

Memorandum



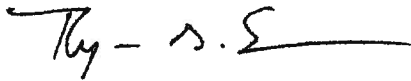
DATE September 18, 2015

TO Members of the Economic Development Committee:
Rickey D. Callahan (Chair), Casey Thomas, II (Vice Chair), Lee M. Kleinman,
Adam Medrano, Carolyn King Arnold, B. Adam McGough

SUBJECT **Dallas Development Fund/New Market Tax Credit Program Update**

On Monday, September 21, 2015, the Economic Development Committee will be briefed on the Dallas Development Fund/New Market Tax Credit Program Update. Briefing material is attached.

Should you have any questions, please contact me at (214) 670-3296.



Ryan S. Evans
First Assistant City Manager

C: The Honorable Mayor and Members of the City Council
A.C. Gonzalez, City Manager
Warren M.S. Ernst, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Eric D. Campbell, Assistant City Manager

Jill A. Jordan, P.E., Assistant City Manager
Mark McDaniel, Assistant City Manager
Joey Zapata, Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager – Mayor & Council

Dallas Development Fund/New Markets Tax Credit Program Update

September 21, 2015
Economic Development Committee



Briefing Purpose

Summarize key elements of the New Markets Tax Credit (NMTC) program

Provide update on Federal tax credit allocation process and Dallas Development Fund's (DDF) recent allocation award

Review highlights of previous and future projects, including Small Business Loan Fund

Request renewal of terms for Class I DDF board members

New Markets Tax Credit (NMTC) Overview

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 2014 round (reauthorization currently pending)

- 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 achieve Dallas' development goals, particularly in southern Dallas (see Appendix A)

NMTC Overview (cont'd)

Funds can be used for debt or equity financing in combination with Public Private Partnership and TIF subsidies

Targets commercial, industrial, not-for-profit, operating businesses and mixed use development

Community development entity (CDE) must be formed to apply for program

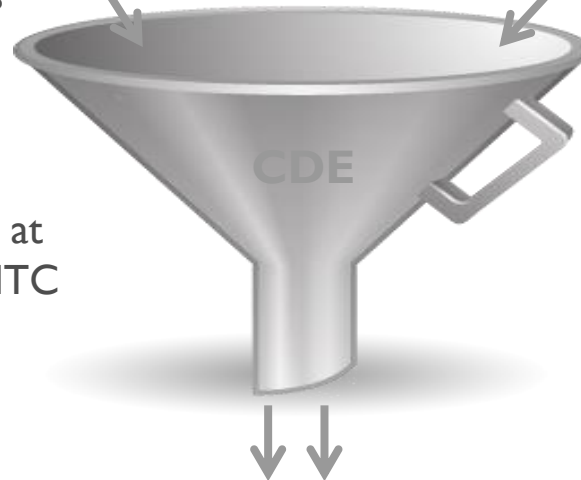
City created Dallas Development Fund (DDF) in 2009 as a non-profit CDE to apply, accept and allocate any NMTC allocation

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)

Dallas Development Fund

Board consists of seven members (see Appendix B)
Four appointed by the City Manager (Class I) and confirmed by Council

Current class I members now need to be reappointed

Current bylaws require all board members to be at least 18 years old and residents of the City of Dallas.
Additionally, at least 20% (minimum of 2) members must be Low Income Community (LIC) accountable per federal regulations

DDF currently has 5 LIC accountable members

DDF gets a portion of the proceeds from a project; funds are used to support DDF and NMTC-like activities (small loan fund)

2014 NMTC Award

Dallas' current award is \$45 M (previous allocations were \$55M in 2009 and \$30 M in 2012)

In 2014, a total of \$3.5 billion in tax credit allocation was awarded nationwide

263 CDEs applied for an allocation; 76 were awarded funds (28%)

Total request of funds was \$19.9 billion

- 17% of total request was awarded

DDF is only CDE in Texas to receive allocation

Only 5 municipal CDEs received allocation (a decrease from 13 in 2013 round)

DDF tied for largest allocation amount among municipally-controlled CDEs

DDF Previous Projects

DDF has funded seven projects with its previous allocations

	Project	Net NMTC Cash Benefit	Type	Total Project Cost	Date
First Allocation	NYLO	\$3.7 M	Hotel	\$19.1 M	7/11
	Kroger	\$2.8 M	Grocery store	\$12 M	7/11
	Lancaster Urban Village	\$2.0 M	Mixed-use housing	\$27.8 M	9/12
	CitySquare Opportunity Center	\$2.6 M	Community facilities	\$13.8 M	6/13
Second Allocation	Vogel Alcove	\$1.2 M	Community facilities	\$5.9 M	12/12
	Hatcher Station Clinic	\$3.4 M	Medical facility	\$19.8 M	7/14
	Serta/Dormae	\$1.9 M	Manufacturing facility	\$15.5 M	7/15

