

Memorandum



CITY OF DALLAS

DATE April 30, 2021

TO 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 **Gateway Oak Cliff: A Mixed-Income Development Project in the Oak Cliff Gateway Tax Increment Financing (TIF) District**

On June 9, 2021, staff will seek City Council authorization to:

- 1) execute a development agreement and all other necessary documents with Gateway Oak Cliff, LP (“Developer”) and/or its affiliates in an amount not to exceed \$4,245,432, payable from current and future Oak Cliff Gateway TIF District Funds, in consideration of the Gateway Oak Cliff Mixed-Income Development Project (“Project”) on property currently addressed at 400 South Beckley Avenue in Tax Increment Financing Reinvestment Zone Number Three (Oak Cliff Gateway TIF District); and
- 2) increase appropriations in an amount not to exceed \$4,245,432 in the Oak Cliff Gateway TIF District Fund

The Project is located on a 3-acre site at 400 South Beckley Avenue. The site is currently occupied by the Dallas County Government Center (Oak Cliff Sub-Courthouse). Dallas County will be moving the operations at this facility to a new facility currently under construction at 702 E. Jefferson Boulevard.

The Project will include a total of 230 residential units, including 32 efficiency units, 101 one-bedroom units, 71 two-bedroom units and 26 three-bedroom units.

The total Project cost is estimated at \$45,968,851, including a new four-story building wrapped around a central parking garage and interior courtyards along with a clubhouse, pool, playground, and other amenities.

The Project financing includes 4% Low Income Housing Tax Credits (“LIHTC”) that will commit the Developer to providing 80% of the units for households earning a maximum of 60% Area Median Income (AMI).

For the past year, City staff have been working with Developer to review an incentive application and negotiate a TIF subsidy offer of a \$4,245,432 for public infrastructure and an economic development grant as gap financing needed to facilitate this Project. The TIF subsidy shall be payable upon completion of the Project and Developer’s satisfaction of all terms and conditions in the development agreement.

DATE April 30, 2021
SUBJECT **Gateway Oak Cliff: A Mixed-Income Development Project**

See the attached **Exhibit A** for more detailed information regarding the Project as well as the proposed terms, conditions, and requirements of the TIF subsidy.

Should you have any questions, please contact Kevin Spath, Assistant Director in the Office of Economic Development, at (214) 670-1691 or kevin.spath@dallascityhall.com

Regards,



Dr. Eric A. Johnson
Chief of Economic Development & Neighborhood Services

c: Honorable Mayor and City Council
T.C. Broadnax, City Manager
Chris Caso, City Attorney
Mark Swann, City Auditor
Billierae Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizer Tolbert, Chief of Staff to the City Manager

Majed A. Al-Ghafry, Assistant City Manager
Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
M. Elizabeth Reich, Chief Financial Officer
M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion
Directors and Assistant Directors

