

Memorandum



DATE January 6, 2020

TO The Honorable Members of the Economic Development Committee: Tennell Atkins (Chair), David Blewett (Vice-Chair), Jennifer Staubach Gates, Adam McGough, Omar Narvaez, Jaime Resendez, Chad West

SUBJECT **Red Bird Mall Redevelopment (New Markets Tax Credit Transaction and Amendment to TIF/Chapter 380 Agreement)**

On January 8, 2020, City Council will be asked to authorize the following:

- (1) a New Markets Tax Credit transaction (“NMTC Transaction”) between the Dallas Development Fund and its subsidiaries, Capital One N.A. and its subsidiaries (“Capital One”), and 3662 Investors, LP and/or its affiliates or subsidiaries for improvements within the Red Bird Mall Redevelopment Project (“Project”) located at 3662 West Camp Wisdom Road; and
- (2) a second amendment to the Chapter 380 Grant Agreement with WCWRD Inc and its affiliates or subsidiaries (“Developer”), a first amendment to the Tax Increment Development, Chapter 380 Grant, and Chapter 380 Loan Agreement (“TIF/Chapter 380 Agreement”) with Developer, and to amend or execute any other documents necessary to:
 - (a) release the property owned by OMRB LLC (being the Foot Locker) and the property owned by OMRB II LLC (being the Lawn) from the lien Deed of Trust and the indebtedness evidenced by the City’s 15-year interest only loan;
 - (b) specifically remove the condition of the disbursement of the second loan installment that all 2017 General Obligation Bond Funds be fully disbursed and expended by Developer and allow the second loan installment to be disbursed on or before January 31, 2020;
 - (c) increase the Developer’s required total minimum investment for the Project by \$1,000,000 from \$115,000,000 to \$116,000,000 as consideration for (a) and (b); and
 - (d) make such other modifications which may be necessary to effectuate the foregoing amendments.

NEW MARKETS TAX CREDITS TRANSACTION

The City of Dallas authorized the creation of the Dallas Development Fund (“DDF”), a non-profit Community Development Entity (“CDE”), by Resolution No. 09-0461 on February 11, 2009, to apply for a New Markets Tax Credit (“NMTC”) allocation from the U.S. Department of Treasury’s Community Development Financial Institutions Fund in its 2009 funding cycle. DDF was awarded \$55 million in the 2017 allocation

cycle and was previously awarded \$130 million in allocation from the 2009, 2012 and 2014 cycles. DDF has closed \$157 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. The credit provided to the investor totals 39% of the cost of the investment and is claimed over a seven-year credit allowance period.

For over a year, staff has been coordinating with Peter Brodsky, owner/developer of Red Bird Mall, on his efforts to secure other sources of funding (specifically including New Markets Tax Credits) for the Red Bird Mall Redevelopment Project. On November 5, 2019, DDF considered and approved a NMTC transaction between DDF, Capital One, and 3662 Investors, LP (entity controlled by Peter Brodsky). This NMTC allocation will use up to \$10 million of DDF's \$55 million NMTC allocation. Capital One will invest up to \$10 million in NMTC allocation from DDF which will in turn generate approximately \$2.76 million in gross NMTC equity for the benefit of the Project. Capital One Community Renewal Fund also intends to provide \$3 million in NMTC allocation, for a total allocation amount to the Project of \$13 million.

Over the last two decades, the mall—which was built in 1975 and initially known as Red Bird Mall before being renamed to Southwest Center Mall—lost all four major retail anchors, leaving large vacancies and making it difficult to attract new smaller tenants without a fundamental rethinking of the mall's function. By the 2010s, the mall was a shell of its former self and any redevelopment was made challenging because of fragmented ownership, lack of a master plan, and weak market conditions.