DDF Southern Dallas Seed Fund: Overview

With a portion of DDF's proceeds, DDF's board expressed an interest in creating and supporting a Small Business Loan Fund

In April 2015, DDF Board selected BCL of Texas to manage small business fund
\$300,000 total fund size; expected full deployment within 6 months

Borrower profile:

- For-profit businesses anticipated to create new jobs within 12 months
- Lack access to traditional market-rate debt
- Located in Southern Dallas
- Located in NMTC-eligible area

Anticipated uses of funds:

- Working capital (purchases of raw materials, inventory, rent, utilities, and other expenses identified for business operations)
- Machinery and equipment (excluding rolling stock)
- Real estate improvements (including leasehold improvements and soft costs)
- Acquisition of real estate for owner-occupied business in conjunction with substantial building rehab and/or equipment investment

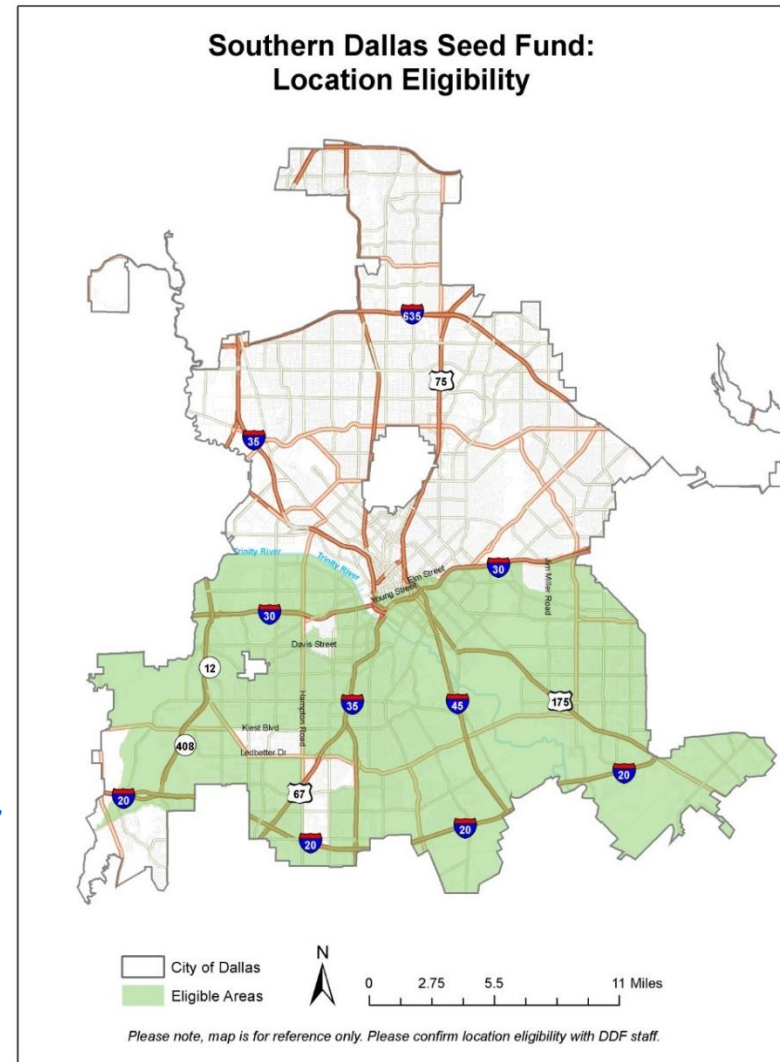
DDF Southern Dallas Seed Fund: Loan Parameters

Key Loan Parameters

- \$25,000 to \$100,000 loans
- Fixed interest rate between 5% and 9%
- Maturity 2 to 7 years
- Personal and business guarantees
- 1:1 collateral or greater
- 10% minimum equity requirement
- Borrower must be in qualified Census Tract in Southern Sector

Loan Approval

- For each proposed loan, BCL will submit all underwriting information and a credit memo to DDF staff
- For loans meeting preapproved parameters, approval automatically delegated to BCL
- For loans not meeting preapproved parameters, approval is required by 2 designated representatives from DDF's Board or Staff



DDF Southern Dallas Seed Fund: BCL Services

BCL Services

Origination and Underwriting

Technical Assistance for prospective borrowers

Loan Closing

Portfolio Management and Servicing

BCL Fees

Paid by DDF:

- Technical Assistance Fee: up to \$25,000 for TA services to borrowers
- Monthly Servicing Fee: \$500 / month commencing when fund 100% deployed

Paid by Borrower:

- Loan Closing Fee: 1% loan principal paid at loan closing
- Loan Expense Recovery: \$300 per loan paid at loan closing
- Application Fee: \$150 per loan paid at submission of loan application

Recommended Next Steps

Economic Development Committee
recommendation for Council action on
October 14 of approval of renewal of terms
for the current Class I members (see
Appendix B)

