

Memorandum



CITY OF DALLAS

DATE January 29, 2009

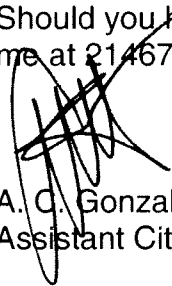
TO Members of the Economic Development & Housing Committee: Ron Natinsky, : (Chair),
Tennell Atkins, (Vice-Chair), Dwaine Caraway, Jerry Allen, Sheffie Kadane, Linda Koop,
Ann Margolin, Steve Salazar

SUBJECT

South Dallas/Fair Park Trust Fund

On Monday, February 1, 2010 the Economic Development Committee will be briefed on the South Dallas/ Fair Park Trust Fund. The briefing is attached.

Should you have any questions concerning this information, please contact me at 214670-3314.


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
Judge C. Victor Lander, Administrative Judge Municipal Court
Ryan S. Evans, First Assistant City Manager
A.C. Gonzalez, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Forest Turner, Assistant City Manager
Dave Cook, Chief Financial Officer
Jeanne Chipperfield, Director, Office of Financial Services
Karl Zavitkovsky Director, Office of Economic Development
Hammond Perot, Assistant Director, Office of Economic Development
Helena Stevens-Thompson, Assistant to the City Manager

SOUTH DALLAS / FAIR PARK TRUST FUND (Trust Fund)

**Economic Development Committee
February 1, 2010**



Purpose

- Review the South Dallas / Fair park Trust Fund Formation to include:
 - Mission
 - Governance
 - Administration and Management
 - Funding and Current cash Position
 - Loan/Grant History
- Discuss Previous Compliance Issues and Corrective Actions
- Update the Committee regarding:
 - Programs
 - Loan and Grant Application Process
 - Underwriting / Approval Guidelines
- Summary
- Q and A

