

Memorandum



CITY OF DALLAS

DATE June 3, 2011

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

SUBJECT Cedars TIF District: Term Extension and 1400 Belleview Project

On Monday, June 6, 2011, the Economic Development Committee will be briefed on the Cedars TIF District: Term Extension and 1400 Belleview Project.

Briefing material is attached.

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



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
Thomas 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 of Office of Economic Development
Hammond Perot, Assistant Director, Office of Economic Development
Helena Stevens-Thompson, Assistant to the City Manager

Cedars TIF District: Term Extension and 1400 Belleview Project

Economic Development Committee
June 6, 2011



Office of Economic Development
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Overview

- **Request to extend Cedars TIF District Term**
 - Various amendments have been proposed for the Cedars TIF including a 10-year term extension
 - December 31, 2012 to December 31, 2022
- **Request to amend the Cedars TIF District and Project Plan**
 - Change in taxing jurisdiction participation rates in the extended term of the District
 - ♦ Decrease in City of Dallas participation rate from 100% to 90%
 - ♦ Negotiate increase in Dallas County participation rate from 55% to 75%
 - ♦ Change the Infrastructure Improvements budget line item to include Public Open Spaces and Economic Development Grants
- **Request to fund 1400 Belleview Project/ 1401 Browder Street**
 - \$1,657,916 requested for TIF eligible improvements associated with the proposed 1400 Belleview Project

Cedars TIF District Overview: Background

- The Cedars TIF District was created on December 9, 1992, the same year as Cityplace Area TIF District but has not achieved similar levels of private investment
- The Cedars TIF District is located immediately south of the Central Business District between I-30 (north), Corinth Street (south), South Harwood Street (east), and South Lamar Street (west)
- The Cedars TIF District location makes it a gateway to downtown and provides immediate access to the Dallas Convention Center, South Lamar District, Dallas Heritage Village, and the Farmers Market



Cedars TIF District: Background

- The expiration of the Cedars TIF District is December 31, 2012
- The District was initially set up to expire at the earlier date of this date or when sufficient incremental revenue was collected to fund budgeted TIF improvements.
- Private development in this area did not meet original expectations. Staff feels that this TIF District was set up too far in advance of the market.
- Market conditions have changed in the last few years:
 - Development of projects such as Buzz, Beat and several town homes show positive market change
 - Continued improvement in the South Side on Lamar area and the Lamar Corridor increase the likelihood of near-term private development
 - The construction of the Convention Center Hotel adds another destination to the adjacent area.
 - Consolidation of development sites also increase the potential for redevelopment
- Matthews Southwest, owner of significant land holdings in the district, put together a list of likely private development projects (over \$100M in new investment) that will not occur unless the term of the Cedars TIF District is extended. While these properties are all owned by Matthews, staff anticipates other development on other property in the TIF District if the term is extended.

Cedars TIF District: Background – TIF Goals

- Original District Development Goals / Progress towards goals to date
 - Add 700 residential units
 - Approximately, 96 residential units have been constructed – 14% of goal
 - An additional 455 units were created at SouthSide on Lamar (adjacent to TIF District) but housing goals not met even including these units
 - Add 400 hotel/motel rooms
 - No additional hotel rooms have been constructed
 - Add 55,000 square feet of retail
 - Approximately 3,000 square feet of retail space constructed
 - Add 300,000 square feet of service center/flex office.
 - *Approximately 24,000 square feet of service center/flex office space have been constructed*

Cedars TIF District: Term Extension Policy

- The City Council adopted a policy in 2009 to allow TIF Districts to extend their duration if:
 - Is in compliance with Financial Management Performance Criteria (FMPC) cap for the maximum amount of City property in TIF Districts
 - Changing market conditions exist (that were not present when the zone was created)
 - The term extension generates financial benefits for the City of Dallas – likely private investment of \$100M or more; generate sufficient increment to meet infrastructure needs for area; reduce City's participation rate and generate additional incremental revenue for the City's General Fund; and generate new investment for other taxing entities
 - The existing District will continue to have (without further investment) the following conditions: low housing value, low income population, high vacancy rates for commercial buildings, an abundance of vacant or underdeveloped land and substandard infrastructure
- The following addresses how the request to extend the term of the Cedars TIF District meets this criteria

