

Memorandum



DATE November 1, 2024

CITY OF DALLAS

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

SUBJECT **Upcoming Agenda Item: Malcolm's Point Retail Project, a community development project in the South Dallas Fair Park area at Al Lipscomb Way and S. Malcolm X Blvd (City Council District 7)**

On November 13, 2024, staff will seek City Council authorization of (1) a Chapter 380 economic development loan agreement in an amount not to exceed \$1,190,354 (sourced from the South Dallas Fair Park Opportunity Fund), and (2) a Chapter 373 community development grant agreement in an amount not to exceed \$312,500 (sourced from the Public Private Partnership Fund) with Southfair Community Development Corporation ("Southfair CDC") in support of the Malcolm's Point Retail Project ("Project") to be located at 2807 Al Lipscomb Way ("Property") in accordance with the City's Economic Development Incentive Policy and the South Dallas Fair Park Opportunity Fund Program Statement. The Property is located within the South Dallas Fair Park Opportunity Fund Program boundary and is also located in an Economic Development Target Area.

With an estimated total cost of \$2.3 million, the proposed Project includes the new ground-up development of an approximately 4,800 square foot building which will bring additional office, restaurant, and retail opportunities to the South Dallas/Fair Park area. Tenants are expected to be Southfair CDC and Aunt Irene's Kitchen restaurant. The Project intends to start construction in Q1 2026.

Please see the attached **Exhibit A** for more detailed information regarding the Project and the proposed loan and grant agreement. Should you have any questions, please contact Heather Lepaske, Assistant Director, in the Office of Economic Development at (214) 670-1222 or heather.lepaske@dallas.gov.

Service First, Now!

A handwritten signature in blue ink, appearing to read 'Robin Bentley'.

Robin Bentley,
Assistant City Manager (I)

c: Kimberly Bizzor Tolbert
City Manager (I)
Tammy Palomino, City Attorney
Mark Swann, City Auditor

Dev Rastogi, Assistant City Manager
M. Elizabeth (Liz) Cedillo-Pereira, Assistant City Manager
Alina Ciocan, Assistant City Manager
Donzell Gipson, Assistant City Manager (I)

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Biliera Johnson, City Secretary
Preston Robinson, Administrative Judge
Dominique Artis, Chief of Public Safety (I)

Jack Ireland, Chief Financial Officer
Elizabeth Saab, Chief of Strategy, Engagement, and Alignment (I)
Directors and Assistant Directors

Exhibit A

Malcolm's Point Retail Project (Phase I)

a community development project in the South Dallas Fair Park area



City of Dallas

**Economic Development
Committee**

November 4, 2024

Heather Lepaska
Assistant Director
Office of Economic Development



- Background
- Proposed Project
- Staff Recommendation
- South Dallas Fair Park Opportunity Fund (SDFPOF) Advisory Board Recommendation and Next Step