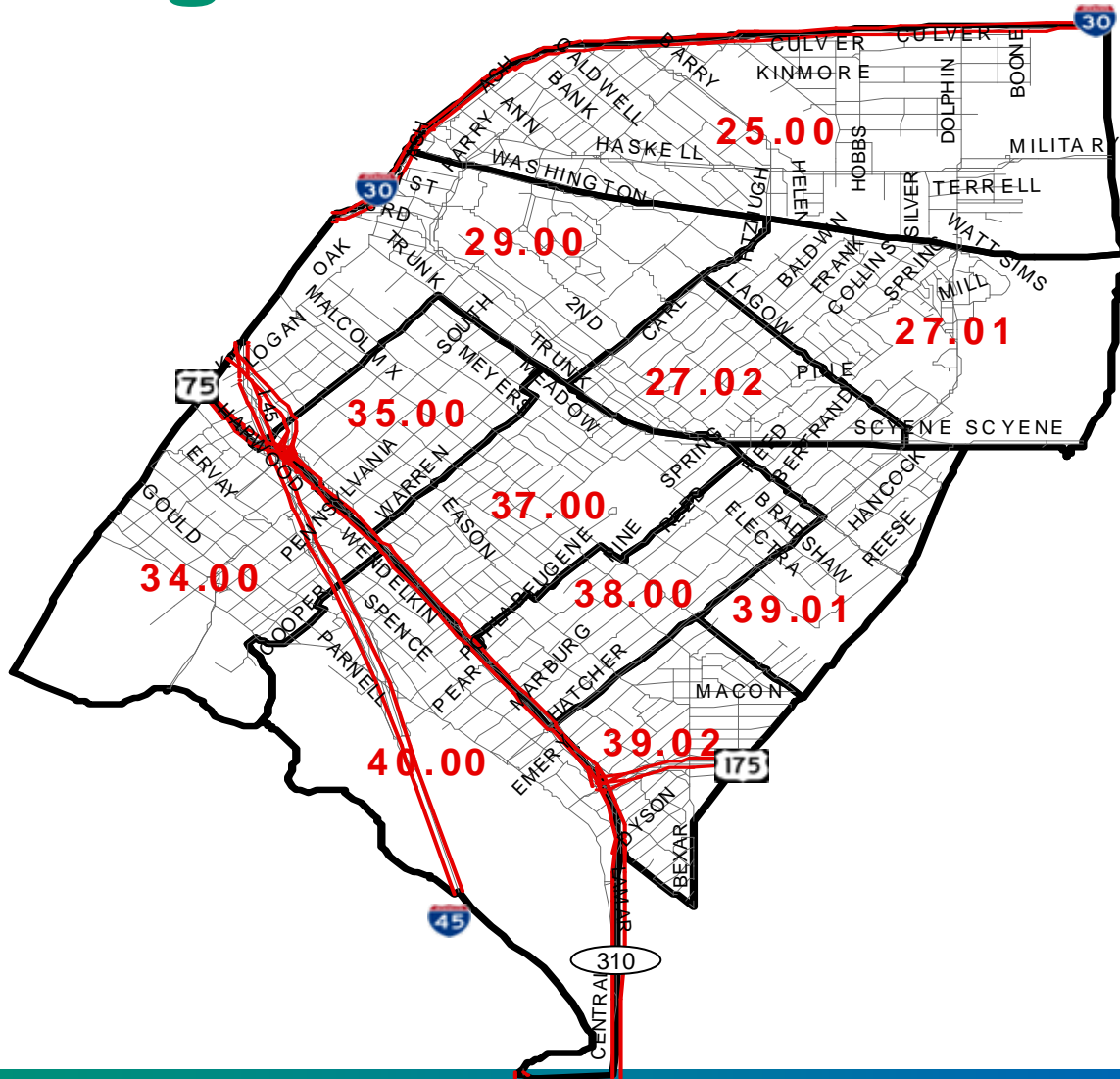
Trust Fund Formation

- The Trust Fund was established in 1987 by Council Resolution (See Appendix A for Pertinent Resolutions and Documents)
- A Task Force was created to make recommendations relating to:
 - the management and use of Fair Park; and,
 - the development of a strategy by which certain funds generated at Fair Park could be invested through the Trust Fund in communities surrounding the park

Trust Fund Formation, cont'd.

- A finalized Plan to re invest Trust Fund monies into communities around Fair Park was adopted by Council Resolution, March 24, 1993
- Subsequent modifications have been made through 2007. There has been no change to funding sources or the mission to re invest in the South Dallas / Fair Park community.

Program Area Census Tracts



Program Area Demographics

2000 CENSUS DATA

Households	10,272
Population	27,805
Median Household Income	\$17,242
Median Citywide Household Income	\$47,556



Mission and Key Focus Areas

- The mission of the Trust Fund is to be a catalyst for economic, community and social impact in the South Dallas Fair Park community by making grants and loans using a portion of the funds generated by Fair Park events and an annual allocation from the City's General Fund (with City Council approval)
- Key focus areas:
 - business and economic development
 - housing and community development
 - community human service programs

Governance

- Advisory Board sets policy and determines recipients of grants and loans
- Fifteen (15) members are appointed by City Council (the Board Chair is appointed by the Mayor). See Appendix B
- Eight (8) members must:
 - be a resident of the defined program area; or
 - represent a cultural institution or facility permanently housed at Fair Park; or
 - be actively involved in the Trust Fund Community; or be a owner or operator of a business in the Trust Fund program area

Governance, cont'd.

- Seven (7) members must have substantial knowledge and/or expertise in any of the following areas:
 - housing development
 - business operations
 - non profit management and operations
 - general community development principals and practices
- At least two (2) board members must have loan underwriting experience
- The City Manager or a designated representative shall serve as an ex officio non voting member of the board

Management

Management

- The Trust Fund office is located in the Martin Luther King Center
- The office is open 5 days weekly, from 8:30 AM – 5:00 PM
- Daily operations are handled by two (2) staff persons
 - Manager
 - Administrative Assistant

Administration

- The Office of Economic Development is responsible for administration of the Trust Fund Program
- The City Auditor is responsible for an annual audit of Trust Fund revenues, expenditures and operations

Administration, cont'd.

