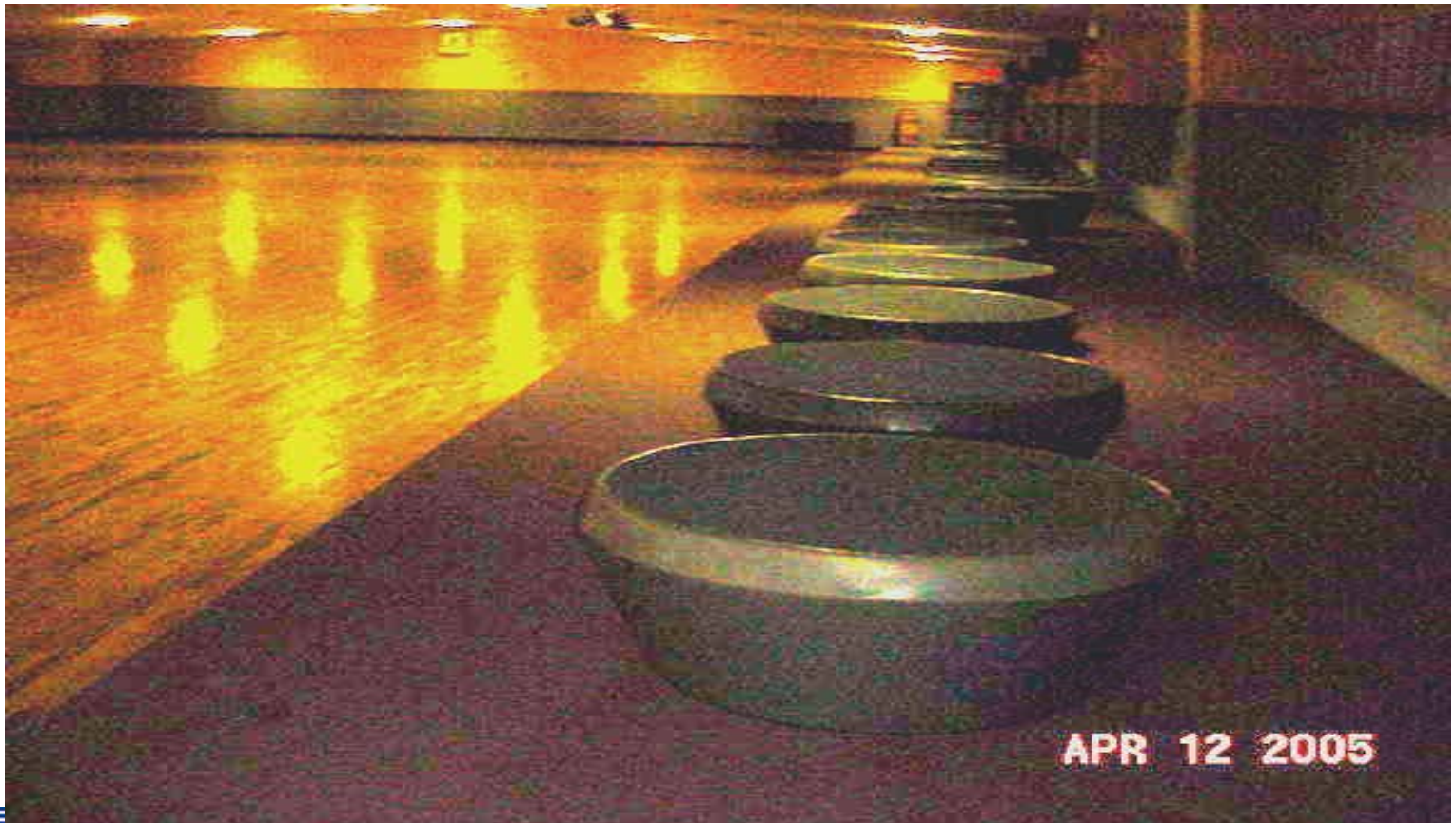
FACILITY EXTERIOR



FACILITY EXTERIOR



FACILITY INTERIOR



APR 12 2005

FACILITY GROUNDS



BACKGROUND

- ❑ 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

BACKGROUND

- ❑ 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%

BACKGROUND

- ❑ 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. City of Dallas Parks 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

BACKGROUND

- ❑ 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, a violation of HUD guidelines for selling CDBG financed real estate

BACKGROUND

- ❑ 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
- ❑ Subsequently staff learned that sale of the building constituted a change of use and per HUD guidelines required a public hearing before the building could be sold.
- ❑ A 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

BACKGROUND

- ❑ 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
- ❑ The public hearing closed on April 25, 2007
- ❑ A 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.

