

Memorandum



CITY OF DALLAS

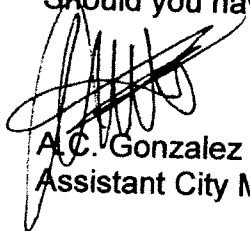
DATE February 4, 2011

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

SUBJECT **Kroger Grocery Store: New Markets Tax Credit Transaction**

At your February 7, 2011 meeting, you will be briefed on "Kroger Grocery Store: New Markets Tax Credit Transaction." A copy of that briefing is attached.

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


A.C. Gonzalez
Assistant City Manager

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

Kroger Grocery Store: New Markets Tax Credit Transaction

Economic Development Committee
February 7, 2011



Briefing Purpose

- Review the New Markets Tax Credit (NMTC) program
- Present Dallas Development Fund (DDF) recommendation for an \$12.5 million NMTC allocation (\$3.56 million cash equity) for the Kroger Grocery Store project
- Seek committee approval for Council action on February 23rd

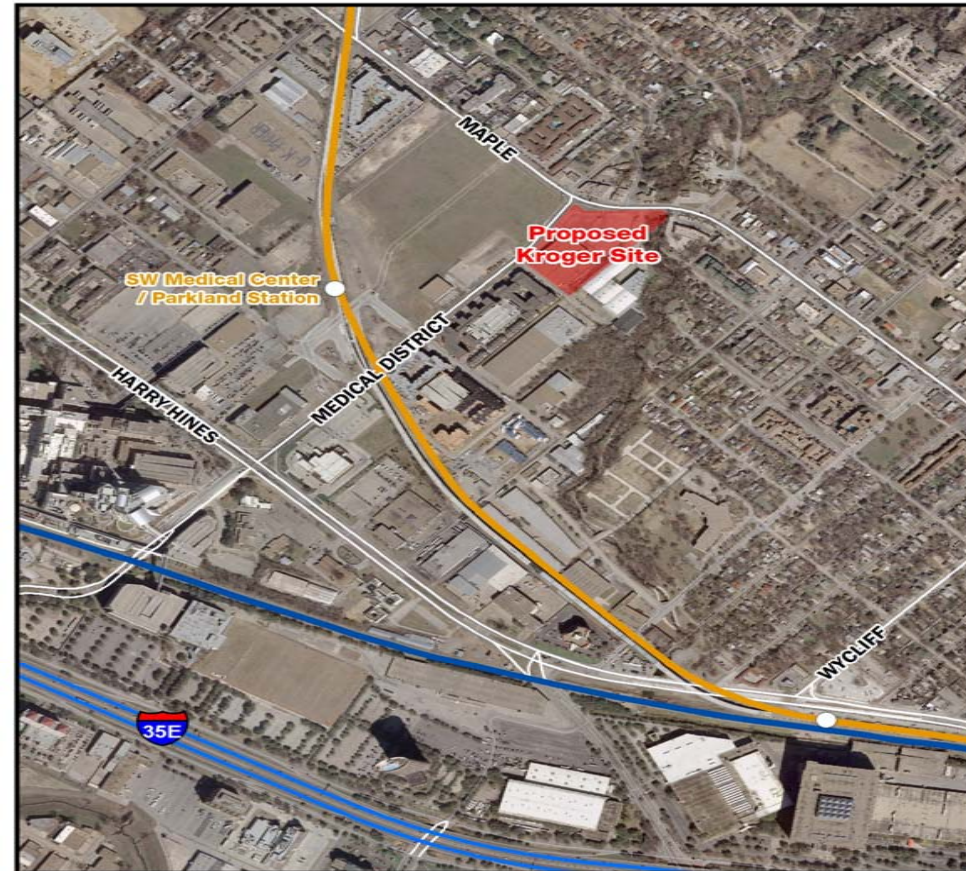


Review of the NMTC program

- Permits taxpayers to receive a credit against federal income taxes for making qualified equity investments in eligible projects
- In 2009, Dallas created the Dallas Development Fund (DDF) as a qualified non-profit to apply for a U.S. Treasury NMTC allocation
- The same year, the DDF was awarded a \$55 million allocation
 - This is worth approximately \$14 million in up front subsidy to projects
- Investments must be used in low-income communities
- The credit provided to the investor equals \$.39 on the dollar of qualified equity investment to the project and is claimed over a 7-year credit allowance period
- NMTCs encourage investment by providing up to 25% of total project costs
- DDF will apply for a second allocation in the 2011 round

Kroger Project

- Kroger Co.
 - Location: 4901 Maple Ave (Maple and Medical District)
 - 76,000 SF Renovation of Elliot's Hardware (possible alt: new construction)
 - Total Project Cost: \$16,232,000
 - Highly Distressed Tract
 - 27.8% Unemployed
 - 28.2% Poverty rate
 - 47% of Area Median Family Income
 - Potential Closing June 2011