- Operating and salary cost are expenses of the Office of Economic Development, paid from the General Fund
- 15% of the cost of operation is reimbursed to the General Fund annually from Trust Fund cash.
- The Trust Fund operation is dependent on other City Departments

Administration, cont'd.

Supporting Departments

- Parks and Recreation – manages the contract with PACE Entertainment Group and the City for use of certain Fair Park facilities. \$.15 from each ticket sold for events held at the Smirnoff Music Center, Antique Shows and Flea Markets is allocated and deposited to the Trust Fund. Parks and Recreation is responsible for generating an Annual Visitors Survey to compile statistics for the Visitors Formula (Council Resolution 91 1597) and allocate a representative amount to the General Fund for Trust Fund programs.

Administration cont'd.

- Housing – manages the Minor Home Repair Program funded if recommended by the Trust Fund Board from the General Fund allocation to the Trust Fund.
- Water – Sets up loan accounts and handles billing. Accepts loan payments at Special Collections (SC) and posts cash received for payments. SC generates loan payment histories needed to manage delinquency. They are currently responsible for loan delinquency follow up.
- City Attorney – Prepares loan documents, reviews/approves documentation for loans and grants. Makes demand on delinquent loan accounts and facilitates collateral lien perfection and collateral repossession.

Funding

- The Trust Fund is funded from several Fair Park sources and the General Fund. The formation Task Force set a target for funding at \$500M annually
- Annual appropriations are established by the Budget Office based on projected grants and loans for the fiscal year. The Trust Fund program year is October 1st through September 30th.

Funding, cont'd.

- Sources
 - General Fund (with Council approval) \$200K. \$100K to be allocated to the Housing Department for the Basic Home Repair Program
 - \$.15 per ticket sold at Music Hall events through 12/31/28; estimate of annual revenue \$50K
 - Convention and Visitors Formula (established in CR 91 1597); estimate of annual revenue \$110K
 - loan payments (principal and interest) FY 09/10; estimate \$21.5K
 - Share from Flea Market and Antique Sales; estimate \$140K
 - Interest from cash invested

Funding, cont'd.

Funding Available

- The Trust Fund carries a cash balance in Fund 0351. Budget appropriates funding for projected grants and loans each program year.
 - Cash Balance 12/30/09 \$1,485,565
 - FY 09/10 Appropriation \$ 725,000

Compliance Issues and Actions Taken

Key Issues

- High default rate on loans
- Excessive administrative expenses
- Financial transactions not properly recorded
- Revenue and expense reconciliation not documented
- File documentation for loan and grant disbursements inadequate
- Exceptions to policies and procedures
- Inadequate monitoring of grants and loans
- Underwriting Guidelines inadequate
- Inadequate loan delinquency management
- Loan reserve guidelines not followed
- Disbursements before documents are fully executed
- Expired undisbursed grants not extended or cancelled

Compliance Issues and Actions Taken

- **Actions Taken**

Trust Fund audits covering the period 1999 – 2004 cited the majority of compliances issued raised

At FY 05/06 budget hearings, the Council directed the Office of Economic Development (OED) to address the non compliance issues.

The following actions were taken:

- On site Trust Fund staff was reduced from 4 to 2
- Careful expense monitoring and payment reviewed by OED Assistant Director
- Uncollectible loans were sent to the City Attorney pursuant to Administrative Directive 4-10. Remaining loans paid off
- An outside CPA firm was hired to reconcile financial transactions
- Policies and procedures were reviewed and updated
- Strict adherence to loan underwriting guidelines limited new loans originations to 2 from FY 05/06 to the present. (Portfolio currently has 1 loan outstanding).
- Two audits covering 2004-2008: recorded significantly fewer exceptions.
- Exceptions are corrected through implementation and/or modification of administrative procedures, addressed with policy changes or justified for cause.