Cedars TIF District: Term Extension Policy

- The Cedars TIF District meets guidelines for FMPC cap requirement
- Changing market conditions with the District
 - Recent development activity within and proximate to the District indicate redevelopment interest exists in the area
 - **Gilley's**, a \$3M investment, completed in 2003
 - **McKee Row Homes I**, a \$757K investment, completed in 2005
 - **McKee Row Homes II**, a \$369K investment, completed in 2006
 - **Seegar Row Homes** completed, a \$719K investment, completed in 2006
 - **Buzz Condos**, a \$7.3M investment, completed in 2007
 - **Miller Ferry Row Homes**, a \$1.8M investment, completed in 2007
 - **Urban Lofts**, a \$2.9M investment, completed in 2008
 - **The Beat at South Side Station**, a \$12.9M investment, completed in 2008
 - **Convention Center Hotel**, a \$500M investment, under construction (to be completed in 2011)

Cedars TIF District: Term Extension Policy

- Changing market conditions with the District will:
 - **Allow pending development to occur immediately** – 1400 Belleview Project, a \$20.5M investment
 - **Support significant public investment and publically funded initiatives** – The TIF District serves as Gateway to the Trinity River (from the east) as well as the Convention Center and Convention Center Hotel and Farmers Market
 - **Attract substantial redevelopment projects with a private investment of \$100M or more over the first 5 years of the extension period (See Appendix 1)**
 - 1400 Belleview - \$20.5M investment (164 residential units)
 - Belleview/Lamar - - \$2M investment (Industrial Design Studio)
 - Beat II - \$24.8M investment (75 Condos)
 - Powhattan/DART Line - \$10.8M investment (30 Townhomes)
 - 1300 S. Lamar - \$97.5M investment (240 residential units)
 - Continued Town Home development and renovation of small commercial structures

Cedars TIF District: Term Extension Policy

- **Generate satisfactory TIF increment to meet specific infrastructure and development needs**
 - Development with the TIF District over the 10 year extension term is estimated to generate \$23.8M in TIF increment (See Appendix 2)
 - The increment generated would fund nearly all of the district's immediate infrastructure improvements
- **Reduce the City's TIF contribution to allow greater general fund cash flow**
 - **Lower City's participation rate from 100% to 90%**, increasing funding to the general fund immediately and reducing the City's payback period once the district terminates
- **Participation by other taxing entities**
 - Dallas County is anticipated to participate in the extended term at a rate of 75% (original participation rate was 65%)
 - DISD, Dallas County Hospital District and Dallas County Community College District are not anticipated to participate in the 10-year extended term
 - DISD could potentially lose state funding
 - DCCCD and DCHD do not participate due to financial constraints
- **Extension limit**
 - The 10-year term extension complies with adopted City policy

Cedars TIF District: Term Extension Policy - Benefits

- Allows the District to take advantage of increases in the tax base generated by **changing market conditions**:
 - Redevelopment activity already taking place within the District
 - Construction of Downtown Convention Center Hotel
 - Consolidation of ownership in the TIF District by Matthews Southwest
 - Limited developable land near downtown
 - Increased usage of DART Light Rail system
 - Pending Completion of Margaret Hunt Hill Bridge
 - Future Trinity River Corridor Project improvements
- Allows the City to **complete development objectives for the Cedars TIF District**
- **Provides a funding mechanism for needed public infrastructure improvements to support new development in an area with significant infrastructure needs**
- **Enables a new project, 1400 Belleview, to proceed**

Proposed Cedars TIF District Plan Amendment

- Current estimates indicate that total dollars collected in the Cedars TIF District over the original 20 year term will be \$5.8M.
- Only \$2.1M of the anticipated \$5.8M in TIF increment collections are currently allocated to support projects such as Buzz, Beat and several smaller town home developments. Subject to increment collections through 2012, another approximately \$3.7M is potentially available.
- The increasing the term of the Cedars TIF District allows the collection of an increased \$18M in future TIF incremental revenues (total dollars from 2013-2022) to encourage additional redevelopment in the Cedars area. Most of the TIF budget allocates these funds for infrastructure needs of planned and anticipated development within the District
- On the following page, please find a chart showing the current budget, current TIF funding commitments, likely TIF collections through 2012, total estimated collections 2013-2022 and the total TIF Budget with the extension
- Note: Under this proposal the total budget in NPV remains the same – although the collection period is longer and total collections are greater

