

Memorandum



DATE October 29, 2010

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

SUBJECT **Southside Boutique Hotel: New Markets Tax Credit Transaction**

At your November 1, 2010 meeting, you will be briefed on the "Southside Boutique Hotel: 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

C: 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

Southside Boutique Hotel: New Markets Tax Credit Transaction

Economic Development Committee
November 1, 2010



Briefing Purpose

- To provide an overview of the Dallas Development Fund (DDF) and the New Markets Tax Credit (NMTC) program
- Present DDF recommendation for an \$18.5 million NMTC for the Southside Boutique Hotel project
- Seek committee approval for Council action on November 10th

DDF Formation and Board Structure

- The City of Dallas created the Dallas Development Fund (DDF) as a non-profit Community Development Entity (CDE), February 11, 2009, to apply for a NMTC allocation from the U.S. Department of Treasury in its 2009 funding cycle.
- DDF was awarded a \$55 million allocation in October 2009.
- In January 2010, DDF formed seven for-profit subsidiary CDE's so that DDF could accept its allocation. The seven for-profits include five CDEs that will be aligned with an individual DDF NMTC project, as well as a management and a holding entity.
- The allocation was officially accepted by DDF on March 31, 2010.
- Council approved the seven member DDF board structure: 3 are appointed by the City Manager and 4 are selected by the DDF board.
 - The 7 DDF board members are also the board members for the 7 subsidiaries

NMTC Program

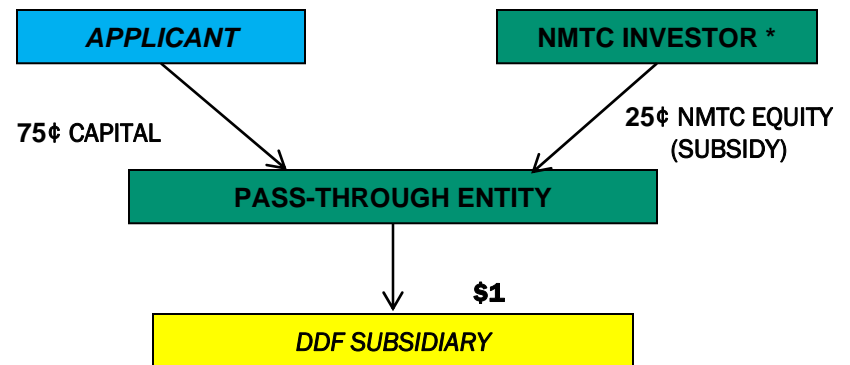
- The NMTC program permits taxpayers to receive a credit against federal income taxes for making qualified equity investments in designated CDEs.
- These investments must be used by the CDE for projects and investments in low-income communities, as defined by the NMTC program.
- The credit provided to the investor totals 39% of the cost of the investment and is claimed over a 7-year credit allowance period.
 - DDF's \$55 million NMTC allocation is worth approximately \$14 million in up front subsidy to projects.

NMTC Hypothetical Deal Structure

NMTCs typically function like a matching grant program.

Applicant raises cash (donations, grants, loans, equity), and channels this cash (via a pass-through entity) to a DDF subsidiary. This pass-through entity is created specifically for each transaction.

For every 75¢ raised by the Applicant, DDF allocates enough tax credits to generate an additional 25¢ of “NMTC equity.” This equity is paid by the NMTC Investor, and is also invested in the DDF subsidiary. Because there is no obligation to repay NMTC equity, it represents a form of subsidy to the Applicant.

