

Memorandum



CITY OF DALLAS

DATE November 30, 2017

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 **New Markets Tax Credit Transaction: Interfaith Family Services**

On December 13, 2017, the City Council will be asked to consider authorizing a New Markets Tax Credit transaction for Interfaith Family Services. A briefing is attached summarizing the request.

Summary

The City Council is asked to authorize a \$6 million New Markets Tax Credit (NMTC) transaction with the Dallas Development Fund (DDF), Interfaith Family Services (Interfaith) and JPMorgan Chase (NA) to fund improvements at 5600 Ross Avenue. The DDF board has unanimously approved the transaction.

Background Information

Interfaith Family Services ("Interfaith") is a nonprofit dedicated to empowering families in crisis to break the cycle of poverty. Interfaith eliminates barriers that keep families in crisis from achieving stability, equips parents for higher earning potential through career counseling and training, and educates children through tutoring and therapy designed to overcome achievement gaps. These programs currently include transitional housing (25 units), low-interest loans, off-site childcare, financial coaching, group counseling, and other services designed to promote self-sufficiency.

The NMTC Project will extend Interfaith's services to families who do not live in Interfaith housing through the construction of the Family Empowerment Center, a new facility in two adjacent buildings that will bring together programs for Interfaith residents and non-residents, as well as greatly expand childcare and youth opportunities.

Located on Interfaith's existing campus, the Adult Education Center, a 20,000 SF 3-story building, will house career development and financial empowerment services, as well as counseling and life skills training. The adjacent 16,080 SF 3-story Childcare and Youth Services Center will include 10 classrooms for early childhood through 6th grade programs, dedicated space for teens, a computer lab, and a library.

The Adult Education Center will extend Interfaith's capacity from 100 to 300 working poor families, while the Childcare and Youth Services Center is expected to serve 600 youth. This includes extended-hours (nights and weekends) childcare for 150 children up to age 5, as well as year-round after school and summer programs for 450 youth up to age 18. Youth services include play therapy, counseling, academic support, college preparation, and, for teens, financial literacy, college tours, and job training.

Alternative

If the tax credit transaction is not authorized, Interfaith will need to renew its capital campaign and put the planned expansion on hold until the remaining gap funds can be raised.

Fiscal Impact

There is no cost consideration to the City.

Coordination

Pacesetter CDE is also providing NMTC allocation for this transaction.

Staff Recommendation

Staff recommends approval of the NMTC transaction.

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 Members of the City Council
T.C. Broadnax, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Billie Rae Johnson, City Secretary (Interim)
Daniel F. Solis, Administrative Judge
Kimberly Bizer Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager

Jon Fortune, Assistant City Manager
Jo M. (Jody) Puckett, 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

New Markets Tax Credit Transaction: Interfaith Family Services

**Economic Development
and Housing Committee
December 4, 2017**

**Courtney Pogue, Director
Office of Economic
Development
City of Dallas**



City of Dallas

Presentation Overview

- Purpose
- Background/History
- Next Steps

Purpose

- Review the New Markets Tax Credit (NMTC) Program and Dallas Development Fund (DDF)
- Review Interfaith Family Services (Interfaith) as a NMTC project
- Seek committee approval of Interfaith as a NMTC project

Background/History

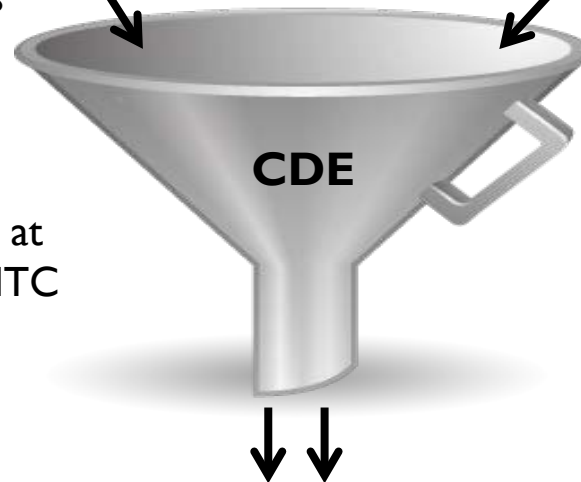
- New Market Tax Credits (NMTC) attract private investment for business and real estate developments in Low Income Neighborhoods
- NMTC is a federal tax credit program created in 2000 and renewed through 2019 round (pending outcome of tax reform legislation)
 - U.S. Treasury administers
 - Allocations 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 support Dallas' development goals, particularly in southern Dallas
- Tax credit is similar to a matching grant and provides approximately 20% subsidy to qualified projects

Example of 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)

Illustration from SB Friedman & Co.