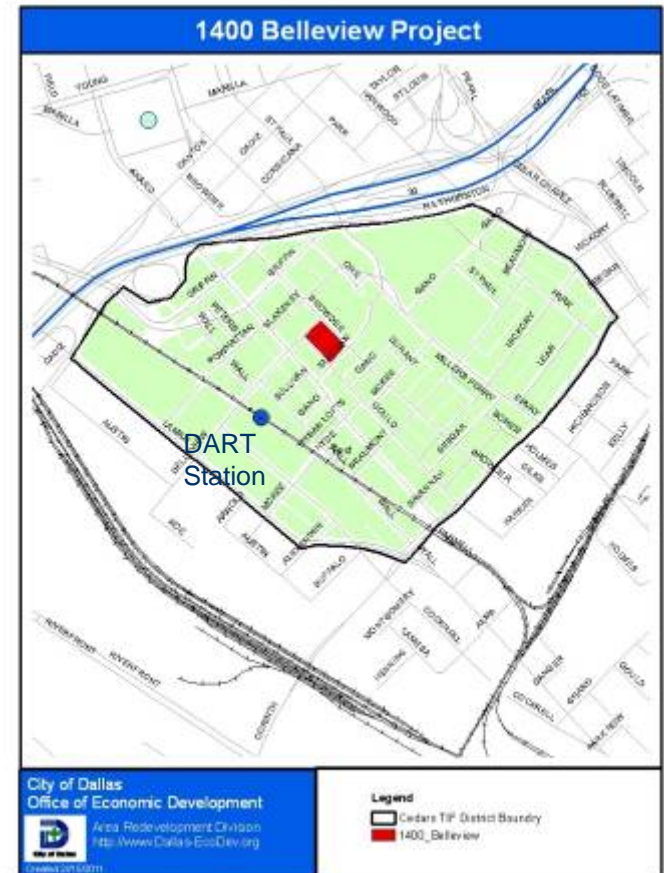
Proposed Budget Amendment (continued)

PROPOSED CEDARS TIF DISTRICT BUDGET AMENDMENT						
	Approved TIF Budget (Est. Total Dollars Collected thru 2012)	TIF Funding Commitments to date	Unallocated TIF funding (subject to collections thru 2012)	Additional Collections 2013-2022 (Est. Total Dollars Collected)	Additional TIF Funds Available (Unallocated + Addl collections)	Proposed TIF Budget (Est. Total Dollars Collected)
Infrastructure Improvements - Street Construction/ Streetscape/ Water/ Wastewater/ Drainage Improvements/ East-West Corridor Construction/ <u>Public Open Spaces/ Economic Development Grants</u>	\$4,841,674	\$1,447,048	\$3,394,626	\$15,268,912	\$18,663,538	\$20,110,586
Environmental Remediation	\$282,217	\$50,000	\$232,217	\$717,783	\$950,000	\$1,000,000
Education/ Educational Facility Improvements/ Public Improvements Adjacent to Educational Facilities	\$155,889	\$0	\$155,889	\$1,344,111	\$1,500,000	\$1,500,000
TIF Administration	\$558,713	\$558,713	\$0	\$628,524	\$628,524	\$1,187,237
TOTAL	\$5,838,493	\$2,055,761	\$3,782,732	\$17,959,330	\$21,742,062	\$23,797,823

1400 Belleview Project

Project Location

- 1.64 acre site located at 1400 Belleview Street (formerly 1401 Browder Street)
- Belleview Street provides a direct connection between South Side on Lamar, the Cedars DART Light Rail Station and eventually Dallas Heritage Village
- It is within a quarter-mile of the Cedars DART Light Rail station and the Dallas Police Headquarters



1400 Bellevue Project (continued)

■ Project Description

- Four-story, mixed use structure with 164 residential units (approximately 148,037 square feet) and 7,500 square feet of ground floor retail/commercial space
- All of the units will be targeting families at 30%, 50%, and 60% of area median family income
- Estimated private investment of \$21.7M
- On-site amenities for the project include a theater/media room, structured parking, fitness center, and playground



Bellevue Street Elevation



Browder Street Elevation

1400 Belleview Project – Public Improvements



1400 Belleview Project – Recommended TIF Funding

- TIF funds for the 1400 Belleview Project would be used to offset the cost of the following improvements:
 - Infrastructure Improvements

Description	Amount
Infrastructure Improvements - Street Construction/ Streetscape/ Water/Wastewater/Drainage Improvements/ East-West Corridor Construction/ <u>Public Open Spaces</u> / Economic Development Grants	\$1,657,916
Total TIF Eligible Project Costs	\$1,657,916

