

RESOLUTION NO. 13-227

**A RESOLUTION APPROVING THE CITY OF PORT ARTHUR SECTION 4A ECONOMIC DEVELOPMENT CORPORATION'S CREATION OF AN ENTITY TO OWN OR LEASE THE BUILDING AT 501 PROCTER TO FACILITATE A NEW MARKET TAX CREDIT TRANSACTION**

**WHEREAS**, it is deemed in the best interest of the citizens of Port Arthur to enhance the appearance of the downtown area and to create an environment that promotes business and entertainment activities for the community; and

**WHEREAS**, the City of Port Arthur Section 4A Economic Development Corporation (the "PAEDC") desires to relocate its offices to downtown Port Arthur; and

**WHEREAS**, per Resolution No 12-641, the City Council authorized the PAEDC to pursue the building development plan to retrofit the property at 501 Procter based upon the cost estimated attached hereto as **Exhibit "A"**; and

**WHEREAS**, the PAEDC has chosen to redevelop the building using the New Market Tax Credits ("NMTC"); and

**WHEREAS**, the PAEDC must create a subsidiary entity to own and/or lease the building to facilitate NMTC; and

**WHEREAS**, the PAEDC cannot be both the leverage lender and the qualified active low-income community business ("QALICB") under NMTC guidelines; and

**WHEREAS**, the QALICB shall be a nonprofit corporation with five (5) board members, three (3) from the PAEDC Board, and two (2) with no present affiliation with the PAEDC; and

**WHEREAS**, the QALICB would master lease the building from PAEDC for the duration of the NMTC compliance period of seven (7) years; and

WHEREAS, on May 6, 2013, the PAEDC Board of Directors voted at a PAEDC Board meeting to create an entity to own and/or lease the building at 501 Procter to facilitate the use of NMTC.

**NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF PORT ARTHUR, TEXAS:**

**Section 1.** That the facts and opinions in the preamble are true and correct.

**Section 2.** That the City Council authorizes the PAEDC to create an entity to own and/or lease the building at 501 Procter to facilitate a New Market Tax Credit transaction.

**Section 3.** That a copy of the caption of this Resolution be spread upon the Minutes of the City Council.

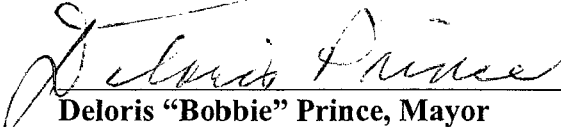
**READ, ADOPTED AND APPROVED** on this 01<sup>st</sup> day of May A.D., 2013, at a Meeting of the City Council of the City of Port Arthur, Texas, by the following vote:

AYES:

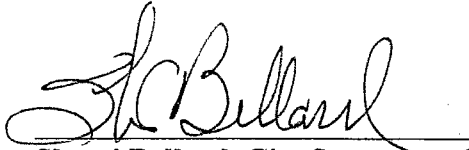
Mayor Prince; Mayor Pro Tem Williamson

Councilmembers Segler, Albright, Trsz, Lewis and Thomas.

NOES: None

  
Deloris "Bobbie" Prince, Mayor

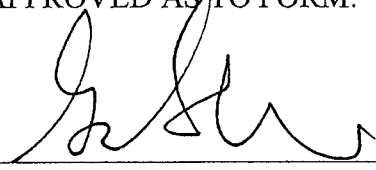
ATTEST:

  
\_\_\_\_\_  
Sherri Bellard, City Secretary

APPROVED:

  
\_\_\_\_\_  
Floyd Batiste, PAEDC CEO

APPROVED AS TO FORM:

  
\_\_\_\_\_  
Guy N. Goodson, PAEDC Attorney

APPROVED AS TO FORM:

*see confidential memo*  
\_\_\_\_\_  
Valecia R. Tizen, City Attorney

# **Exhibit “A”**

### NMTC Sources and Uses Notes

While the New Market Tax Credit Program is tool for revitalization, it is not a guaranteed program and there are upfront costs associated with it such as:

- Legal
- Audits
- CDE AM Fee
- Put Reserve

In regards to the rehabilitation project at 501 Proctor St, the costs associated with using NMTC are as follows:

- Legal: \$200,000
- IF Audit: \$65,421
- Audit Fee: \$78,321
- CDE AM Fee: \$138,425
- Put Reserve: \$63,549

\$545,716 is the estimated cost associated with accessing \$1,337,153 in NMTC equity. All costs are included in the development budget and not taken out of operations.