Loan and Grant History

- Following is the total of loans and grants approved from program inception in 1994 through FY 08/09
 - Grants
 - Total number of grants approved (316)
 - Total dollars approved (\$3,784,993)
 - Loans
 - Total number loans approved (43)
 - Total dollars funded (\$1,076,739)
 - Total number loans repaid (26)
 - Total dollars repaid (\$751,30)
 - Total number loans charged off (16)
 - Total dollars charged off (\$3 12,143)
 - Total loans outstanding (1)
 - Total dollars outstanding (\$13,304)

Programs

- The Trust Fund makes commercial loans to businesses and has 4 grant programs to non profit organizations. In addition, a new grant or loan program added was in 2007. This Special Grant or Loan Program may be used to fund for profit or non profit entities for special economic development purposes and may have differing terms for amount, maturity and rate. (See Appendix C for Program details)

Application and Decision Process

- The process for applying for grants or loans has been established by the Trust Fund Advisory Board. A Policies and Procedures Manual has been developed and is updated periodically as a guide for prudent management of Trust Fund assets.
- The City of Dallas Audit Department audits the Trust Fund annually for adherence to established policies and procedures.

Application and Decision Process, cont'd.

- The following steps are required for grant or loan approval:
 - Submit application
 - Review by Trust Fund Manager for:
 - Completeness
 - Compliance with Program policies and procedures
 - Compatibility with Trust Fund mission
 - Project viability
 - Financial analysis of loan applications
 - Adherence to underwriting guidelines
 - Adherence to collateral advance ratios

Application and Decision Process, cont'd.

- Trust Fund Manager develops a written Term Sheet that includes all the facts, adherence to underwriting guidelines and the rationale for recommendation to the Trust Fund Advisory Board Loan or Grant Sub Committee. Loan sub committee is comprised of at least 2 board members with lending experience. Absent requisite lenders on the loan sub committee, OED AD vets loan request and approves/declines recommendation to the Advisory Board
- Appropriate sub committee or OED Assistant Director makes recommendation to the full board to approve or decline applications
- Action is taken by the full board
- Approved requests of \$25,000 or greater must be approved by the Dallas City Council

Loan Underwriting

- The goal of the Trust Fund is to provide access to capital for activities that will have a positive impact on South Dallas / Fair Park communities.
- Borrowers may often not meet conventional underwriting guidelines.
- Loan underwriting relies heavily on judgment, facts of the information analyzed, collateral to leverage payment and other mitigating factors to offset conventional loan underwriting criteria
- Loans should have the following sources of repayment:
 - primary – cash flow from business
 - secondary – Guarantor
 - tertiary – liquidation of collateral
- Key Risk Mitigants:
 - Collateral
 - Guarantor
 - Financial Capacity
 - Business Cash Flow
- Collateral valuations have been established conservatively and limited to collateral that is easily recovered and transferable.
- See Appendix D for Loan Underwriting Guidelines

Summary

- The South Dallas Fair Park community is experiencing development and redevelopment at an accelerating pace.
- The opening of the DART Green Line, planned Transit Oriented Development and the possibility of year around activity at Fair park will have a major impact on South Dallas Fair Park citizens and neighborhoods
- The South Dallas Fair Park Trust Fund is a source of funding for projects and activities that promote community, social and economic development in the South Dallas Fair Park community
- Operating parameters necessary for the success of the program have been addressed and implemented
- Policies, procedures and guidelines as well as separation of responsibilities have been instituted to address operating deficiencies and audit exceptions
- The Trust Fund is a valuable asset dedicated to providing capital and re investing in South Dallas Fair Park neighborhoods.

