DATE     April 4, 2014

TO       Members of the Economic Development Committee:
          Tennell Atkins (Chair), Rick Callahan (Vice Chair), Adam Medrano,
          Lee Kleinman, Jerry R. Allen

SUBJECT  Hatcher Station Village Medical Clinic

On Monday, April 7, 2014 the Economic Development Committee will be briefed on the
Hatcher Station Village Medical Clinic. The City Council will be asked to consider
approval of the item on April 23, 2014.

A copy of the briefing material is attached. Staff will be available at the meeting to
answer questions.

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

[Signature]

Ryan S. Evans
Interim 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
   Judge Daniel F. Solis, Administrative Judge
   Rosa A. Rios, City Secretary
   Craig D. Kinton, City Auditor
   Jill A. Jordan, P. E., Assistant City Manager
   Forest E. Turner, Assistant City Manager
   Joey Zapata, Assistant City Manager
   Charles M. Cato, Interim Assistant City Manager
   Theresa O’Donnell, Interim Assistant City Manager
   Jeannne Chipperfield, Chief Financial Officer
   Kari Zavitkovsky, Director, Office of Economic Development
   J. Hammond Perot, Assistant Director, Office of Economic Development
   Shawn Williams, Interim Public Information Officer
   Elsa Cantu, Assistant to the City Manager – Mayor and Council
Briefing Purpose

Project Overview
Funding Sources and Uses and proposed City Sources
Approvals needed and recommended next steps
Hatcher Station Village: Project Overview

**Project**
- 44,000 SF medical clinic to be leased by Parkland Health and Hospital System
- Approx. $19.8 million project
- Sponsor: Frazier Revitalization, Inc.

**Location**
- Scyene Rd. and Hatcher St. in South Dallas/Fair Park
- Federally designated medically underserved area
- Located adjacent to DART’s Hatcher Station
Hatcher Station Village Medical Clinic
Project Overview: Tenant

Tenant: Parkland Health and Hospital System
- One of nation’s largest publicly funded hospital networks
- In 1987, established Community-Oriented Primary Care (COPC) model to better serve Dallas County’s poorest residents
- COPC has grown to 12 community health centers serving 450,000 patient visits annually

Project existing replace and expand Parkland’s East Dallas Health Center at Baylor University Medical Center located on Live Oak into a new one-story facility closer to its primary clientele

Anticipated lease terms
- 25 year lease with Parkland having an option to purchase from FRI after NMTC compliance term (7 years)
- $30/sq ft triple net

Rents from Parkland will retire project debt and may provide additional funds to further FRI’s mission
Project Overview: Development Team

Sponsor: Frazier Revitalization, Inc.
  • 501(c)(3) community development organization founded in 2005
Mission: Revitalize and transform Frazier through economic and cultural development
Sample real estate activities:
  • Partnered with THDCA to construct houses in Dolphin Heights
  • Land assemblage to support community redevelopment
  • Active partner in the Frazier Neighborhood Master Plan and implementation process
Sample community activities:
  • After school programs serving 120 at-risk elementary and middle school students annually
  • Community-based coalition building and planning
Key Staff and Board Members:
  • Dorothy Hopkins (President and CEO), Andrea Hills (Project Manager)
  • Richard Knight (Chairman), Don Williams
Hill and Wilkinson will be General Contractor
## Funding Sources and Uses

**Total Project Cost:** $19.76 MM

**NMTC Allocation: $15 MM**  
(nets $4.2 M to the project)

**NMTC Investor:**  
JPMorgan Chase

<table>
<thead>
<tr>
<th>Sources</th>
<th>Amount</th>
</tr>
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<tbody>
<tr>
<td>Chase Senior Debt</td>
<td>$11,652,000</td>
</tr>
<tr>
<td>Forgivable Debt (City existing)</td>
<td>$1,025,000</td>
</tr>
<tr>
<td>City - HUD Challenge Grant (existing)</td>
<td>$200,000</td>
</tr>
<tr>
<td>City - PPP Grant</td>
<td>$1,901,949</td>
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<tr>
<td>City - South Dallas / Fair Park Trust Fund Grant</td>
<td>$200,000</td>
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<tr>
<td>NMTC Equity</td>
<td>$4,284,750</td>
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<tr>
<td>FRI (funded equity)</td>
<td>$500,000</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$19,764,108</strong></td>
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<table>
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<tr>
<th>Uses</th>
<th>Amount</th>
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<tr>
<td>Acquisition/Land</td>
<td>$2,324,978</td>
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<tr>
<td>Hard Cost</td>
<td>$12,840,004</td>
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<tr>
<td>Soft Costs (inc. financing)</td>
<td>$3,588,626</td>
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<tr>
<td>NMTC Closing costs &amp; Reserves</td>
<td>$1,010,500</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$19,764,108</strong></td>
</tr>
</tbody>
</table>
Previous City Funding Support