With NMTC

Sources	
I/O Loan - PAEDC	\$ 4,066,847
I/O Loan - NMTC Equity	\$ 1,283,667
Deferred Loan - NDC	\$ 53,486
<b>Total Development Sources</b>	<b>\$ 5,404,000</b>
Gap	\$ -

Uses	
Acquisition	\$ 200,000
Site Improvements	\$ 27,500
Construction	\$ 4,011,811
Professional Fees	\$ 489,982
Construction Finance	\$ 76,395
Permanent Finance	\$ -
Soft Costs	\$ 6,000
Reserves	\$ 46,596
Legal	\$ 200,000
IF Audit	\$ 65,421
Audit Fee	\$ 78,321
CDE AM Fee	\$ 138,425
Put Reserve	\$ 63,549
<b>Total Development Costs</b>	<b>\$ 5,404,000</b>

NMTC Equity	
I/O Loan - NMTC Equity	\$ 1,283,667
Deferred Loan - NDC	\$ 53,486
<b>Total NMTC Equity</b>	<b>\$ 1,337,153</b>
NMTC Equity	\$ 1,337,153
NMTC Cost	\$ 545,716
<b>Net NMTC Proceeds</b>	<b>\$ 791,437</b>

NMTC Costs	
Legal	\$ 200,000
IF Audit	\$ 65,421
Audit Fee	\$ 78,321
CDE AM Fee	\$ 138,425
Put Reserve	\$ 63,549
<b>Total NMTC Costs</b>	<b>\$ 545,716</b>

W/O NMTC			
<b>Sources</b>		<b>Uses</b>	
I/O Loan - PAEDC	\$ 4,858,284	Acquisition	\$ 200,000
		Site Improvements	\$ 27,500
		Construction	\$ 4,011,811
		Professional Fees	\$ 489,982
		Construction Finance	\$ 76,395
		Permanent Finance	\$ -
		Soft Costs	\$ 6,000
		Reserves	\$ 46,596
<b>Total Development Sources</b>	<b>\$ 4,858,284</b>	<b>Total Development Costs</b>	<b>\$ 4,858,284</b>
Gap	\$ -		
Additional Funding Needed	\$ 791,437		

### RTC Sources and Uses Notes

While the Historic Rehabilitation Tax Credit Program is tool for revitalization on historic properties, it requires compliance with the National Parks Service standards for historic properties and there are ongoing operating costs associated with it such as:

- RTC Investor Exit Tax or Put
- Annual RTC Investor Return on Investment
- Administrative Fee
- Annual Property Taxes (property must owned by a for-profit entity)

In regards to the rehabilitation project at 501 Proctor St, the costs associated with using RTC are as follows:

- RTC Investor Return: 15% of Equity = \$100,065
- RTC Investor Return on Investment: 3% COC, 20,013 x 5 years = \$100,065
- Administrative Fee: \$1,000 x 5 years = 5,000
- Est. Property Taxes on \$3M: \$77,342 a year

\$591,845 is the estimated cost and ongoing property taxes associated with accessing \$667,116 in RTC equity. Using NMTC will extend the compliance period to seven years bringing the estimated operating cost increase to \$828,583 which is \$161,467 over the \$667,116 in RTC equity.



Sources		Uses	
I/O Loan - PAEDC	\$ 4,211,168	Acquisition	\$ 200,000
RTC Equity	\$ 667,116	Site Improvements	\$ 27,500
		Construction	\$ 4,011,811
		Professional fees	\$ 489,982
		Construction Finance	\$ 76,395
		Permanent Finance	\$ -
		Soft Costs	\$ 26,000
		Reserves	\$ 46,596
<b>Total Development Sources</b>	<b>\$ 4,878,284</b>	<b>Total Development Costs</b>	<b>\$ 4,878,284</b>
Gap	\$ -		

Operating Cost Comparison	Year 1	Year 2	Year 3	Year 4	Year 5
RTC Investor Ret (15%)	20,013	20,013	20,013	20,013	20,013
RTC Investor ROI + Admin	21,013	21,013	21,013	21,013	21,013
Property Taxes	77,342	77,342	77,342	77,342	77,342
<b>Operating Expenses w RTC</b>	<b>\$ 118,369</b>	<b>\$ 118,369</b>	<b>\$ 118,369</b>	<b>\$ 118,369</b>	<b>\$ 118,369</b>
RTC Equity	\$ 667,116				\$ 667,116
Operating Increase	591,845				828,583
<b>RTC Operating Difference @ 5 years</b>	<b>\$ 75,271</b>				<b>\$ (161,467)</b>

W/O RTC			
<b>Sources</b>		<b>Uses</b>	
I/O Loan - PAEDC	\$ 4,858,284	Acquisition	\$ 200,000
		Site Improvements	\$ 27,500
		Construction	\$ 4,011,811
		Professional Fees	\$ 489,982
		Construction Finance	\$ 76,395
		Permanent Finance	\$ -
		Soft Costs	\$ 6,000
		Reserves	\$ 46,596
<b>Total Development Sources</b>	<b>\$ 4,858,284</b>	<b>Total Development Costs</b>	<b>\$ 4,858,284</b>
Gap	\$ -		
<b>Additional Funding Needed</b>	<b>\$ 647,116</b>		