1400 Bellevue Project – Recommended TIF Funding

- TIF funds for the 1400 Bellevue Project would be used to offset the cost of the following improvements:
 - Paving and drainage along:
 - ♦ Bellevue Street - Browder Street to Akard Street & Bellevue Street to Sullivan Street
 - ♦ Gould Street - Bellevue Street to Sullivan Street
 - Relocation/replacement of water/wastewater lines along Bellevue Street from Gould to Browder Street.
 - Streetscaping & Utility Improvements along Bellevue, Gould, and Browder Streets



1400 Belleview Project - Low Income Tax Credit

- 1400 Belleview, L.P. has submitted an application to receive a Tax Credit from the Texas Department of Housing and Community Affairs from the 1400 Belleview project.
 - Total estimated value of the tax credit over 10 years - \$14.4M (estimated value of selling tax credit to outside interest)
 - Housing required to remain affordable for 40 years
 - Ongoing maintenance and operations set-aside required

1400 Bellevue Project Funding Sources and Uses

<u>SOURCES</u>		<u>USES</u>	
\$6,413,000	Conventional Loan/ FHA	\$14,581,545	Hard Costs
\$14,399,000	Tax Credit Equity (LIHTC)	\$6,148,366	Soft Costs
\$1,657,916	TIF Funding*	\$1,657,916	Public Improvement Costs
<u>\$453,699</u>	Equity (Def. Dev. Fee)	<u>\$535,788</u>	Property Acquisition
<u>\$22,923,615</u>	Total Project Cost	<u>\$22,923,615</u>	Total Project Cost

* TIF funding to be partially advanced out of cash reserves. Developer contractually commits to refund any TIF advances if vertical development not completed

1400 Bellevue Project - Summary

Project Square Footage (Minimum requirements)	
A) Residential Units	150 units
B) Retail	5,000 square feet
Developer's Fee (deferred)	\$2,440,231
Required private investment – site acquisition, hard and soft costs	\$17,000,000
Total project cost including site acquisition, hard costs of construction, all soft costs, and other public improvements	\$22,923,615
TIF funding requested*	\$1,657,916
% of TIF funds requested to expected total project cost	7.32%
Return on cost with TIF funds**	7.90%
Return on cost without TIF funds**	7.34%
Deadline to receive building permit	October 1, 2012
Deadline to complete and receive Certificate of Occupancy	December 31, 2014
Deadline to complete public infrastructure improvements	December 31, 2014

*TIF Funding contingent on City Council approval of a Plan Amendment extending the term of the District.

** Return on Cost calculations are based on analysis of cash flow projections.

1400 Belleview: Cedars TIF Assistance - TIF Board Approval

- On May 18, 2011, the Cedars TIF District Board of Directors reviewed and approved TIF Funding for the 1400 Belleview project in an amount not to exceed \$1,657,916.*

*Note: TIF funding is subject to approval of a plan amendment extending the term of the Cedars TIF District.

Recommended Next Steps

Economic Development Committee approval of:

- Amendments to the Cedars TIF Plan
- A development agreement, on behalf of the Cedars TIF, with 1400 Belleview GP, LLC, in an amount not to exceed \$1,657,916.
- Council consideration of the recommended plan amendments and TIF assistance on June 22, 2011.

Appendix 1: Anticipated Development projects

- By amending the Cedars TIF District Project Plan, an estimated \$200 million in new projects is expected to occur over the ten year extension. This development is not expected without the term extension.

Location	Description	Estimated Value on Completion	Estimated Completion Year
Bellevue/Lamar/Powhattan	Industrial Design Studios	\$2,000,000	2012
Bellevue Street	75 Condo units, 10-story	\$24,750,000	2013
Powhattan/DART Line	30 Townhomes	\$10,800,000	2014
1300 S. Lamar	240 residential units, 30-story	\$97,500,000	2016
1326 S. Lamar	48 residential units, low-rise	\$19,500,000	2017
Various locations	Residential, Mixed-use	\$50,000,000	2018
Total		\$204,550,000	

Appendix 2 – Cedars TIF Increment Projections (amended)