The City has provided the following funds:

- $1.025 M as a forgivable loan for land acquisition (PPP and 2006 Bond Funds) and demolition
- $200,000 from the HUD’s Community Challenge Grant for predevelopment (architecture, engineering, site planning and zoning)
Summary of Proposed Additional City Assistance

The City is proposing to provide the following additional funding:

- $15 M in NMTC allocation
- Up to $2,000,000 grant from PPP
- Real Property tax abatement of 90% for 10 years
- $200,000 grant from the South Dallas Fair Park Trust Fund
NMTC Allocation

$15 M allocation will net project about $4.2 M in equity

- JP Morgan Chase anticipated to be the NMTC investor
- The Dallas Development Fund (City-controlled NMTC CDE) approved the NMTC allocation on March 28, 2014
- More information on NMTC financing can be found in Appendix A
PPP Grant

PPP grant not to exceed $2 M to provide gap financing for project

Project meets PPP guidelines for minimum investment and job creation in Southern Dallas

Funds will be disbursed on a pari passu basis and likely to be administered by Chase as part of their disbursement process

(see Appendix B for PPP information)
Tax Abatement

A 90%/10 year real property abatement is proposed for added value to the real property in accordance with the Act and the City's Public/Private Partnership Guidelines and Criteria.

Project is consistent with PPP guidelines for minimum investment and job creation in Southern Dallas.

Estimated one-year value of abatement is $92,101; ten-year value is $921,000. (see Appendix B for PPP information)
South Dallas Fair Park Trust Fund

Grant

$200,000 grant for land acquisition

To be used to complete land acquisition for the project site

SDFPTF board approved March 26, 2014
Other Items Requiring Council Approval

Terms of existing loan agreement for forgivable loan need to be modified to add “Medical” as project type, clarify the CO date at March 31, 2015 and clarify the jobs purpose.

Deed Restriction Transfer

- Four properties (three land bank program, one land transfer program) need deed restriction transfers or modifications (will go to Housing Committee)
- Scheduled to go to Council May 14, 2014
Hatcher Station Village: Community Impacts

Healthcare
- Primary Care services (pediatrics, adults, and geriatrics)
  To serve over 20,000 patients in 49,000 patient visits annually
- Women and Infant Specialty Health (WISH)
  To serve over 7,000 patients in 17,000 patient visits annually
- Behavioral health, nutrition, radiology, and financial counseling

Jobs
- Over 110 FTE jobs
  - 19 FTE providers
  - 91 FTE nonproviders (nurses, medical assistants, nutritionists, etc.)

Catalytic TOD
- Located at Hatcher Station
- Identified as catalyst site in Hatcher Station Plan (Part of HUD TOD grant)
- First phase of larger development that will feature at least 18,000 SF of community-focused commercial space
Recommended Next Steps

Economic Development Committee recommendation for Council action on April 23 (three agenda items/five resolutions)

- Approval of $15 M NMTC allocation
- Approval of $200,000 South Dallas Fair Park Trust Fund grant
- Approval of new PPP grant not to exceed $2,000,000
- Approval of tax abatement (10 year, 90%)
- Approval of loan modifications to existing loan agreements (for forgivable loan)

Project closing projected late Spring 2014
Eligibility Requirements
Each geographic area of the City has a minimum requirement in order to be considered for incentives:
• **Southern Dallas:** Projects must create/retain 25 jobs or provide $1 million of investment;
• **Northern Dallas and Central Business District:** Projects must create/retain 150 jobs or provide $10 million of investment; and
• **Non-Conforming Projects:** Projects will be considered on a case-by-case basis.

**Tax Abatement**
Temporary abatement of either real estate or personal property taxes. Recipient firms must meet primary considerations of capital improvements and job creation/retention.

**Business Development Chapter 380 Grant Program**
Companies considering a relocation/expansion or new commercial development may be eligible for a grant in lieu of tax abatement or to defray project costs such as: land purchase, building costs, public infrastructure costs, development fees, right of way abandonment fees, loan guarantees, training costs, relocation costs, etc. Grants will be considered on a case-by-case basis and are subject to funding limitations and investment/job eligibility requirements. Companies will be required to meet eligibility requirements of the Public/Private Partnership Program.