Now underway, Red Bird Mall Redevelopment Project is a multi-phase, multi-year transformation of a long-declining mall into a multi-purpose mixed-use campus where southern Dallas residents can live, shop, work, and dine. This \$157+ million redevelopment is being led by 3662 Investors, LP, a joint venture between Peter Brodsky and other investors. First phase deliverables began this year with the opening of a Starbucks community store, which is exceeding projections and proving that the neighborhood can support new shops and restaurants at the site. The Dallas Entrepreneurial Center (DEC) and an extension campus of Jarvis Christian College have also opened, laying the groundwork for a diverse mix of tenants expected to locate at the Project in the coming years. These include a comprehensive primary care clinic, a 300-unit apartment complex, a Marriott Courtyard hotel, a Foot Locker Power Store, and an Urban Air Adventure Park.

NMTC is a key funding source to ensure the viability of the entire Red Bird Mall Redevelopment Project. DDF's proposed allocation is for the initial phases of Redbird to help stabilize the Project and attract new tenants and private development that can support market rate financing sources. The NMTC Transaction will support

two key components in the initial phase of the Project: tenant improvements for a 51,000 square foot business operations center for Chime Solutions, Inc and development of a 1.1 acre open space (“The Lawn”) including related infrastructure. The Lawn will be the centerpiece of the redevelopment and a vital part of the overall vision but is challenging to finance, given the limited revenue to be generated by the Lawn. Flanked by a Foot Locker Power Store and several restaurants, the Lawn will incorporate a mix of active and passive spaces including a children’s park, games area, urban dog park, garden, and flexible performance stage. These spaces will allow for both informal neighborhood gatherings and free daily community programming like yoga classes, lecture series, outdoor concerts, and movie screenings.

The Project site is located at 3662 West Camp Wisdom Road in southern Dallas’ Redbird community. The site qualifies as severely distressed based on a median family income of 35.6% of the metro median and a poverty rate of 34.6%.

Additional information regarding the NMTC transaction and its proposed role in the Project can be found in Attachment A to the Resolution.

AMENDMENT TO TIF/CHAPTER 380 AGREEMENT

On June 13, 2018, City Council authorized entering into a Tax Increment Development, Chapter 380 Grant, and Chapter 380 Loan Agreement (“TIF/Chapter 380 Agreement”) with Developer in consideration of the Red Bird Mall Redevelopment Project by Resolution No. 18-0850, providing an incentive package including: (1) a conditional grant in an amount not to exceed \$10,000,000; (2) a 15-year interest only loan in an amount not to exceed \$12,000,000 (“Loan”); (3) a development agreement awarding an amount not to exceed \$15,600,000 in tax increment funding from the Mall Area Redevelopment Tax Increment Financing District; and (4) an assignment of all increment payable under the TIF/Chapter 380 Agreement to the City, the Loan and performance obligations which are secured by the Deed of Trust and a guaranty provided by 3662 Investors, LP.

To address NMTC Transaction structuring issues as identified by NMTC tax counsel, the Developer has requested City Council authorization to execute a second amendment to the Chapter 380 Grant Agreement (“Chapter 380 Grant Agreement”) with Developer, a first amendment to the Tax Increment Development, Chapter 380 Grant, and Chapter 380 Loan Agreement (“TIF/Chapter 380 Agreement”) with Developer, and amend or execute any other documents necessary to (i) release the property owned by OMRB LLC (being the Foot Locker) and the property owned by OMRB II LLC (being the Lawn) from the lien Deed of Trust and the indebtedness evidenced by the City’s Loan as shown in Attachment B.

Additionally, the Developer has requested an additional modification to the existing TIF/Chapter 380 Agreement. Currently, in the TIF/Chapter 380 Agreement, it states “the City will make disbursements of the Loan to Developer in two equal installments of \$6,000,000, subject to the conditions set forth in Section 5.C. The first

disbursement shall be eligible for disbursement to the Developer any time on or after January 1, 2019; the second disbursement shall be eligible for payment to the Developer any time on or after January 1, 2020 and after all 2017 General Obligation Bond Funds have been fully disbursed and expended by Developer.”