Q and A

Appendix A

Authorizing Resolutions and Pertinent Documents

CR 87 0632 0 March 18, 1987

CR 89 1159 – April 12, 1989

CR 89 1674 – May 24, 1989

CR 89 3605 – November 8, 1989

CR 91 1597 – May 22, 1991

CR 93 1145 – March 24, 1993

CR 93 2939 – July 19, 1993 (Ordinance 21765)

Budget Amendment – September 13, 1999

CR 04 0801 – February 25, 2004

CR 06 1839 - June 28, 2006

CR 07 2962 - October 10, 2007

Dallas City Code Article XIV Sec. 2-130

Fair Park Task Force Final Report

Lease/Use Agreement – City of Dallas and Pace Entertainment Group

(see page 23 – ticket sales)

Appendix B

District

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15

Appointee

- Stella Esparza
Jason Bradberry
Vacant
Claudia Fowler
Vacant
Willie Mae Coleman
Clara Young
Vacant
Greg Hill
Gerald Lee Larson
Harrison Yoss
Lee Raphael
Josh Womack
Catherine Horsey
Robert L. Perry

Appendix C

Loan and Grant Programs

Loans:

Maximum amount	\$50,000
Term	5 years
Rate	3%

- Must meet stated mission of the Trust Fund to specifically impact housing and neighborhood improvement, business and economic development and community service and job related assistance.
- Special Economic Development Loan may have different terms

Grants:

- Four grant programs authorized by Council Resolution are currently being funded.

Appendix C cont'd

Community Based Non Profit Grant:

Purpose:

- Support efforts that address housing and neighborhood improvement, business and economic development and/or community service and job related assistance, maximum grant \$35,000 to be awarded for no more than 3 years, aggregate grant total not to exceed \$75,000.

Neighborhood Challenge Grant:

Purpose:

- To provide direct assistance to community based self-help groups generally operated by unpaid community volunteers where projects are limited in scope and duration. Maximum amount \$5,000

Appendix C cont'd

Emergency Minor Home Repair Program

Purpose:

- To provide grants for low income and elderly homeowners for emergency home repairs. Maximum amount: \$8,000. Other conditions and limits should be consistent with those used in the Community Development Block Grant Program (managed by Housing Department)

Special Grant or Loan Program (CR 07 2962)

Purpose:

- Catalyst funding to promote economic development or to stimulate commercial activity in the program area. Applicant may be for profit or non profit entity; may or may not require match funding; may or may not have collateral; funding amount subject only to Board recommendation and/or Council approval. Applications accepted throughout program year

Appendix D

Loan Underwriting Guidelines

The following guidelines are in place to underwrite loan request:

- Thorough review of Credit Report with written explanation of derogatory accounts (See Appendix E for Credit Score analysis)
- All credit accounts should be current
- No more than one credit account 60 days past due in past 12 months
- Review Financial Statements for profitability and positive net worth/retained earnings. Losses and negative net worth /retained earnings should be satisfactory with a plan for profitability
- Review business and personal Tax Returns to validate income.

Appendix D Cont'd

- Total monthly business and personal debt payments should be less than 60% of net monthly income
- Source of loan repayment should come from business purpose for which the loan was made
- Business Income plus personal income from the Guarantor should cover payments to Trust Fund and outstanding debt on collateral 1.20 X's
- Five years of operating projections
- Net income increases greater than 20% of previous year should be explained and justified in writing

Appendix D cont'd

- Exceptions to Underwriting Guidelines may be mitigated with one or more of the following:
 - Non liquid collateral coverage of 2:1
 - Liquid collateral 1.20:1
 - Verifiable financial capacity of one year of payment coverage on all liens
 - Very good or greater credit score
 - Other factors that mitigate risk
- Exceptions to underwriting guidelines must be fully documented in the file
- The OED AD responsible for the Trust Fund must review and approve exceptions to underwriting guidelines

Appendix E

Credit Score Analysis

- < 539 Very Poor
- 540 – 589 Poor
- 590 – 669 Fair
- 670 – 729 Good
- 730 – 760 Very Good
- > 760 Excellent