**FRI Project:**
**Investment:** $12.1 M (non-city or city-related)
**Jobs:** 110 (19 provider, 91 non-provider)
Avg. salary: $69,000, Avg. salary (non-provider only): $51,000
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.

Was awarded a second $30 million allocation in 2012.

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 has allocated $61 million for five previously approved projects.
Types of Eligible Projects

Allocation award depends on applicant’s strategy to use the tax credits to support eligible development projects.

DDF’s application highlighted multiple types of projects for priority funding under the NMTC program:

- Transit-oriented development
- Job training facilities
- Mixed use (retail and housing)

Several types of projects are not eligible:

- Those that derive more than 80% of gross rental income from rental dwelling units
- Golf courses, race tracks, gambling facilities, country clubs, massage parlors, hot tub facilities, suntan facilities, liquor stores

All projects must be in NMTC-eligible areas:

- Eligible areas determined by poverty rate, unemployment and median family income
- Distress criteria: 1) a poverty rate of at least 30 percent; 2) a median family income at or below 60 percent of the applicable area median family income; or 3) an unemployment rate at least 1.5 times the national average.
Benefits of the NMTC program

An **additional financial tool** to achieve Dallas’ development goals, particularly those in southern Dallas neighborhoods

- Focuses on (federally defined) Low-Income Communities and Low-Income Populations

**Funds can be used for debt, equity or “hybrid” financing**

- Projects include commercial, industrial, institutional, not-for-profit
- For-sale housing (challenging due to 7-year time frame)
- Mixed-use projects, with rental housing less than 80% of income
- Operating businesses

An important **supplemental layer** that complements conventional debt and equity financing as well as existing city subsidy programs.
<table>
<thead>
<tr>
<th>Location</th>
<th>Southern Dallas</th>
<th>Distressed Community</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes, South Dallas/Fair Park neighborhood</td>
<td>Highly distressed tract with a 36% poverty rate, a median income of 32% of regional median, and 21% unemployment rate</td>
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</table>

<table>
<thead>
<tr>
<th>Proposed Uses</th>
<th>Job Training</th>
<th>TOD</th>
<th>Mixed-use, community oriented</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>Yes, located at DART’s Hatcher Station</td>
<td>First phase of broader community-oriented redevelopment</td>
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<table>
<thead>
<tr>
<th>Need for NMTC</th>
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<tbody>
<tr>
<td>Yes – the project has a financing gap of approximately $4 million due to senior lender’s parameters, project location a distressed area of South Dallas and Sponsor’s limited balance sheet</td>
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<table>
<thead>
<tr>
<th>Likely community impact</th>
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<tbody>
<tr>
<td>Job creation for LIC</td>
</tr>
<tr>
<td>Yes, over 110 jobs will locate at site</td>
</tr>
<tr>
<td>Increased wages LIC</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>LIC owned business?</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>M/WBE owned business?</td>
</tr>
<tr>
<td>FRI’s board is majority/minority (minority-controlled per CDFI Fund definition)</td>
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<table>
<thead>
<tr>
<th>Community services business?</th>
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<tbody>
<tr>
<td>Facilitates wealth creation for LICs?</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>Provides goods or services to LICs?</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>Environmentally sustainable?</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>LEED equivalent, Transit oriented</td>
</tr>
<tr>
<td>No</td>
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</tbody>
</table>

City of Dallas
Illustrative NMTC Use

Hypothetical $11 M project using $10 M in NMTC Allocation

- Senior Lender “Leverage Lender”
  - 7 year Interest Only Loan
  - $7.1 M at market rates

- NMTC Investor (NMTC equity)
  - $3.9 M Total NMTC benefits over 7 years
  - $2.9 M Equity Contribution

- Investment Fund (100% NMTC Equity Investor Owned)
  - $10 M Equity Investment

- Dallas Development Fund Subsidiary (Special Purpose LLC)
  - 99.99% Member - Investment Fund .01% Member/Manager DDF

- QALICB
  - Real Estate SPE - Controlled by Project Sponsor
  - Constructs and Owns Property
  - ($1M equity contribution from Sponsor)

- QLICI
  - “A Note”: $7.1 M Interest Only Subordinate Loan @ Senior Lender Rates, 7 yr term
  - Blended Rate
  - “B Note”: $2.6 M Interest Only Subordinate Loan; 30 year term*

- Dallas Development Fund
  - Management Control; Suballocation of $10 M in NMTC Authority
  - $300,000 in CDE Fees @ Closing

- Project Sponsor
  - $1 M Equity

* DDF has flexibility to assign, forgive, restructure B Note at end of 7 year, NMTC compliance term

City of Dallas