The Developer received the first disbursement of the Loan in June 2019. With this agenda item, the Developer is now requesting to specifically remove the condition of the second disbursement of the Loan that all 2017 General Obligation Bond Funds be fully disbursed and expended by Developer and to allow the second loan installment to be disbursed on or before January 31, 2020. In other words, the Developer is requesting the second loan installment to be disbursed on or before January 31, 2020, rather than at the later of January 2020 or drawing down on all of the 2017 Bond Funds.

The Developer’s reasons for this requested modification are as follows:

- Even with the City’s commitment to review and process grant payment applications as quickly as possible, the Developer is finding that the process of compiling all documentation needed for the City to approve grant payment applications is very time-consuming. This means that the “lag” (i.e. period between the Developer’s actual expenditure of funds and the receipt of reimbursement funds from City) is longer than the Developer originally expected. The longer lag results in the Developer’s need for more days cash on hand.
- To date, the Developer has spent approximately \$6 million on infrastructure work. The Developer expects to complete the infrastructure work by mid-to late 2020 and, in doing so, will be spending an additional \$20+ million. With the pace of spending accelerating so significantly, the Developer needs more days cash on hand.
- The \$22 million of grant and loan funds from the City will not fully cover the Developer’s actual infrastructure spending. The Developer’s infrastructure costs are estimated at approximately \$28 million (including value engineering of work that is not required now but will be required to be done with later phases of the project). Therefore, the Developer is pursuing NMTC funds to use for some infrastructure costs. Since the NMTC project is mostly infrastructure-related, the Developer will be escrowing some of the infrastructure funds (i.e. City’s loan and grant funds) with DDF and only accessing them as the Developer completes expenditures on particular portions of the infrastructure work associated with the NMTC Transaction. This also reduces the Developer’s cash on hand.

As consideration for making the above amendments, Developer has agreed to increase the Developer’s required total minimum investment for the Project by \$1,000,000 from \$115,000,000 to \$116,000,000.

PRIOR ACTION/REVIEW (COUNCIL, BOARDS, COMMISSIONS)

On January 13, 2016, City Council authorized entering into a Chapter 380 Grant Agreement providing Developer with a \$2,400,000 grant for the Project by Resolution No. 16-0103.

On June 13, 2018, City Council authorized an amendment to the Chapter 380 Grant Agreement by Resolution No. 18-0850 to extend all dates in the Chapter 380 Grant Agreement by 18 months.

On June 13, 2018, City Council authorized entering into a Tax Increment Development, Chapter 380 Grant, and Chapter 380 Loan Agreement (“TIF/Chapter 380 Agreement”) with Developer in consideration of the Red Bird Mall Redevelopment Project by Resolution No. 18-0850, providing: (1) a conditional grant in an amount not to exceed \$10,000,000; (2) a 15-year interest only loan in an amount not to exceed \$12,000,000 (“Loan”); (3) a development agreement awarding an amount not to exceed \$15,600,000 in tax increment funding from the Mall Area Redevelopment Tax Increment Financing District; and (4) an assignment of all increment payable under the TIF/Chapter 380 Agreement to the City.

On November 5, 2019, the Dallas Development Fund was briefed on the Red Bird Mall Redevelopment Project and approved the NMTC Transaction.

On January 6, 2020, the Mall Area Redevelopment TIF District Board of Directors reviewed and recommended approval of (1) Developer’s requested amendments to the Chapter 380 Grant Agreement and TIF/Chapter 380 Agreement and (2) as consideration for the requested amendments, an increase in the total minimum investment for the Project by \$1,000,000 from \$115,000,000 to \$116,000,000.

FISCAL INFORMATION

No cost consideration to the City.

OWNER/DEVELOPER

3662 Investors, LP

Peter Brodsky, Manager of General Partnership

WCWRD Inc

Peter Brodsky, President and Director

Should you have any questions, please contact Kevin Spath, Assistant Director,
Office of Economic Development at (214) 670-1691.