BACKGROUND

- ❑ 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 relative to options for the building
- ❑ City staff met with HUD on November 11, 2007 for additional discussion
- ❑ 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

BACKGROUND

- ❑ Staff learned that closing and taking ownership of the building prior to the original sub recipient (United Front of Dallas, Inc) having met the required five (5) year operating survival period is deemed to be non-compliance with HUD regulations for funding the project
- ❑ As a result of the non-compliance, the City has limited options that must be strictly adhered to or face the possibility of reimbursing the City's line of credit amount originally funded (\$1,060,000) for the project, using non CDBG dollars

CURRENT STATUS

- ❑ Building is owned by the City of Dallas through foreclosure
- ❑ Cost of ongoing capital repairs and improvements are paid for by the City (PKR). Repairs and improvements are ongoing
- ❑ City (PKR) covers operating cost at the expense of other recreation programs

CURRENT STATUS

- ❑ The skating rink is operated by City of Dallas Parks and Recreation Department (PKR)
- ❑ The rink is open on a part-time basis, 20-26 hours per week
- ❑ Average number of patrons weekly 640 (2008)
- ❑ Number of staff deployed for operation:
 - Supervisor IV (manages Cumming Recreation Center and Rink)
 - Coordinator
 - Specialist
 - Seasonal/Part Time (9)

CURRENT STATUS

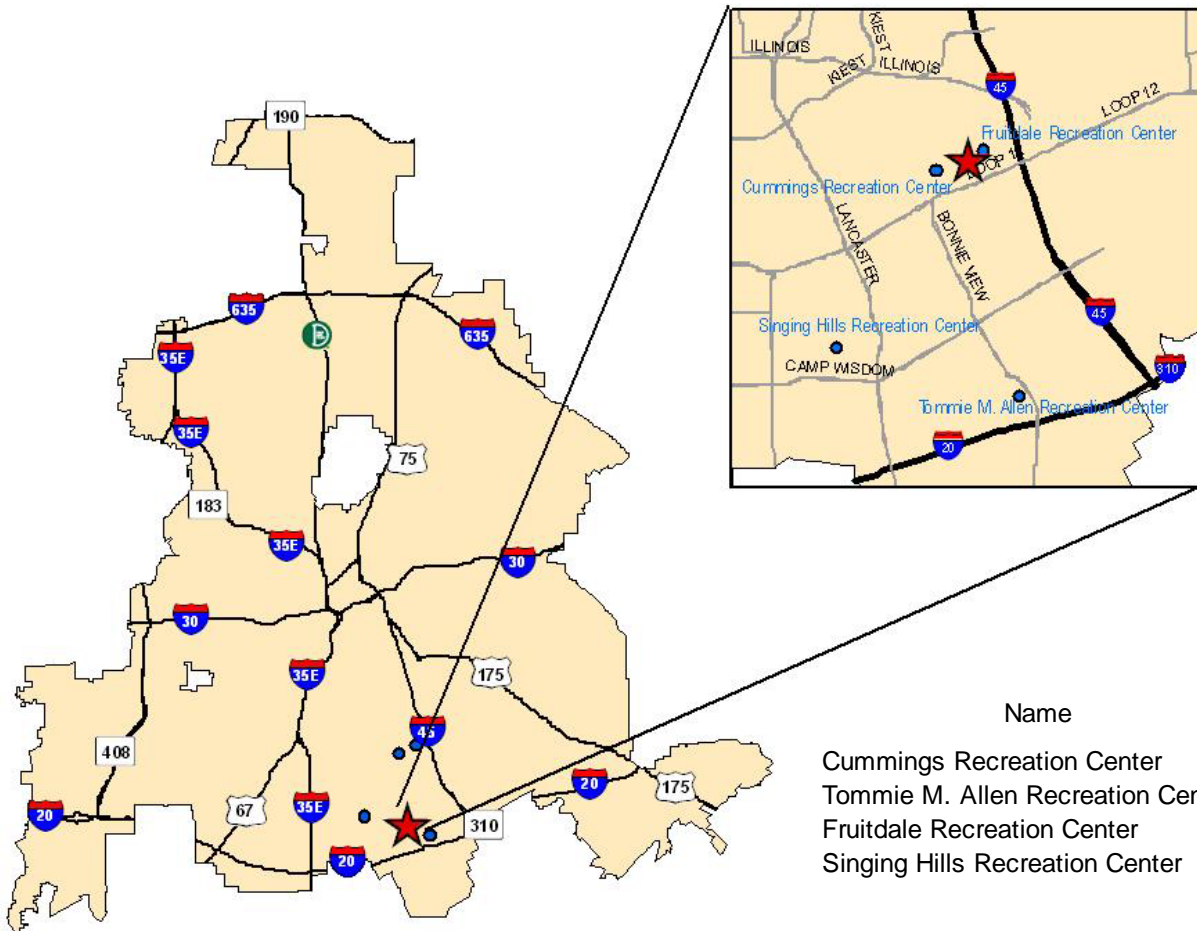
- ❑ Cost to City since PKR assumed operation, through **YTD FY 08/09** totals **\$792,330**
 - FY 2004-05 \$111,032
 - FY 2005-06 \$195,632
 - FY 2006-07 \$114,716
 - FY 2007-08 \$217,524
 - FY 2008-09* \$153,426(YTD)

