

# Memorandum



CITY OF DALLAS

DATE January 31, 2025

Honorable Members of the City Council Economic Development Committee: Tennell  
TO Atkins (Chair), Omar Narvaez (Vice Chair), Carolyn King Arnold, Adam Bazaldua, Paul  
Ridley, Kathy Stewart, Chad West

SUBJECT **Upcoming Agenda Item: New Markets Tax Credit Transaction for St. Philip's  
School and Community Center at 1600 Pennsylvania Avenue**

On February 26, 2025, the City Council will be asked to consider a resolution authorizing a New Markets Tax Credit (NMTC) transaction between St. Philip's School and Community Center (St. Philip's), the Dallas Development Fund (DDF), and Capital One, National Association (Capital One) for a project that includes a new fine arts pavilion, working capital, and an expanded food pantry located at 1600 Pennsylvania Avenue.

In 2009, the City of Dallas authorized the creation of DDF, a non-profit Community Development Entity (CDE) to apply for NMTC allocation from the U.S. Department of Treasury's Community Development Financial Institutions Fund and to manage awarded NMTC allocations. DDF was most recently awarded \$55 million in the 2021 allocation cycle and previously has been awarded a total of \$185 million in allocation from the 2009, 2012 and 2014, 2017 cycles. DDF has closed \$222 million in allocation to date.

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, and serve as a subsidy to the project in the NMTC transaction. The credit provided to the investor totals 39 percent of the cost of the investment and is claimed over a 7-year credit allowance period.

On January 17, 2025, the DDF Board of Directors reviewed and approved a NMTC transaction between DDF, Capital One, and the beneficiary, St. Philip's. This NMTC transaction will use up to \$7 million of DDF's 2021 NMTC allocation of \$55 million. Additionally, Texas Mezzanine Fund (TMF) is expected to provide \$9 million in NMTC allocation to the project. Capital One, as the tax credit investor, is anticipated to provide approximately \$5 million in NMTC equity (gross) to support both DDF's \$7 million allocation and TMF's \$9 million allocation.

This Project supports St. Philip's proposed addition of a new approximately 15,000 square foot fine arts pavilion to its 80,000 square foot campus. The addition will include a performing arts center and auditorium, music practice rooms, state-of-the-art design, dance, and culinary arts studios, a cafeteria, and community storm shelter. In addition to the fine arts pavilion, NMTC proceeds will be used to fund working capital for St. Philip's

and a recently completed rehabilitation of a 4,500 square foot former church into a client-choice food pantry located across the street from St. Philip's primary campus.

The Project will allow St. Philip's to expand both the capacity of educational programs they provide and their impact in the surrounding community through providing 2,300+ low-income students and community members annually with arts education and emergency food access. Specifically, the fine arts pavilion will allow St Philip's to double the number of annual events, classes, and activities from 15 to 30, and the expanded cafeteria will allow the school to increase capacity of their Kids Café program, serving dinner to hundreds of children in the surrounding community.

The Project will serve over 2,300 low-income individuals annually across its programs, including:

- **High-Quality Academic Enrichment.** The Project will provide daily instructional training in music, dance, visual arts, and theater to 300+ students from Pre-K through 8th grade. In addition to an auditorium, the Project includes Digital Arts Studio, Dance Studio, Art Room, and Music Room to offer arts-based programming in dedicated spaces both during the school day and in after school programs. Additionally, 150 students benefit from summer camps and spring break programming, ensuring they continue to engage in enriching educational experiences year-round.
- **Expanded Healthy Foods Food Access.** Through its client-choice pantry, St. Philip's addresses food insecurity by offering high-quality emergency food items to neighborhood residents. Through the expanded food pantry, St. Philip's is able to increase food distribution from 600,000 to 750,000 pounds of food per year. Additionally, the fine arts pavilion includes a kitchen that will be used to host cooking classes to teach neighborhood residents to prepare healthy meals and support St. Philip's Kids Café program to serve dinner to hundreds of neighborhood children.

The Project site is located at 1600 Pennsylvania Avenue in Dallas, Texas. The Project falls within Census Tract 48113020900, which is NMTC-qualified and considered "severely distressed" per the CDFI Fund based on a poverty rate of 22.4% and an unemployment rate 2.24x the national average.

NMTC funding is a critical source to allow the Project to proceed. St. Philip's lacks the resources to develop the necessary capital from operating revenue, and servicing debt is not possible; therefore, a capital campaign is the largest part of the capital stack. St. Philip's has maximized its fundraising abilities with this campaign, and NMTC funding is essential to bridge the remaining gap. Without the subsidy generated from DDF's NMTC allocation, St. Philip's would need to increase their capital campaign, in turn likely pulling from and reducing donor contributions typically used to support operations; given that St. Philip's subsidizes a large portion of students' tuition with scholarships, this reduction in operating revenue would jeopardize the organization's ability to sustain operations of the

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expanded school and food pantry. To reduce this risk, the capital campaign goal includes funding an endowment with three years of operating revenue.

The estimated project budget is below:

<b>Sources</b>		
DDF NMTC Gross Subsidy (before any fees)	\$	2,184,600
TMF NMTC Gross Subsidy (before any fees)	\$	2,808,000
Previous spent cash/cash on hand/draw on line of credit	\$	11,373,000
St Philip's Contribution- Food Pantry Acquisition	\$	508,000
<b>Total</b>	<b>\$</b>	<b>16,873,000</b>

<b>Uses</b>		
Acquisition: Food Pantry	\$	508,000
Hard Costs	\$	10,660,004
Soft Costs	\$	1,049,016
FF&E	\$	496,947
Operating Expenses	\$	1,574,015
Owner's Contingency (10% hard costs)	\$	261,018
<b>Total Base Project Costs (before NMTC costs)</b>	<b>\$</b>	<b>14,509,000</b>
At Close Fees	\$	775,000
Ongoing Fee Reserve	\$	847,000
Closing Costs (estimated)	\$	742,000
<b>Total</b>	<b>\$</b>	<b>16,873,000</b>

Should you have any questions, please contact Heather Lepaske, Assistant Director, Office of Economic Development, at [heather.lepeska@dallas.gov](mailto:heather.lepeska@dallas.gov) or (214) 670-1222.

Service First, Now!



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