Michael Mendoza
Chief of Economic Development and Neighborhood Services

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| T.C Broadnax, City Manager | Joey Zapata, Assistant City Manager |
| Chris Caso, City Attorney (Interim) | Nadia Chandler Hardy, Assistant City Manager |
| Mark Swann, City Auditor | M. Elizabeth Reich, Chief Financial Officer |
| Biliera Johnson, City Secretary | Laila Aleqresh, Chief Innovation Officer |
| Preston Robinson, Administrative Judge | M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion |
| Kimberly Bizer Tolbert, Chief of Staff to the City Manager | Directors and Assistant Directors |
| Majed A. Al-Ghafry, Assistant City Manager | |
| Jon Fortune, Assistant City Manager | |

DATE: November 5, 2019
SUBJECT: Red Bird Phase 1
FROM: City of Dallas Office of Economic Development

Project Overview

Overall Project

Red Bird Mall Redevelopment Project is a multi-phase, multi-year transformation of a long-declining mall into a multi-purpose campus where Dallas residents can live, shop, work, and dine. Over the last two decades, the Mall—built in 1975 and initially known as Red Bird Mall before being renamed to Southwest Center Mall—lost all four major retail anchors, leaving large vacancies and making it difficult to attract new smaller tenants without a fundamental rethinking of the mall’s function. By the 2010s, the mall was a shell of its former self and any redevelopment was made challenging because of fragmented ownership, lack of a master plan, and weak market conditions.

This \$157 million redevelopment is being led by 3662 Investors LP, a joint venture between Peter Brodsky and other investors. First phase deliverables began this year with the opening of a Starbucks community store, which is exceeding projections and proving that the neighborhood can support new shops and restaurants at the site. The Dallas Entrepreneurial Center and an extension campus of Jarvis Christian College have also opened, laying the groundwork for a diverse mix of tenants expected to locate at the project in the coming years. These include a comprehensive primary care clinic, a 300-unit apartment complex, a Marriott Courtyard hotel, a Foot Locker Power Store, and an Urban Air Adventures Park.

Beyond NMTC, the City is providing support for the redevelopment to finance infrastructure improvements and workforce development training at the site. This support includes \$10 million of City Bond funding awarded as a conditional grant and \$12 million of PPP funds awarded as interest-only Chapter 380 loans with 15-year term. TIF proceeds will be used to repay the PPP loan.

NMTC Project Description

DDF’s financing will support two key components in the initial phase of the project development: a 51,000 SF call/business operations center and a 1.1 acre outdoor gathering space (“The Lawn”). Please find a site plan for the mall in Exhibit 1.

The call center will be operated by Chime Solutions. Chime Solutions was founded in 2015 and provides U.S.-based customer contact services for its clients in a wide range of industries, including financial services, insurance, health care, and telecommunications. The RedBird call center, modeled off Chime’s successful call center at a redeveloping Atlanta-area mall, will convert vacant inline retail space into a major job generator for the community. The company prioritizes employee development through its innovative online Chime University training program and “10K by 2020” initiative to create 10,000 jobs in 10 cities by 2020.

The Lawn will be the centerpiece of the project. Flanked by a Power Store Foot Locker and several restaurants, the Lawn will incorporate a mix of active and passive spaces including a children's park, games area, urban dog park, garden, and flexible performance stage. These spaces will allow for both informal neighborhood gatherings and free daily community programming like yoga classes, lecture series, outdoor concerts, and movie screenings.

The project site is located at 3662 W Camp Wisdom Road in Southern Dallas' Red Bird community. The site qualifies as severely distressed based on a median family income of 35.6% of the metro median and a poverty rate of 34.6%. Project renderings are included in Exhibit 1.