*Includes loan payoff

CURRENT STATUS

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

CURRENT STATUS



City of Dallas

Name	Driving Distance from Southern Skates (mi)
Cummings Recreation Center	0.32
Tommie M. Allen Recreation Center	2.92
Fruitdale Recreation Center	1.23
Singing Hills Recreation Center	3.03

CURRENT STATUS

- ❑ On May 19, 2008, the Economic Development Committee was briefed on Southern Skates
- ❑ HUD requirements and options were presented and discussed
- ❑ ECO Committee recommended pursuing lease with option to purchase
- ❑ Real Estate advertised RFP December 2008 with no minimum bid
- ❑ Bids were due January 29, 2009, none were received

CURRENT STATUS

- ❑ October 28, 2008, Chase Bank made discounted pay off to the City. The loan balance of \$177.5K was discounted by \$35.5K to 142K.
- ❑ On October 31, 2008, Chase Bank loan was paid in full at the discounted amount of \$142K

CURRENT STATUS

- United Skates of America - Jim Dvorak
 - Spoke with Mr. Jim Dvorak on July 14, 2009
 - Has management agreements with other cities: 5 years with 5 year options
 - Will require operating subsidy for first 5 years totaling \$625K
 - Year 1 - \$175K
 - Year 2 - \$150K
 - Year 3 - \$125K
 - Year 4 - \$100K
 - Year 5 - \$ 75K

CURRENT STATUS

- ❑ **Ideal Family Church**
 - Pastor Ray Campbell
 - Spoke with Pastor Campbell 6/17/09. He is interested in the management operation of the skating facility.
 - Needs information before he can put a figure to it. Has no experience operating a facility such as this

- ❑ Apartment developer has made a very soft inquiry to purchase building to redevelop the Northeast corner of Bonnie Vies and Ledbetter

SOUTHERN SKATES OPTIONS

- ❑ Option One
 - Continue to operate building as a City venue

- ❑ Option Two
 - Lease building to outside operator

- ❑ Option Three
 - Sell the building

OPTION/IMPACT

❑ Option One

City continues operating skating rink

- Estimate 3 years net operating cost \$497.5K
- Cost a capital improvements and upgrades
- Total combined cost since City began operating, plus additional projected cost will total \$1, 289.8K
- HUD monitoring continues indefinitely
- Possible City liability of up to \$1,060K for non compliance with HUD Grant/Loan criteria

OPTION/IMPACT

- ❑ Option One (cont'd)
- ❑ Estimated 3 year budget (operation) \$1,097.6K
- ❑ Estimated revenue from operating \$ 600.5K
- ❑ Estimated net loss:
 - Year 1 \$190.9K
 - Year 2 \$165.7K
 - Year 3 \$140.9K

Three Year Total loss \$497.5K

CURRENT STATUS

❑ Option Two

The City could continue to own the building and let a concession contract to a for-profit entity to operate as a skating rink or other eligible 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
- Profit in excess of “normal/reasonable” considered program income and must be reprogrammed to the City’s HUD Program

OPTION/IMPACT

❑ Option Two (cont'd)

- Operator to be chosen through RFP process
- City might have subsidized operations for a period
- HUD monitoring continues indefinitely
- City responsible that lessee complies with HUD regulations
- City continues to be subject to repayment of HUD funds for non compliance, up to \$1, 060K
- City absorbs cost of Lease management (Real Estate Division staff)

OPTION/IMPACT

❑ Option Three

Sell the building

- Public bid – aggressive, comprehensive marketing
- No advertised minimum bid (HUD believes “stated minimum” depresses bidding)
- Deed restrictions (prohibiting disfavored uses)
- Proceeds of sales are pro rated to HUD and City’s General Fund based on contribution to purchase and construction costs
- HUD pro rata share reprogrammed to City CDBG line of credit
- City and HUD to consult on acceptable bid

OPTION/IMPACT

- ❑ Option Three (cont'd)
 - End operating and capital expense to the City: 972,330 since operating began; estimated \$497,500 over next three years
 - 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

NEXT STEPS

- ❑ Seek guidance on future direction from Economic Development Committee