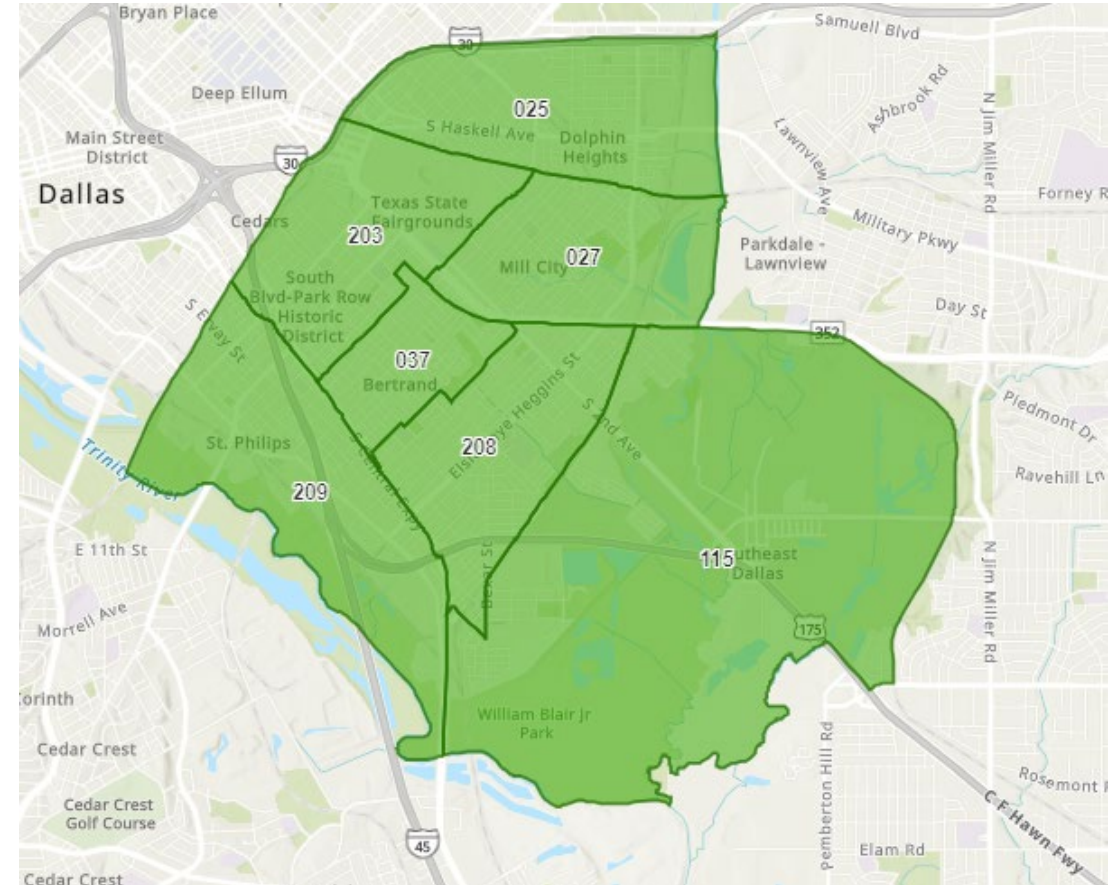
- Appendix



Background: South Dallas Fair Park Opportunity Fund (SDFPOF)



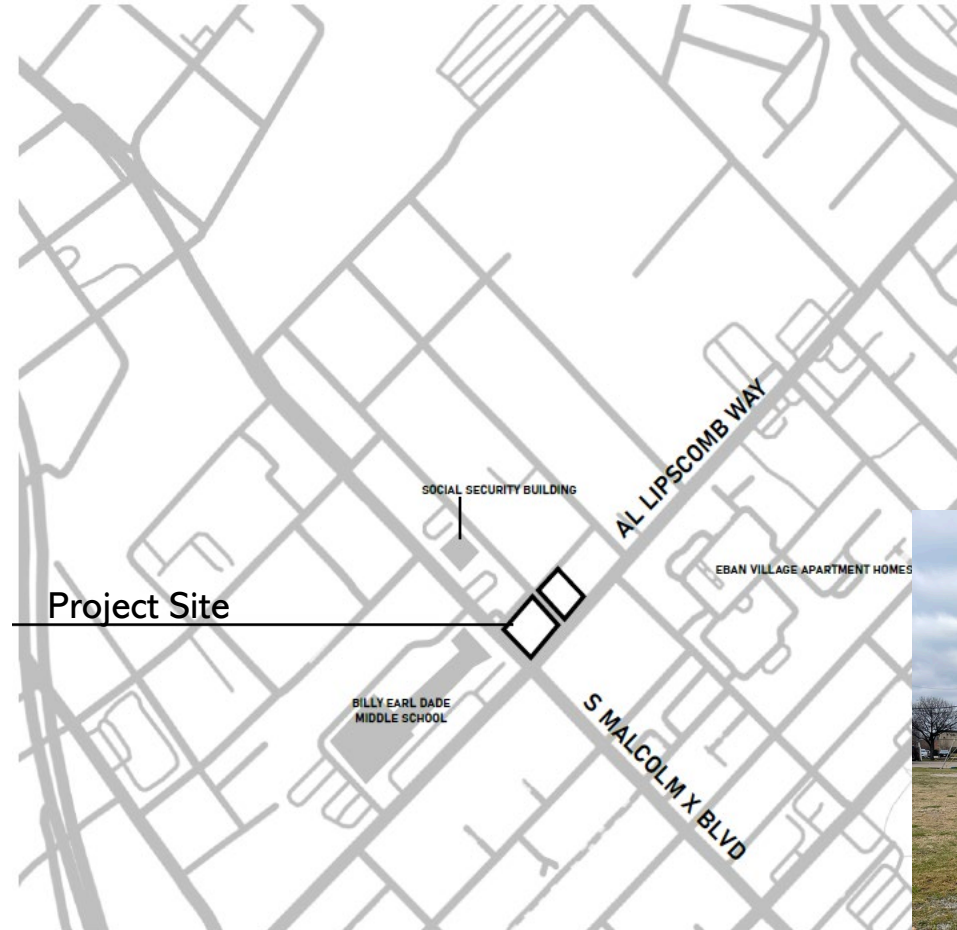
- Dedicated funding program created by City Council in 1989 to support projects within the SDFPOF service area (neighborhoods surrounding Fair Park)
- Economic development loans and grants are available to support businesses or entities that are either:
 1. located within specific census tracts, or
 2. serving a population of at least 90% of residents from the specific census tracts.