Cedars TIF Increment Projections														
Tax Year	Property Value	Property Value	Property Value	Total Value	Anticipated Captured	Anticipated Captured	Anticipated Captured	Anticipated Increment	Anticipated Accumulated	Tax Increment	Tax Increment	Tax Increment	Tax Increment	Tax Increment
	Estimate City	Growth \$	Growth %	change	Value City	Value DISD	Value County	Revenue	Revenue (NPV)	Revenue City	Revenue DISD	Revenue DCCCD	Revenue County	Revenue DCHD
1992	\$35,300,760													
1993	\$33,706,330		-4.52%	-4.52%	(\$1,594,430)			\$0	\$0	\$0	\$0	\$0	\$0	\$0
1994	\$31,406,528		-6.82%	-11.03%	(\$3,894,232)			\$0	\$0	\$0	\$0	\$0	\$0	\$0
1995	\$34,824,532		10.88%	-1.35%	(\$476,228)			\$0	\$0	\$0	\$0	\$0	\$0	\$0
1996	\$32,499,522		-6.68%	-7.94%	(\$2,801,238)			\$0	\$0	\$0	\$0	\$0	\$0	\$0
1997	\$33,333,582		2.57%	-5.57%	(\$1,967,178)			\$0	\$0	\$0	\$0	\$0	\$0	\$0
1998	\$39,631,442		18.89%	12.27%	\$4,330,682			\$28,109	\$20,976	\$28,110	\$0	\$0	\$0	\$0
1999	\$39,171,800		-1.16%	10.97%	\$3,871,040			\$53,610	\$59,075	\$25,839	\$27,770	\$0	\$0	\$0
2000	\$39,634,388		1.18%	12.28%	\$4,333,628			\$74,708	\$109,641	\$28,927	\$33,105	\$0	\$5,521	\$7,155
2001	\$42,365,372		6.89%	20.01%	\$7,064,612	\$6,999,130	\$7,064,612	\$121,977	\$188,268	\$47,156	\$54,157	\$0	\$9,000	\$11,664
2002	\$42,569,912		0.48%	20.59%	\$7,269,152	\$7,203,670	\$7,269,152	\$129,312	\$267,655	\$50,870	\$57,180	\$0	\$9,261	\$12,001
2003	\$42,628,095		0.14%	20.76%	\$7,327,335	\$7,232,940	\$7,327,335	\$116,691	\$335,881	\$45,106	\$52,169	\$0	\$8,771	\$10,644
2004	\$42,745,457		0.28%	21.09%	\$7,444,697	\$7,504,568	\$7,507,977	\$132,947	\$409,911	\$51,430	\$60,083	\$0	\$9,545	\$11,889
2005	\$45,724,646		6.97%	29.53%	\$10,423,886			\$109,017	\$467,725	\$77,314	\$0	\$0	\$14,493	\$17,210
2006	\$48,923,596	\$3,198,950	7.00%	38.59%	\$13,622,836	\$13,536,254	\$13,622,836	\$215,281	\$615,379	\$87,924	\$90,057	\$0	\$17,393	\$19,907
2007	\$62,805,631	\$13,882,035	28.37%	77.92%	\$27,504,871	\$27,210,728	\$27,499,871	\$454,976	\$823,809	\$205,709	\$163,216	\$0	\$40,649	\$45,402
2008	\$82,965,625	\$20,159,994	32.10%	135.03%	\$47,664,865			\$787,884	\$1,167,560	\$356,486	\$282,033	\$0	\$70,670	\$78,695
2009	\$87,846,392	\$4,880,767	5.88%	148.85%	\$52,545,632	\$52,741,749	\$52,535,032	\$899,708	\$1,541,407	\$392,989	\$335,263	\$0	\$77,891	\$93,565
2010	\$80,293,087	(\$7,553,305)	-8.60%	127.45%	\$44,992,327	\$46,873,491	\$44,981,727	\$787,397	\$1,853,007	\$358,589	\$278,460	\$0	\$71,095	\$79,254
2011	\$82,701,880	\$2,408,793	3.00%	134.28%	\$47,401,120			\$829,553	\$2,165,657	\$377,787	\$293,368	\$0	\$74,901	\$83,497
2012	\$88,082,936	\$5,381,056	6.51%	149.52%	\$52,782,176			\$923,725	\$2,497,221	\$420,674	\$326,672	\$0	\$83,404	\$92,976
2013	\$105,711,974	\$17,629,038	20.01%	199.46%	\$70,411,214	\$70,316,819	\$70,411,214	\$633,437	\$2,713,761	\$505,060	\$0	\$0	\$128,377	\$0
2014	\$125,741,333	\$20,029,359	18.95%	256.20%	\$90,440,573	\$7,504,568	\$7,507,977	\$813,626	\$2,978,655	\$648,730	\$0	\$0	\$164,896	\$0
2015	\$133,238,742	\$7,497,409	5.96%	277.44%	\$97,937,982			\$881,075	\$3,251,848	\$702,509	\$0	\$0	\$178,565	\$0
2016	\$209,065,485	\$75,826,742	56.91%	492.24%	\$173,764,725	\$13,536,254	\$13,622,836	\$1,563,231	\$3,713,474	\$1,246,414	\$0	\$0	\$316,817	\$0
2017	\$249,350,033	\$40,284,549	19.27%	606.36%	\$214,049,273	\$27,210,728	\$27,499,871	\$1,925,641	\$4,255,043	\$1,535,375	\$0	\$0	\$390,265	\$0
2018	\$267,175,648	\$17,825,615	7.15%	656.86%	\$231,874,888			\$2,086,004	\$4,813,775	\$1,663,239	\$0	\$0	\$422,766	\$0
2019	\$300,190,918	\$33,015,269	12.36%	750.38%	\$264,890,158	\$52,741,749	\$52,535,032	\$2,383,018	\$5,421,668	\$1,900,057	\$0	\$0	\$482,961	\$0
2020	\$311,196,645	\$11,005,728	3.67%	781.56%	\$275,895,885	\$46,873,491	\$46,641,444	\$2,482,028	\$6,024,668	\$1,979,001	\$0	\$0	\$503,027	\$0
2021	\$322,532,544	\$11,335,899	3.64%	813.67%	\$287,231,784			\$2,584,009	\$6,622,549	\$2,060,314	\$0	\$0	\$523,695	\$0
2022	\$334,708,081	\$12,175,536	3.77%	848.16%	\$299,407,321			\$2,693,543	\$7,216,097	\$2,147,649	\$0	\$0	\$545,894	\$0
								\$23,797,823		\$16,943,258	\$2,140,850	\$0	\$4,149,857	\$563,858