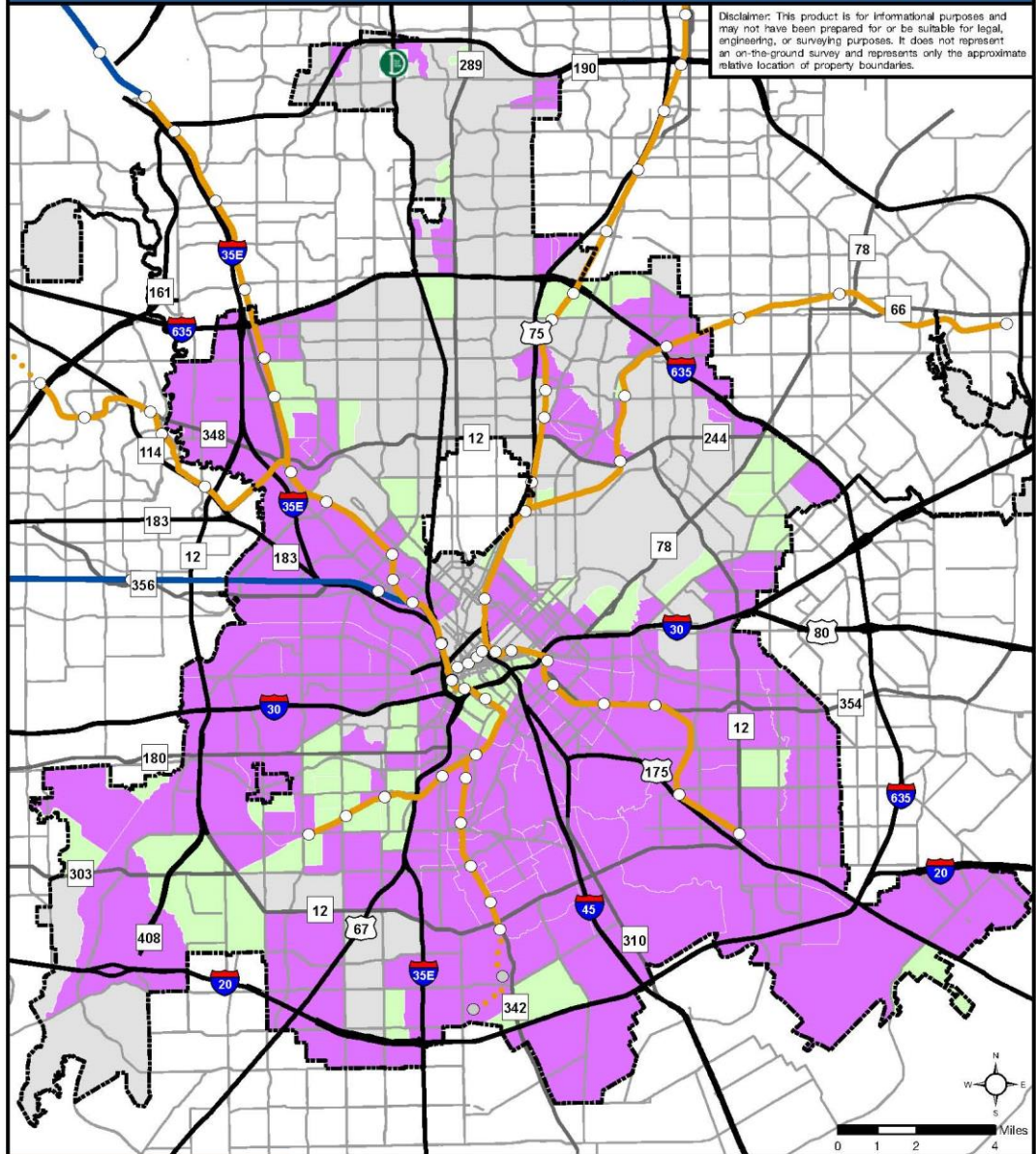


NMTC Eligible Areas

APPENDIX A

New Markets Tax Credits: Eligible Census Tracts

Disclaimer: This product is for informational purposes and may not have been prepared for or be suitable for legal, engineering, or surveying purposes. It does not represent an on-the-ground survey and represents only the approximate relative location of property boundaries.



DALLAS ECONOMIC DEVELOPMENT
 Research & Information Division
 214.670.1685
 dallas-ecodev.org

Legend

NMTC Eligibility	Freeway or Tollway	Rail Station
Eligible, Distressed	Highway	Future Station
Eligible	Arterial	DART Light Rail
	City of Dallas	Commuter Rail
		Future DART Light Rail

Source: Eligibility - CDFI Fund, 2012; All Other Data - City of Dallas, 2013



DDF Board Members

APPENDIX B

DDF Board Members

Class I Members

Gilbert Gerst, President

Brentt Shropshire, Vice President

Zenetta Drew, Treasurer

Edward Okpa

Class II Members

Bill Hall

Dora Ramirez

Benjamin Salazar