

WHEREAS, the City is committed to supporting enhanced economic development opportunities for low-income communities within the City and to low-income persons residing within those communities; and

WHEREAS, the United States Department of Treasury has established the New Markets Tax Credit (NMTC) program to stimulate investments in predominately low-income communities; and

WHEREAS, the goals and purposes of the NMTC program are consistent with and complementary to the economic development programs previously established by the City to support expanded economic development opportunities for low-income communities within the City and to low-income persons residing within those communities; and

WHEREAS, under the NMTC program, tax credits are competitively awarded annually by the Treasury Department through its Community Development Financial Institutions (CDFI) Fund to qualified Community Development Entities (CDEs) after review and evaluation of applications submitted by CDEs, which are then made available to investors; and

WHEREAS, the City of Dallas created the Dallas Development Fund (DDF) as a non-profit Texas corporation in order to apply for an award under the NMTC program; and

WHEREAS, the DDF was awarded a \$55 million NMTC allocation under the 2009 NMTC program; and

WHEREAS, the DDF was awarded a \$30 million NMTC allocation under the 2012 NMTC program; and

WHEREAS, the DDF board has approved awarding of up to \$7.5 million in NMTC allocation to the Vogel Alcove located at the former City Park Elementary School.

NOW, THEREFORE,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF DALLAS:

Section 1. That the City Council hereby authorizes a New Markets Tax Credit transaction, between the Dallas Development Fund and its subsidiaries, J.P. Morgan Chase and its subsidiaries, and Vogel Alcove and its affiliates for the renovation of property located at 1738 Gano Street, and additional operative expenses to support an expansion by Vogel Alcove as further described in **Attachment A**.

Section 2. That this resolution shall take effect immediately from and after its passage in accordance with the provisions of the Charter of the City, and it is accordingly so resolved.



DATE: November 2013

SUBJECT: Vogel Alcove

FROM: City of Dallas Office of Economic Development Staff

Project Description

Applicant

Since 1986, Vogel Alcove (the “Sponsor”) has served the homeless population of Dallas by providing free childcare for homeless children. Vogel’s vision is for every child to have a home, a self-sufficient family, and a pathway to success in school. By providing a safe environment for children, Vogel allows parents to focus on rebuilding their lives. For homeless children, Vogel offers a breadth of services beyond childcare, including early childhood education, screening for development delays, onsite nutritionists, and basic goods, such as formula, diapers, and clothing.

Vogel Alcove’s current facility at 1100 South Akard serves 115 homeless children daily with a waitlist of over 40 children. The new facility will increase its capacity to meet the needs, as well offer expanded services for homeless families.

Project Description

The Project consists of Vogel’s build out of approximately 55,000 sf of space leased from the Dallas Independent School District in the site of the former City Park Elementary School, as well as a portion of Sponsor’s operating expenditures made within the first 12 months after NMTC closing. The build out will include 3 infant classrooms, 5 toddler classrooms, and 4 preschool classroom, as well as a significant expansion to the space dedicated to family support. By financing operating expenditures, DDF will allow Vogel to more quickly increase its expansion of its operations.

The Project is located in a highly distressed Census Tract with a 30% poverty rate and location within a Texas Enterprise Zone.

Total project costs are estimated to be \$5.9 million, subject to final refinement.

Related/Sponsoring Entities

The NMTC borrower is anticipated to be the Sponsor, Vogel Alcove. The Leverage Lender is Vogel Alcove Foundation, a related nonprofit formed to manage Vogel Alcove’s capital campaign and long-term reserves.

Financing Terms

NMTC Allocation Proposed

\$6.0 million

NMTC Investor

J.P. Morgan Chase

Anticipated Closing Costs and Fees

Dallas Development Fund will charge a Sub-allocation Fee of 4% of the QEI (estimated at \$240,000). In addition, DDF will charge an annual Asset Management Fee of \$21,000 per year.

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

Financing Structure

As NMTC Equity investor, Chase will provide up to approximately \$1.92 million in NMTC Equity. Vogel Alcove will provide the balance of the \$4.2 million in funding to the project as a "Leverage Loan" for the transaction. Chase 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, which in turn will make a Qualified Equity Investment (QEI) of up to \$6.0 million into a subsidiary of Dallas Development Fund ("Sub-CDE").

Dallas Development Fund (DDF), through the aforementioned Sub-CDE, will in turn make one or more Qualified Low-Income Community Investment (QLICI) loans. Pursuant to DDF's Allocation Agreement, DDF will take a fee of 1% of the QEI in order to finance its activities. The total QLICI loan(s) to the QALICB will be up to approximately \$5.89 million.

The financing sources for this project are summarized in the table below. In addition, a preliminary chart illustrating the structure of the proposed transaction is provided in Table 1.

Closing Timeline

This Project financing is expected to close in Quarter 4 2013.