Appendix 3 – 1400 Bellevue Pro forma

Projected NOI at Stabilization Income (Rentals & Sales)

	Year 1 (lease up)	Year 2	Year 3	Year 4	Year 5
INCOME					
Rental Income	\$1,400,000	\$1,504,992	\$1,535,092	\$1,565,794	\$1,597,110
Secondary Income	\$29,340	\$29,340	\$29,927	\$30,525	\$31,136
POTENTIAL GROSS ANNUAL INCOME	\$1,429,340	\$1,534,332	\$1,565,019	\$1,596,319	\$1,628,246
Provision	(127,070)	(147,070)	(150,011)	(153,012)	(156,072)
EFFECTIVE GROSS ANNUAL INCOME	\$1,302,270	\$1,387,262	\$1,415,008	\$1,443,307	\$1,472,174
EXPENSES					
General & Administrative	\$64,670	\$70,810	\$72,934	\$75,122	\$77,376
Management F Fee	5% \$69,363	\$69,363	\$71,444	\$73,587	\$75,795
Payroll/Payroll & Benefits	\$194,994	\$194,994	\$200,844	\$206,869	\$213,075
Repairs and Maintenance	\$63,200	\$63,200	\$65,096	\$67,049	\$69,060
Utilities	\$140,250	\$140,250	\$144,458	\$148,791	\$153,255
Insurance	\$44,402	\$44,402	\$45,734	\$47,106	\$48,519
Real Estate Taxes	\$117,714	\$117,714	\$121,246	\$124,883	\$128,630
Replacement Reserve	\$82,000	\$82,000	\$84,460	\$86,994	\$89,604
Total Annual Expenses	\$776,593	\$782,733	\$806,216	\$830,401	\$855,314
Net Operating Income	\$525,677	\$604,529	\$608,792	\$612,906	\$616,860
Loan Payment	(\$525,677)	(\$525,677)	(\$525,677)	(\$525,677)	(\$525,677)
Net Cash Flow	\$0	\$78,852	\$83,115	\$87,229	\$91,183
Discounted Cash Flow	10.00%	\$2,319,886			
Total Development Costs less Deferred Dev Fee	(\$454,009)	\$ 22,469,607			
City Assistance		\$ (1,657,916)			
Return on Cost without TIF funds (DCF/ Total Dev Costs)		7.34%			
ROC with TIF funds		7.90%			

Appendix 4: 1400 Belleview: Project Details - Development Team

- **DEVELOPER:** 1400 Belleview GP, LLC
- **OWNERS REP:** Kristian Teleki, Principal
- **ARCHITECT:** BGO Architects
- **GENERAL CONTRACTOR:** KWA Construction
- **CONSTRUCTION MANAGEMENT:** TBD