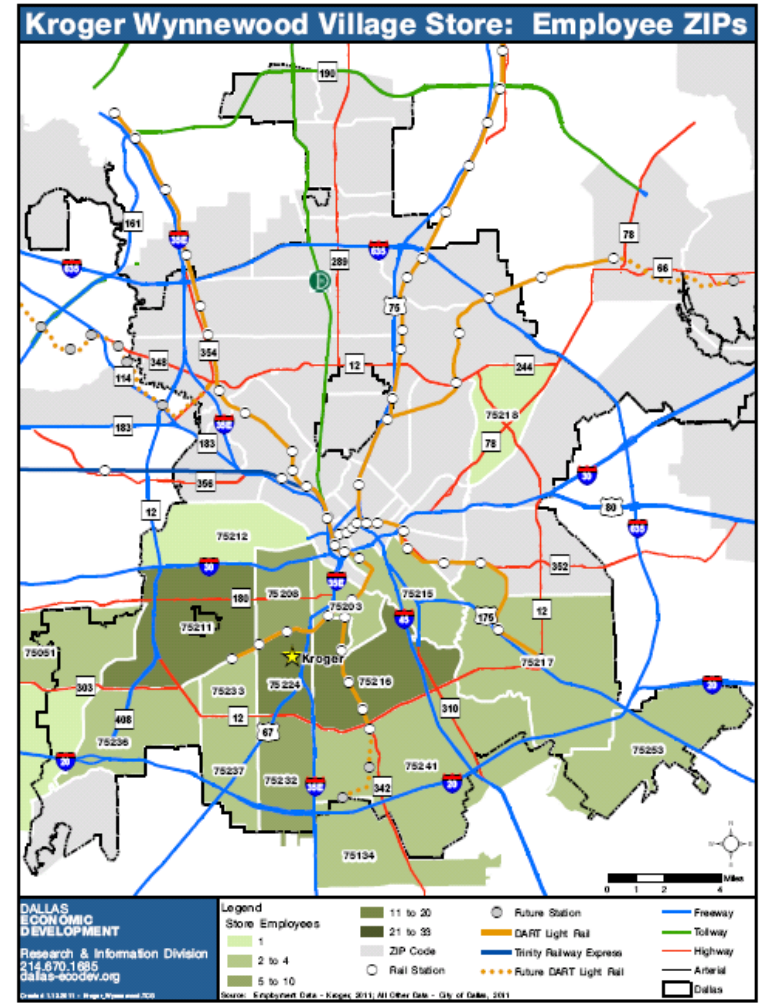
Community Benefits

- 145 Full-Time Equivalent Jobs
 - 75 Full Time Hourly
 - 125 Part Time Hourly
 - 8 Salaried (\$75k/yr)
 - Full Benefits (Medical, dental, vision, short term disability, life insurance)
 - \$11/hour base
 - \$14.30/hour including benefits



Community Benefits

- 25% M/WBE target on construction
- Commitment to local/low-income job hiring (see map to the right)
- Expanded healthy food choices
- Energy Star rated project
- Top-brand grocery provider
- Less than 1/2 mile from new Medical Center DART Green Line station (TOD)



Demonstrated Need for NMTC Benefits

- The project exhibits a financing gap without NMTC assistance, based on Return on Investment (ROI) projections provided by Kroger and reviewed by staff
- Without NMTC financing, the store is projected to produce ROI that falls below the level typically deemed acceptable by Kroger's capital committee
- Additionally, because the project is a renovation, construction costs are less predictable than normal and add another layer of risk
- NMTC assistance will help ensure that the project is completed, even if additional costs arise
- Kroger has stated unequivocally that its pursuit of a store in this location is contingent on availability of NMTC financing

DDF Criteria

Kroger Project				
Location	Southern Dallas		Distressed Community	
	No		Yes; Highly distressed tract with 27.8% Unemployed, 28.2% Poverty rate and 47% of Area Median Family Income	
Proposed Uses	Job Training	TOD	Mixed-use, community oriented	
	No	Within .5 miles of Medical District DART station	Community oriented (grocery store)	
Demonstrated need for NMTC	Yes- hurdle rate analysis			
Likely community impact	Job creation for LIC	Increased wages LIC	LIC owned business?	M/WBE owned business?
	Yes, 145 FTE	Yes, \$14.30/hr	No	No
	Community services business?	Facilitates wealth creation for LICs?	Provides goods or services to LICs?	Environmentally sustainable?
	No	No	Yes	Yes (EnergyStar; TOD)

Transaction Details

- Total Project Costs:
\$16.2MM
- DDF NMTC Allocation:
\$12.5MM (\$3.56 M cash equity)
- Financing Sources
 - Kroger Co. (Leverage Lender)
 - JPMorgan Chase (NMTC Equity)
- NMTC Benefit
 - Helps store achieve “hurdle rate” needed for approval

Source of Funds	Amount
Kroger Leverage Loan	\$8,940,000
NMTC Equity	\$3,560,000
Total QEI	\$12,500,000

Recent Southwestern Medical District Developments

- The Kroger grocery store is adjacent to the Southwestern Medical District TIF.
- Recently completed projects in the TIF district include:
 - Cityville at Southwestern Medical: 278 rental units, 45,000 sq ft of retail space.
 - The Alexan: 396 units of residential rental units
 - Ronald McDonald House: 64,000 sf of low-cost rental units for 60 families
 - DART Southwestern Medical District/Parkland station opened in December 2010.
- Projects scheduled to be completed in 2011:
 - Maple Garden Apartments: 120 rental units

Next Steps

- Economic Development Committee recommendation for Council action on February 23
- Project closing projected early June 2011