Table 1: Project Sources and Uses**Base Project Sources and Uses**

Sources	Total
Net NMTC Equity	\$ 1,193,800
Sponsor Leverage	\$ 4,201,200
Sponsor QALICB Equity	\$ 17,178
Total Sources	\$ 5,412,178
Uses	Total
Tenant Improvement/Hard Costs	\$ 2,700,000
Incremental Y1 Operating Expense at New Facility	\$ 284,308
Moving Expense	\$ 36,370
FF&E	\$ 306,000
Additional Operating Expense for New Classrooms (One Year)	\$ 435,500
First Year Operating Expense Reserve	\$ 1,650,000
Sub-total (Borrower provided costs)	\$ 5,412,178

QALICB-Level Sources and Uses

QALICB Sources	Total
QLICI Loans	\$ 5,880,000
Sponsor Equity	\$ 17,178
Total	\$ 5,897,178
QALICB Uses	Total
Base Project Costs	\$ 5,412,178
Reserves	\$ 224,000
DDF Year 8 Audit/Tax Reserve	\$ 11,000
Closing Costs/Tax Reserve	\$ 250,000
Total Costs With NMTC-related costs	\$ 5,897,178

Community Benefits and Need for Assistance

Community Benefits

Vogel Alcove's new facility will expand the capacity and services to fight family homelessness in Dallas.

Early Childhood Services. By moving to a new facility, Vogel will expand the early childhood services by 28%, from 115 to 147 children ages 6 month to 5 years old. Vogel offers a stable, nurturing environment for homeless children, while their parents work to rebuild their lives. This childcare is enhanced by extensive education that features developmentally-appropriate, research-based curriculum and assessment tools. Vogel also screens for developmental delays and disorders, of which 90% of homeless children suffer according to National Coalition for the Homeless. When delays are identified, Vogel intervenes with the appropriate speech, occupational, and physical therapy on-site.

After School Programs. With the expansion to the new facility, Vogel will start new programs to serve 25 homeless elementary school children. These programs will fill a gap in services that have resulted in the closure of City Park School and nearby Arlington Elementary School, which had offered after school programs for homeless students.

Family Support Services. In addition to the extensive services for children, Vogel provides support for the entire family. Each family is assigned a clinical case manager and parents have access to training, job search assistance, child care assistance, and referrals to other community resource. The new facility will feature an expanded Community Resource Center to provide families with the resources they may need to assist in their recovery from homelessness and family violence (ex. children's clothing of all sizes, toys and books for the children, diapers, formula, shoes, coats, diapers, wipes, formula, etc.).

Healthcare. The facility will support healthcare for families currently enrolled in Vogel Alcove and other homeless families from the community. In collaboration with Parkland Hospital's Homeless Outreach Medical Services (HOMES) van and Community Dental Care, the site will feature free well-child check-ups, immunizations, treatment, referrals, vision and hearing screenings, and dental care. Vogel will also offer trauma-informed mental health programming to address the mental, social and emotional needs of its children.

Need For NMTC Assistance

But for DDF's NMTC financing, Vogel Alcove would require a substantially longer time period to expand fully into its larger footprint at City Park Elementary, and might need to forego some aspects of its desired program expansion depending on funding availability. Given the organization's current wait list of 40+ students, it is critical for Vogel to expand its services as quickly as possible. To expand services immediately, DDF's funding would address three interrelated funding challenges:

- **Build out funding gap.** Vogel's current fundraising covers only 62% of the costs to build out and move to the new facility. The build out of the space will cost approximately \$3,000,040 (hard and soft costs), plus \$200,000 for FF&E and \$44,500 for moving expenses for a total of \$3,433,234. Vogel Alcove has commitments and pending grants covering \$2,139,980, leaving a

gap of \$1,104,510. This gap may place a burden on the organization's long-term reserve unless it is successful in raising additional funds from its donor base.

- **Operating expenses funding gap.** In addition to the gap associated with the buildout, the move to new space will cause an increase in operating expenses resulting in an operating loss. With the move to the new facility, operating expenses (just to keep capacity the same) would increase by \$242,831 from \$4.07 million to \$4.3 million resulting in an operating loss of \$169,246. These operating expenses are the result of increases in salaries (\$72,062), occupancy costs (\$151,161), insurance (\$11,000), and contract services (\$8,608).
- **Expanded services funding gap.** Finally, the increased operating costs associated with the new space would only maintain the current level of service; at full program capacity in the new facility, Vogel projects that its operating expenses will increase by \$411,256 annually, for which Vogel Alcove does not currently have operational funding. Without NMTC, Vogel would phase its service expansion over multiple years. With NMTC, Vogel will be able to introduce its expanded services within the first 12-14 months after transaction closing, as opposed to a much longer-term period (e.g. 4 years).

Project Images