Related/Sponsoring Entities

The Leverage Lender and NMTC Borrower are expected to be special purpose entities affiliated with 3662 Investors, LP. The NMTC Borrower will meet the requirements of a Qualified Active Low-income Community Business ("QALICB").

Financing Terms

NMTC Allocation

Up to \$10 million in allocation from DDF and up to \$3 million in allocation from Capital One Community Renewal Fund ("COCRF").

NMTC Investor

Capital One, N.A. ("Capital One")

Anticipated Closing Costs and Fees

DDF will charge upfront fees totaling 4% of the Qualified Equity Investment ("QEI") (estimated at \$400,000). In addition, DDF will charge an annual Asset Management Fee of \$35,000 per year.

DDF will separately secure reimbursement for costs associated with closing this transaction, as well as audit and tax return preparation costs associated with maintaining the financing structure during the 7-year NMTC compliance period.

Financing Structure

As NMTC Equity investor, Capital One is anticipated to provide a total of approximately \$4.1 million in NMTC Equity (\$0.81 pricing) to support the \$13 million in total allocation from DDF and Capital One. RB Leverage Lender is expected to provide approximately \$9.1 million in the form of a "Leverage Loan" for the transaction. The underlying sources for the Leverage Loan are eligible expenditures incurred by sponsor within the prior 24 months, along with cash equity and potentially City funds.

Capital One will form a special purpose investment fund entity and will be responsible for management of this fund. The equity and leverage debt will be combined to capitalize the investment fund (a subsidiary of Capital One), which in turn will make a QEI of up to \$10 million into a subsidiary of Dallas Development Fund ("DDF Sub-CDE") and pay a 2% CDE Fee to DDF. This fund is also anticipated to make a QEI of up to \$3 million into a subsidiary of COCRF.

DDF, through the aforementioned Sub-CDE, will make a Qualified Low-Income Community Investment (QLICI) loan to the QALICB. Pursuant to DDF's Allocation Agreement, DDF will take a fee of 2% of the QEI to finance its activities. The total QLICI loans to the QALICB will be up to approximately \$12.8 million. Please refer to Exhibit 3 and Exhibit 4 for budget and structure chart.

Closing Timeline

This project financing is expected to close by December 2019.

Community Benefits and Need for Assistance

Community Benefits

Quality Accessible Jobs. Chime's call center is expected to create 625 full-time jobs, at least 90% of which will be accessible to individuals with less than a 4-year degree. The minimum starting wage will be \$14/hour, and all employees are eligible for benefits including health, vision, life, and disability insurance. Chime will partner with Workforce Solutions of Greater Dallas to ensure local residents can access these jobs. The City of Dallas has offered up to \$2 million in PPP Program funding to support job creation and workforce training, comprised of 4-6 weeks of paid employee training. To receive the \$2 M, Chime must create 1000 jobs, with 35% being filled by Dallas residents. In addition to this City-supported job training, all employees will have access to Chime University, a 17-course training program that encourages advancement through topics such as "Building Leadership" and "Supervisory Skills".

Catalytic Redevelopment. The conversion of vacant retail space into a call center with 625 full-time jobs will help bring "critical mass" and purchasing power to the site to attract additional investment. After Phase 1, plans call for approximately 360,000 SF of new restaurant, retail, office, and medical office space. Additionally, as the site's superblock is divided into smaller, pedestrian-scale blocks that will be sold to third-party developers, plans call for 300 units of mixed-income housing, a 40,000 SF grocery store, and a 124-room hotel and conference center.

Community Programming. The Lawn component is designed to be a new year-round, outdoor public space that will be the anchor for the entire project. Reimagine RedBird will manage The Lawn and will offer daily free programming for the public ranging from yoga to lecture series to outdoor concerts and films.

Need For NMTC Assistance

NMTC is a key funding source to ensure the viability of the entire redevelopment. DDF's funding is for the initial phases of Redbird to stabilize the project and attract new tenants and private development that can support market rate financing sources. In particular, the subsidy generated from DDF's NMTC is linked to The Lawn component, which is a vital part of the overall project vision, but challenging to finance given the limited cash flows that will be generated.