Background: Project Location



- Location: 2645 Merlin Street & 2801 Al Lipscomb Way (two vacant lots replatted into one 0.5 acre lot)
- Corner of Al Lipscomb Way and S. Malcolm X Blvd.
 - Census tract 203
- Adjacent to Billy Earle Dade Middle School
- City Council District 7
- In Target Area, per City's Economic Development Incentive Policy
- Zoning: PD 363 (Jeffries/Meyers Planned Development District; amended by City Council on September 11, 2024 to accommodate this proposed Project)



Malcolm's Point Immediate Context



Background: Project Sponsor



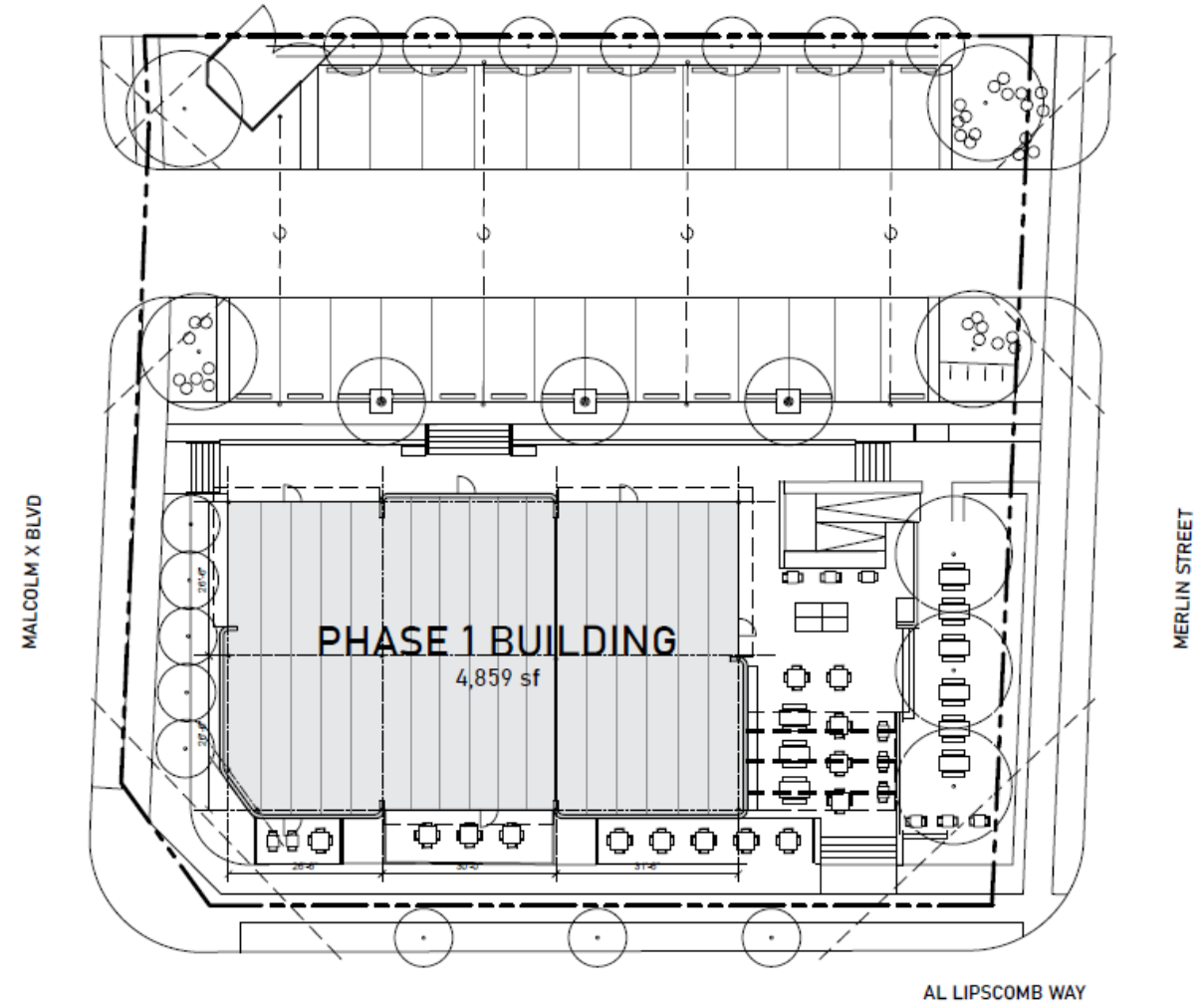
- Southfair Community Development Corporation (501c3)
 - Annie Evans, President
- Founded in 1991 with a focus on providing sustainable (affordable) housing for low- and moderate-income families through multi-family development, single family development, economic development, homebuyer counseling, and through connectivity of social services.
 - Primary focus on Jeffries-Meyers neighborhood
- Has invested more than \$35 million in South Dallas Fair Park area over past 30 years
 - \$20.6 million new and rehabbed multi-family (382 units)
 - \$13.53 million new single-family construction (58 units)
 - \$1.2 million new commercial development (6,000 sq ft medical building)