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DDF Background/History

- The City created the Dallas Development Fund (DDF) in 2009 to apply for a NMTC allocation from the U.S. Department of Treasury
- DDF was awarded \$55M in 2009, \$30M in 2012, and \$45M in 2014.
- Awards must be used by DDF for projects in low income communities or to benefit low-income persons, as defined by the NMTC program
- To date, DDF and the City Council have authorized \$124 million in NMTC allocation to twelve projects throughout the City. (See map in Appendix A)

Background/History: Previous Projects

	Project	DDF Allocation Amount	Project Type	Total Project Cost	Council District (Current)	Date
First Allocation	NYLO	\$18.5 M	Hotel	\$19.1 M	2	7/11
	Kroger	\$12.5 M	Grocery store	\$12 M	2	7/11
	Lancaster Urban Village	\$11.5 M	Mixed-use housing	\$27.8 M	4	9/12
	CitySquare Opportunity Center	\$12.5 M	Community facilities	\$13.8 M	7	6/13
Second Allocation	Vogel Alcove	\$6 M	Community facilities	\$5.9 M	2	12/12
	Hatcher Station Clinic	\$15 M	Medical facility	\$19.8 M	7	7/14
	Serta/Dormae	\$9 M	Manufacturing facility	\$15.5 M	8	7/15
Third Allocation	Family Place	\$11.5 M	Community facilities	\$16.1 M	2	7/16
	Resource Center	\$6.5 M	Community facilities	\$8.2 M	2	7/16
	Pioneer Foods*	\$8 M	Manufacturing facility	\$36.8 M	8	7/16
	Girl Scouts STEM Center*	\$6 M	Community facility	\$10.3 M	3	12/16
	Cristo Rey High School*	\$7 M	Education facility	\$10.1 M	5	12/16

*Multiple CDE Transaction

Background: Interfaith Family Services

- Interfaith Family Services (Interfaith) is a non-profit organization in East Dallas (5600 Ross Avenue), formed in 1985 to “empower families in crisis to break the cycle of poverty”
- Existing program Home & Hope program provides transitional housing (25 units) and self-sufficiency programs including career coaching, counseling, financial coach and children’s programming for up to 100 homeless families annually
- Results for graduates of the program:
 - 90% of families exit with employment; 81% of families exit with permanent housing
 - Average savings at exit: \$1,631; Average wage at exit: \$13.51/hr
 - 100% of FY15 graduates remained employed and housed 1 year later
 - 70% of children exit with an average of 2 grade levels of improvement in reading



Project Summary: Interfaith Family Services

- Two buildings of new construction to create a Family Empowerment Center to provide dedicated space for 1) career coaching, financial coaching, and counseling for adults and 2) 10 classrooms for early childhood and K-6 youth programs as well as dedicated space for teens, computer lab and library
 - Serve 300 adults annually
 - Serve 600 children annually (150 age 0-5, and 450 school-age)
 - Childcare provided nights and weekends and school-age care after school and during summer
- Total project size approximately 36,000 sq feet
- Total project cost: \$11 M
- Expansion will allow Interfaith to reach families before they are homeless (after a financial shock) and serve 200 more families annually (non-residential basis)



Career Services Center



Toddler Classroom

Project Summary: Financing Summary

Base Project Budget: \$10.15MM (excludes NMTC costs)

DDF NMTC allocation: \$6MM

Pacesetter NMTC allocation: \$3.5MM

Investor: JPMorgan Chase Bank, N.A.

Leverage: Capital Campaign Proceeds, Bridge Loans, & Prior Expenditures

Expected closing: Q1 2018

Financial Impact on Organization

- New bridge loan to be paid off by capital campaign loan
- 20% increase in expenses with opening of new facility offset by new fundraising opportunities

Sources	
DDF "B Note" (NMTC Equity less CDE/IF Level fees)	\$1,772,400
Pacesetter "B Note" (NMTC Equity less CDE/IF Level fees)	\$928,900
Land Acquisition	\$1,468,713
Prior Costs	\$632,085
Interfaith Cash	\$3,126,225
Rees Jones Bridge Loan	\$2,100,000
Chase Loan	\$1,000,000
Total	\$11,028,323
Uses	
Land Acquisition	\$1,468,713
Hard Cost (2 buildings)	\$7,500,000
Hope Building Renovation	\$75,000
FF&E (outside of NMTC budget)	\$0
Soft Cost (Arch & Eng & Project Mgmt)	\$625,000
Contingency (5% hard cost)	\$375,000
Capital Campaign Expenses	\$112,810
<i>NMTC costs:</i>	
NMTC Closing + Title Costs	\$400,000
DDF Reserves	\$243,000
Pacesetter At Close Fee (1%)	\$35,000
Pacesetter Audit/Tax (8 years) Reserved	\$100,000
Construction Period Interest (est.)	\$93,800
Total	\$11,028,323