Exhibit 1: Site Plan

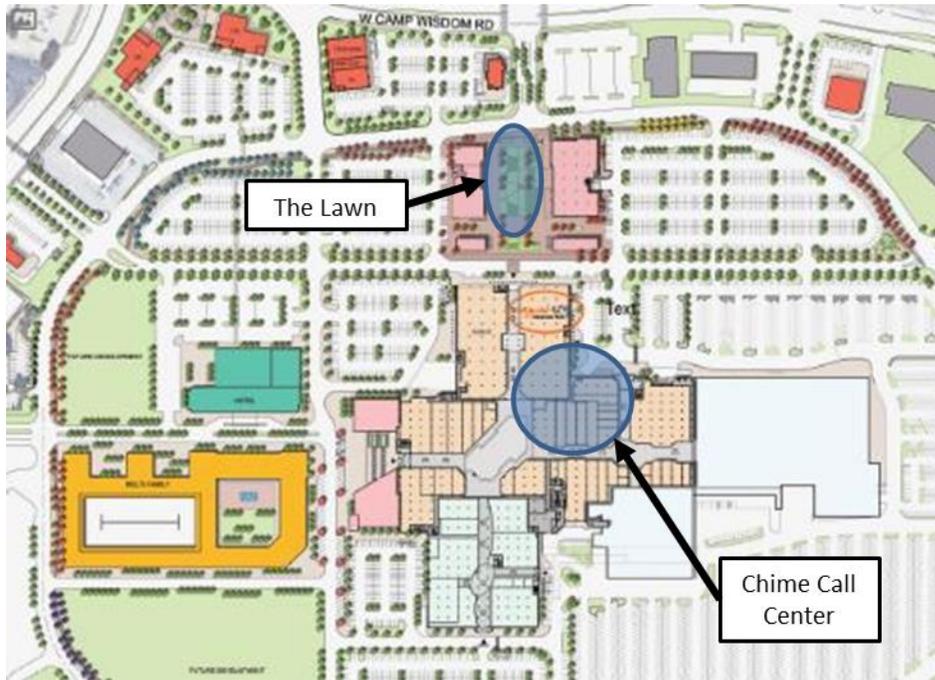


Exhibit 2: Project Images



Aerial rendering of the redeveloped Redbird mall complex



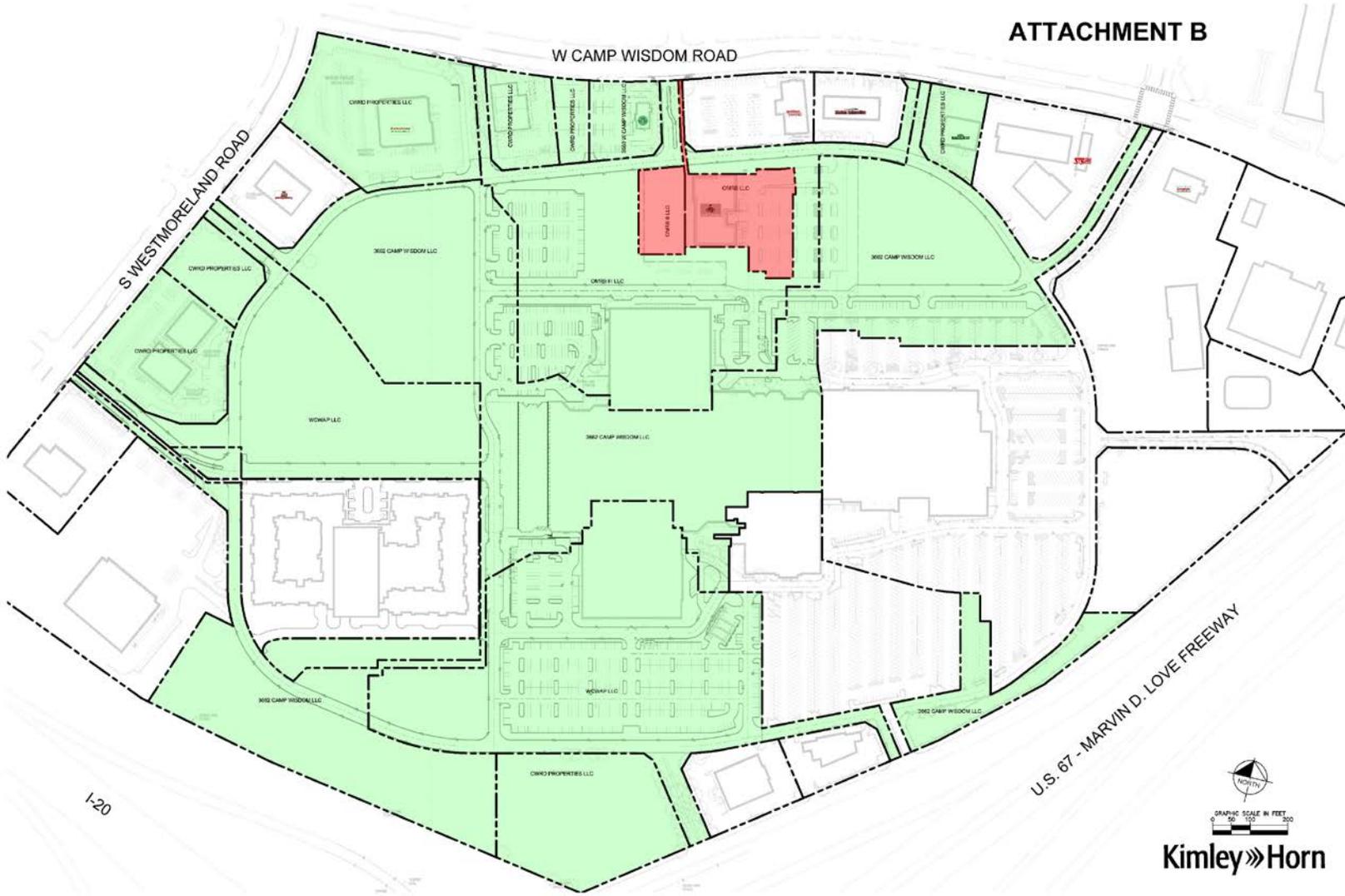
Rendering of the 1.1-acre public lawn



Rendering of potential building facades

Exhibit 3: Preliminary Sources and Uses

Overall Sources	
DDF B Note ("NMTC Gross Subsidy")	\$2,759,000
Capital One B Note ("NMTC Gross Subsidy")	\$947,700
Texas Capital - Foot Locker Loan	\$5,120,000
Sponsor Equity - Cash and Prior Spend (includes City funding)	\$10,861,556
Total Sources	\$19,688,256
Overall Uses	
Foot Locker Acquisition	\$888,624
Foot Locker Hard Costs	\$4,179,866
Foot Locker Soft Costs	\$1,149,875
Foot Locker Infrastructure	\$985,423
Lawn Acquisition	\$252,615
Lawn Hard Costs	\$2,921,598
Lawn Soft Costs	\$423,953
Lawn Infrastructure	\$547,946
Chime Hard Costs	\$7,240,883
Chime Soft Costs	\$152,153
Chime CM Fee	\$54,320
<u>Estimated Base Project Costs</u>	<u>\$18,797,256</u>
Estimated Total Closing Costs	\$550,000
Reserve for DDF Ongoing Fees	\$341,000
Total Uses	\$19,688,256



Property included in Deed of Trust securing performance of Developer's secured obligations in TIF/Chapter 380 Agreement



Property requested by Developer to be released from Deed of Trust to facilitate New Markets Tax Credits transaction