Proposed Project: Summary



- New ground-up development of 4,859 square foot building
- Will provide new office and restaurant space, plus additional small retail and office spaces to be used by neighborhood entrepreneurs
 - 4 jobs to be created; 3 retained
- Tenants will include Southfair CDC (3,009 sq ft and may be later divided) and Aunt Irene's Kitchen restaurant (1,800 sq ft)
- Total Project cost is approximately \$2.3 million, which includes \$121,500 for the land (contributed as owner equity) and a construction budget of approximately \$1.9 million
- Construction to commence Q1 2025



SITE PLAN

SCALE: 1" = 30'



Proposed Project: Rendering



CONCEPTUAL BUILDING ELEVATION FACING NORTH



Staff Recommendation



- On September 26, 2024, based on analysis and consultation with the City's independent outside underwriter, staff executed a Letter of Intent (LOI) with Project Sponsor to make the proposed Project financially feasible. The LOI includes two incentive components:
 - (1) senior loan of \$1,190,354 (source: South Dallas Fair Park Opportunity Fund), and**
 - (2) community development grant (source: City's Public/Private Partnership Fund)**
- On September 30, 2024, the SDFPOF Advisory Board reviewed and unanimously recommended approval of the senior loan as recommended by staff



Staff Recommendation: SDFPOF Loan



- Initial incentive application submitted with senior and subordinate debt LOIs from Vista Bank and Texas Mezzanine Fund
 - Upon staff and underwriter review, Project could not support debt under the terms offered by senior bank lender
- To address this issue, staff recommendation includes **SDFPOF loan of \$1,190,354** to serve as senior loan
 - 2.5% interest rate, 25-year amortization, 10-year term; construction period is interest-only
 - Loan will be disbursed into a construction management account and disbursed through a construction management process in partnership with Texas Mezzanine Fund (subordinate lender) through a single draw process to Texas Mezzanine Fund
 - Loan size based on loan-to-value (LTV); stabilized fair market value of Project estimated to be \$1.998 million



Staff Recommendation: Grant



- Staff also recommends a conditional community development **grant of \$312,500** (sourced from City's Public/Private Partnership Fund and deployed pursuant to Chapter 373 of Texas Local Gov't Code and the City's Community Development Plan)
- Grant to be paid in two installments:
 - Installment #1: fifty percent (50%) of Grant (\$156,250) shall be payable: (1) after construction of the Project improvements are completed and verified, (2) after the Project has obtained final certificates of occupancy (or equivalent evidence of completion issued by the City) and (3) upon satisfaction of relevant Grant terms and conditions in the executed incentive agreement.
 - Installment #2: remaining 50% of the Grant (\$156,250) shall be payable: (1) after the retail and office space is open to the public, (2) after the building is 80% leased and occupied, and (3) upon satisfaction of relevant Grant terms and conditions in the executed incentive agreement.