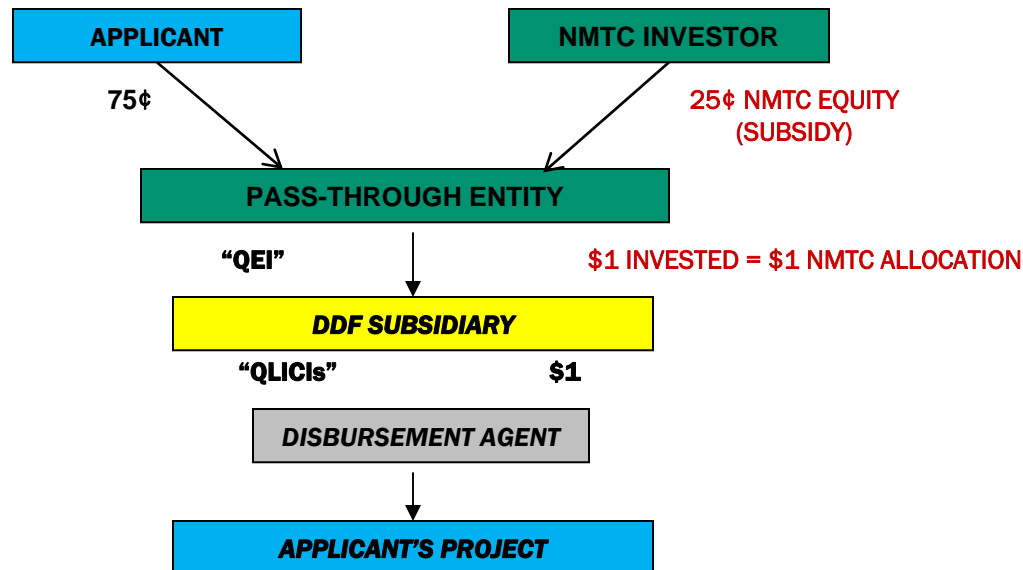


*Examples of NMTC investors include large financial institutions, such as JPMorgan Chase, US Bank, Wells Fargo, and Bank of America

NMTC Hypothetical Deal Structure

DDF (through its subsidiary) then takes the combined funds and loans them to the Applicant. This is called a Qualified Low Income Community Investment, or “QLICI.”

This hypothetical transaction uses \$1 of NMTC allocation, because a total of \$1 gets invested in DDF’s subsidiary. (For every \$1 of NMTC ALLOCATION, the Applicant gets 25¢ of NMTC EQUITY (subsidy)).



NMTC Key Things to Remember

- Because the program functions like a matching grant, NMTCs can only generate enough capital to finance about 25% of project costs. The Applicant must identify other financing sources for approximately 75% of costs.
- Applicant capital must come in an “NMTC-compatible” form.
 - Funds must be liquid (cash), and must be available up front.
 - Grants: Agreements must allow funds to flow through intermediaries
 - Loans: Lender must agree not to foreclose on property during the seven-year NMTC compliance period.
 - HUD 108 Loans and other flexible funding sources: Must be carefully structured to allow NMTC compatibility
- Not all lenders are comfortable with the NMTC program, so it’s best if the Applicant works with a bank that has invested in an NMTC deal before.
- NMTC pricing does vary over time. NMTC equity could be slightly more or slightly less than 25%. (75:25 ratio is a good rule of thumb.)

Southside Boutique Hotel

- DDF is proposing the Southside Boutique Hotel as its first NMTC project. DDF Board approved project on October 11, 2010
- Sponsored by CCH Lamar Partners I, LP, which is a partnership of Matthews Southwest and the Dallas Police and Fire Pension Fund
- Developer: Matthews Southwest
- Location: S. Lamar and Belleview (1325 S. Lamar St.)
- 76 room boutique hotel
- 55,000 sf including 2,100 square foot restaurant, 1,500 square foot lobby bar/lounge, and a 5,000 square foot rooftop pool lounge and bar area.
- Adaptive re-use of vacant historical building
- Part of South Side Master Plan Transit Oriented Development



Community Benefits

- Highly distressed community as determined by NMTC guidelines (DDF Priority)
- 25% M/WBE participation (DDF priority)
- CDRC EB-5 leveraging (DDF Priority)
 - Believed to be first EB-5/NMTC deal in the Country.
- Sustainable development
 - LEED Silver certification (DDF Priority)
 - Transit-oriented development (DDF Priority)
 - New product type/land use
 - Historic preservation
- 30-45 permanent full time jobs (DDF Priority)
 - Up to 75% for local and/or low-income residents
- Continue progress on South Side Master Plan Development

Recent Southside Developments

- Dallas County Community College District (DCCCD) has opened a new \$10 million, central office building housing the core of DCCCD's district-wide administrative functions, including the chancellor's office, human resources, and the public affairs office. This renovation has added 83,383 square feet of office space and 150 employees.
- The Beat at South Side Station, the district's first high rise condominium development opened March 2009, adding 73 units across from the Cedars DART station.
- In August 2010, Cedars' new dog park, called Bark Park, opened. The park was paid for by South Side Public Improvement funds and private donations.
- The City partnered with CCH Lamar Partners I, L.P. to redevelop 2901 S. Lamar Street into the South Side Studios, which provides production facilities for the film, television and creative industries. The property is 150,000 sq ft and total investments are likely to be \$500,000. The City's PPP fund provided \$100,000.

Transaction Details

- Total Project Costs:
\$19.1MM
- DDF NMTC Allocation:
\$18.5MM
- Other Public Assistance
 - Federal Historic Tax Credits
- USBank Corp. will purchase the NMTC credits

Source of Funds	Amount
CDRC EB-5 Program	\$3,900,000
Senior Debt	\$4,000,000
NMTC Equity	\$4,980,000
Developer Equity (cash + building shell)	\$5,620,000
Total QEI	18,500,000

Next Steps

- Economic Development Committee recommendation for Council action on November 10
- Project closing projected in January 2011