

# Memorandum



DATE June 15, 2018

TO Members of the Economic Development Committee:  
Tennell Atkins (Chair), Rickey D. Callahan (Vice Chair), Lee M. Kleinman, Scott Griggs, Casey Thomas, II, B. Adam McGough, Mark Clayton, Kevin Felder, Omar Narvaez

SUBJECT **Authorize (1) the assignment of a loan agreement between the City of Dallas and the Oak Cliff Foundation to 231 W. Jefferson Blvd., LLC; and (2) the City Manager to execute an assignment and restatement of the loan documents between the City of Dallas and 231 W. Jefferson Blvd., LLC – Financing: No cost consideration to the City**

## Summary

At your June 27, 2018 Council meeting, you will consider authorizing the assignment of the loan agreement between the City of Dallas and the Oak Cliff Foundation related to the Texas Theatre from the Oak Cliff Foundation to 231 W. Jefferson Blvd., LLC and consider authorizing the City manager to execute amended and restated loan documents between the City of Dallas and 231 W. Jefferson Blvd., LLC.

## Background Information

In July 2001, the City and Oak Cliff Foundation (OCF) entered into an agreement for two loans to facilitate the acquisition and renovation of the Texas Theatre. The loans were funded through the U.S. Department of Housing and Urban Development's (HUD) Section 108 program to remove spot blight, restore an historically significant entertainment venue to an area that serves low to moderate income residents, and to stimulate continued redevelopment of Jefferson Boulevard.

One loan, the "Forgivable Loan" in the amount of \$1,200,000, was for renovation of the Texas Theatre, conditioned upon completing property improvements and compliance with HUD's requirement of continuous operation for five years after issuance of a Certificate of Occupancy. HUD requirements for forgiveness of the \$1,200,000 were fulfilled in October 2015.

The second loan, the "Term Loan" in the amount of \$400,000, had an initial term of 30 years and an interest rate of 4%. The Term Loan was for purchase of the Texas Theatre and some adjacent property. Payment terms were interest-only for the initial ten years, with principal and interest payments commencing in August 2011. The Term Loan has been modified by the City of Dallas seven times to date.

Dallas Summer Musicals (DSM) was initially identified to operate the theater after renovations were completed. Debt service payments were to be funded from revenues derived from a five-year lease contract with DSM.

OCF was unable to meet all the terms of the DSM contract, particularly related to restoration completion. As a result, the DSM contract was terminated. OCF struggled to make interest payments and meet HUD operational requirements. In December 2010, a Fifth Amendment to the Term Loan was signed and management and operation of the Texas Theatre was changed to Aviation Cinemas, Inc. (Aviation). The terms of the \$400,000 Term Loan were modified to bring the loan current and to facilitate full restoration of the theater by Aviation. Under the Fifth Amendment, the total outstanding principal balance of the loan, including accrued interest, was \$507,488. Aviation entered into a five-year lease agreement with OCF which provided for lease payments of \$4,000/month for six months, beginning March 1, 2011 and increasing to \$7,000/month for 48 months, beginning September 1, 2011. A final Certificate of Occupancy was issued in late 2010.

The theater struggled to meet revenue projections and began to suffer negative cash flow. In an effort to assure continued operation of the theater, on June 12, 2013, City Council authorized a Sixth Amendment to the Term Loan as follows: (1) all debt service payments were deferred for 36 months through April 1, 2016; (2) interest was reduced to 0%; and (3) monthly payments of \$1,500 were scheduled to commence May 1, 2016 until the loan was fully repaid, and (4) the City agreed to forgive 25% of the loan balance annually from May 1, 2017 through May 1, 2020. The Sixth Amendment was approved by Resolution No. 13-1027. At the time of this amendment, the balance due on the Term Loan was \$467,887.

In 2016, OCF approached the City with a proposal to further expand and upgrade the theater by completing renovation of the balcony which would allow for a second screening and event theater. Renovation costs were estimated at \$1,500,000. On May 11, 2016, by Resolution No. 16-0763, City Council authorized the Seventh Amendment to the Term Loan to allow OCF to obtain bank financing for the improvements. The Seventh Amendment included: (1) conversion of the existing Term Loan principal balance plus accrued interest (\$467,887.07) to a fully forgivable loan; (2) subordination of the City's lien position to bank financing for the balcony renovation; and (3) a partial lien release in the amount of \$1,200,000 reflecting forgiveness of the Forgivable Loan in the same amount.

As consideration for the new terms: (1) Aviation agreed to extend its current lease for ten years; (2) OCF agreed to ensure continuous operation of the theater through expiration of the extended Aviation lease; (3) OCF agreed to deed restrict the property to provide theatrical services to the community for ten years beginning on the date of execution of the Seventh Amendment; and (4) OCF had to provide the City with a third-party bank loan commitment for a minimum of 75% of the estimated cost of renovation. The Term Loan lien subordination and the Forgivable Loan lien release would be executed concurrently with the closing of the bank loan.

OCF recently notified the City that it intends to sell the Texas Theater to 231 W. Jefferson Blvd., LLC, an affiliate of Aviation. The buyer has agreed to assume all of the terms of the Term Loan as amended. The parties have requested that the City approve the assignment.

**Issue**

Oak Cliff Foundation wishes to sell Texas Theatre to 231 W. Jefferson Blvd., LLC and assign the loan to the buyer.

**Alternatives**

If the City does not approve the assignment of the loan, the sale may not occur.

**Coordination**

The Office of Economic Development has coordinated with the City Attorney's Office to draft the assignment and related documents.

**Fiscal Impact**

No financial impact to the City.

**Recommendation**

Staff recommends approval of the assignment to 231 W. Jefferson Blvd., LLC.

Should you have any questions, please contact me at (214) 671-5257.



**Raquel Favela**

**Chief of Economic Development and Neighborhood Services**

c: The Honorable Mayor and the Members of City Council  
T.C. Broadnax, City Manager  
Larry Casto, City Attorney  
Craig D. Kinton, City Auditor  
Biliera Johnson, City Secretary  
Daniel F. Solis, Administrative Judge  
Kimberly Bizzor Tolbert, Chief of Staff to the City Manager  
Majed A. Al-Ghafry, Assistant City Manager

Jon Fortune, Assistant City Manager  
Jo M. (Jody) Puckett, P.E., Assistant City Manager (Interim)  
Joey Zapata, Assistant City Manager  
M. Elizabeth Reich, Chief Financial Officer  
Nadia Chandler Hardy, Chief of Community Services  
Theresa O'Donnell, Chief of Resilience  
Directors and Assistant Directors