Staff Recommendation: Sources and Uses



Proposed Sources

SDFPOF senior loan	\$1,190,354
Texas Mezzanine Fund subordinate loan	\$675,000
City grant	\$312,500
Owner equity (land)	\$121,500
Total	\$2,299,354

Proposed Uses

Onsite Improvements	\$252,320
Land	\$121,500
Construction	\$1,629,722
A&E	\$201,628
Developer Fee	\$68,489
Lease up expenses	\$25,696
Total	\$2,299,354



Staff Recommendation: Agreement Conditions



- Minimum Investment Requirement: \$1,650,000 in capitalized costs for real property and furniture, fixtures and equipment (FF&E) improvements that occur after the date of execution of the LOI (September 26, 2024).
- Completion Deadline: December 31, 2026
- Reporting Requirements: Until the Project has passed final building inspection and all required paperwork documenting Project completion has been submitted to the Office of Economic Development, Owner shall submit to the Office of Economic Development quarterly status reports for ongoing work on the Project. Such status reports shall be due within 30 calendar days following the end of each calendar quarter
- Living Wage: Any jobs directly created by Project (projected to be 4) must pay a living wage (currently \$22.06)



Staff Recommendation: Agreement Conditions



- Loan Security: The Loan shall be secured by a first lien on the property. The Loan shall be disbursed contemporaneously with the closing of all other required financing into construction disbursement account as approved by the City and any other lenders and with the filing of the Deed of Trust occurring on the same day.
- The Loan will be considered in compliance after the construction phase, provided the following terms are met: (1) construction of the Project improvements are completed, (2) Project has obtained final certificates of occupancy (or equivalent evidence of completion issued by the City) (3) retail and office space is open to the public, (4) the building is 60% leased and occupied, and (5) upon satisfaction of all terms and conditions in the executed incentive agreement.
- The Loan shall be considered in compliance during the construction period provided that quarterly reporting is received, monthly interest-only payments are made, and construction is ongoing.



Staff Recommendation: Agreement Conditions



- Compliance Period: The Compliance Period for the Grant shall commence on the date of payment of Grant Installment #2 and shall terminate upon the 5th anniversary of Grant Installment #2 or full repayment of loan, whichever is later.
- Failure to operate Malcolm's Point Retail Center and maintain 60% occupancy during the Compliance Period shall be a default of the incentive agreement.
- The Compliance Period for the Loan shall commence on the date of the Loan period and shall terminate upon payment (including refinance) of the Loan.
- Deadline Extension: Upon submission of a formal request by Owner, the Director of the Office of Economic Development may, at his/her sole discretion, extend any date or deadline for a period of up to nine (9) months.



South Dallas Fair Park Opportunity Fund Advisory Board Recommendation and Next Step



- Board Recommendation: On September 30, 2024, the South Dallas Fair Park Opportunity Fund Advisory Board reviewed the proposed Project and unanimously recommended approval of a SDFPOF senior loan in an amount not to exceed \$1,190,354
- Next Step: City Council: November 13, 2024





Appendix



Appendix: Community Development Program



- Created by City Council in 2023 as part of the Economic Development Incentive Policy
- Authorized by Chapter 373 of the Local Government Code
- As implemented, allows City to provide financial assistance to projects that are led by a non-profit or qualified developer that support:
 - High-quality jobs that provide opportunities for all
 - Investment in southern Dallas and other distressed or low-to-moderate income areas
 - Racially equitable participation in Dallas economy and wealth-building opportunities
- Projects must document a minimum capital investment of \$2 million and demonstrate that at least 75% of the total project funding is either in hand or has been pledged



Appendix: Underwriting Summary



Grow America [formerly National Development Council (NDC)], under contract with the City, conducted independent underwriting of the incentive application

- Applicant originally requested \$326,000 in gap funding from the City. This amount corresponded to a private senior loan that the Project would not be able to cover with available net operating income.
- Underwriter's detailed review and analysis of the Applicant's original application, along with supplemental submissions that were provided in response to requests for additional information, supported gap grant assistance of \$312,500 and a public senior loan of \$1,190,354.
- With the incentive components recommended by staff, the Project's debt capacity is being maximized, and the Project has cash flow available after debt service to support cash-on-cash returns in the 18-20% range once both loans are amortizing. It should be noted that this cash flow could be at risk if the Owner cannot manage the Project at the targeted 5% vacancy rate.





City of Dallas

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Assistant Director
Office of Economic Development