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DDF Investment Criteria

Interfaith Family Services Project					
Location	<i>Highly-Distressed Community</i>		<i>Transit Accessible</i>		<i>Southern Dallas</i>
	Targeted Population: 100% families in 2016 at or below poverty level		Nearby bus routes include bus to/from Deep Ellum Station		N/A
Anticipated community impacts	<i>Job Retention & Creation</i>	<i>Quality/ Accessible Jobs</i>	<i>M/WBE-Owned Business</i>	<i>Community Goods/Services</i>	<i>Environmental Sustainability</i>
	Retain 17 FT, 6 PT Create 12 FT, 7 PT	Yes \$22.43 avg wage; FT provide benefits Avg wage of program graduates = \$13.51/hr	Executive Director Minority Woman	Empowering 300 families in crises through housing, childcare, career services, and financial coaching	New construction complies w/Dallas Green Building
Impact on Southern Dallas	<i>Clients Served</i>			<i>Employees</i>	
	Many new clients expected from Southern Dallas			TBD	
Local community need for project	Interfaith is currently unable to offer expanded services and is limited to programming for its residential population; lack of/limited childcare, after school programs, and financial counseling are all barriers to economic independence				
Demonstrated need for NMTC	Interfaith has raised \$6.8MM in cash/pledges to date; NMTC needed to fill financing gap				

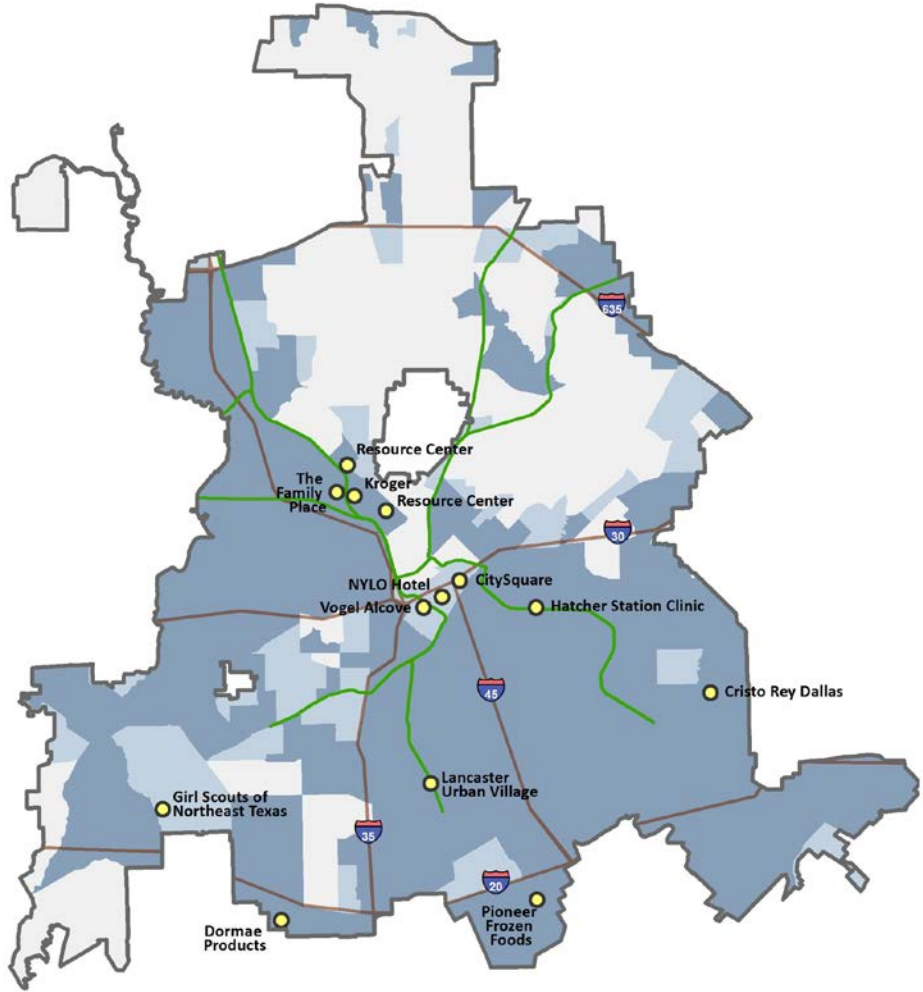
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Next Steps

- Request Economic Development Committee approval of Interfaith Family Services expansion project for full Council consideration on December 13, 2017
 - DDF Board unanimously approved this transaction at their board meeting on November 7, 2017

Appendix A

DDF Project Sites



- DDF Projects
- NMTC Eligible
- NMTC Eligible, Distressed
- DART Light Rail
- Interstate Highway
- City of Dallas



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