Exhibit A

Gateway Oak Cliff

A Mixed-Income Development Project in the
Oak Cliff Gateway TIF District

Economic Development Committee
May 3, 2021

Kevin Spath, Assistant Director
Office of Economic Development
City of Dallas



City of Dallas

Presentation Overview



- Background
- Proposed Project
- Staff Recommendation
- Next Steps

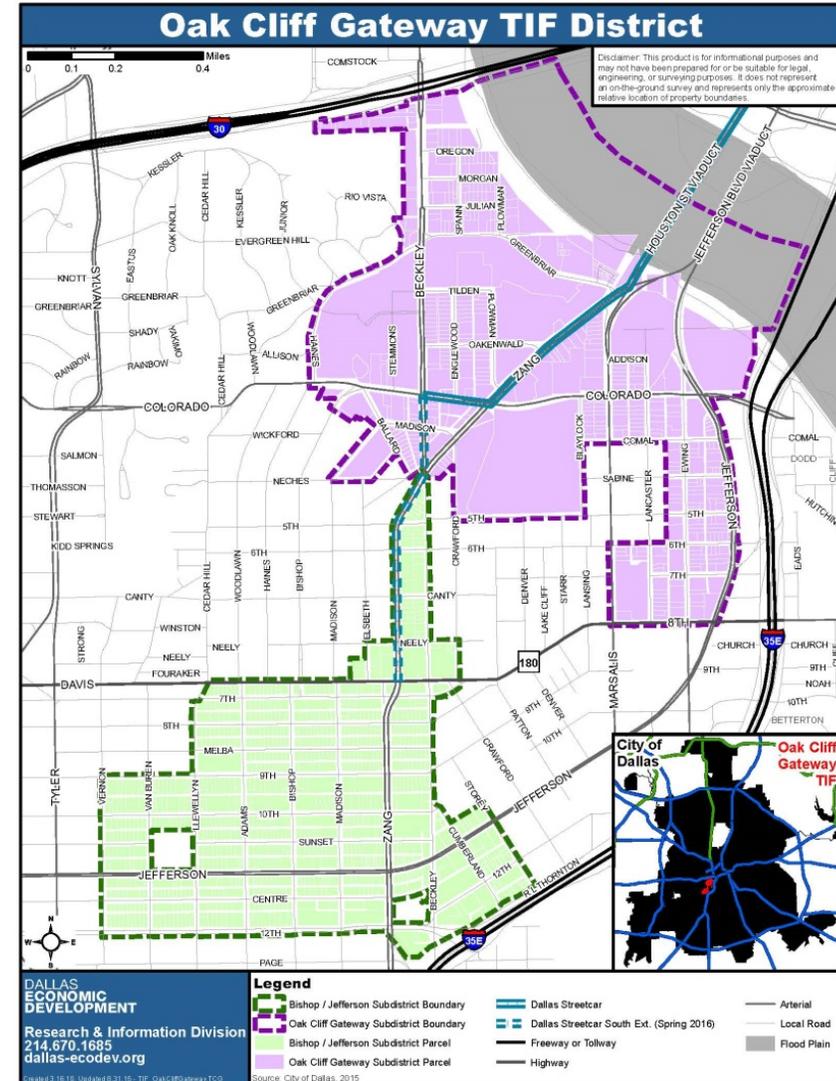
- Appendix



Background: Oak Cliff Gateway TIF District



- Created in 1992 to encourage redevelopment in north Oak Cliff area
- District was amended in 2014 to:
 - Create Bishop/Jefferson Sub-district
 - Extend term of original boundary of district (Oak Cliff Gateway Sub-district)
 - Continue City participation in Oak Cliff Gateway Sub-district at 85% (County participation ended in 2016)
 - Set City participation at 90% and County participation at 65% in new Bishop/Jefferson Sub-district
- Oak Cliff Gateway Sub-district, as amended, expires in 2027
- Bishop/Jefferson Sub-district expires in 2044
- To date, taxable value of real property has increased by \$624 million within the District, an increase of 428% above the base value



Background: Location of Project



Gateway Oak Cliff (the "Project") is located at 400 South Beckley Avenue in City Council District 1 in the Bishop/Jefferson Sub-district of the Oak Cliff Gateway TIF District



Background: Existing Conditions



- Project site is currently occupied by the Dallas County Government Center (Oak Cliff Sub-Courthouse). Dallas County will be moving to a new facility currently under construction at 702 E. Jefferson Boulevard.



Proposed Project: Summary



Project Developer: Gateway Oak Cliff, LP, a Texas limited partnership, with equity investment in the form of 4% Low Income Housing Tax Credits (LIHTC) from National Equity Fund

Project Summary: Developer submitted an incentive application to the Office of Economic Development for the Gateway Oak Cliff Mixed-Income Development (the "Project")

- 230 apartments, of which 184 apartments (80%) shall be rent restricted for households earning a maximum of 60% AMI
- total Project cost estimated at \$45.9 million

Bedroom Type	RESID UNITS
Efficiency	32
1 Bedroom	101
2 Bedroom	71
3 Bedroom	26
Total Units	230



Proposed Project: Summary



- In June 2020, the City's Urban Design Peer Review Panel ("UDPRP") reviewed the Project and commended the development team for bringing much needed affordable housing to this area of the City
- UDPRP recommendations:
 - Explore low-impact development techniques as a part of on-site stormwater management in order to minimize the size of on-site/below-grade retention
 - Recognize the unique context within North Oak Cliff and use architectural massing and façade design to fit the development better into the neighborhood context and help set the standard for future development
 - Shift the massing away from the alley and towards 12th Street in order to create a more urban experience on 12th Street and a more pedestrian-friendly alley
 - Provide direct access to ground-level units from public streets and provide more design detail to the public realm
 - Ensure preservation of as many substantial trees as possible on the perimeter of the site and inside the future courtyard.
- As a result, Developer made changes to accommodate UDPRP's recommendations



Proposed Project: Elevations



1a BUILDING A - ELEVATION



1b BUILDING A - ELEVATION



1 BUILDING A - OVERALL ELEVATION
SCALE: NTS

Source: HEDK Architects

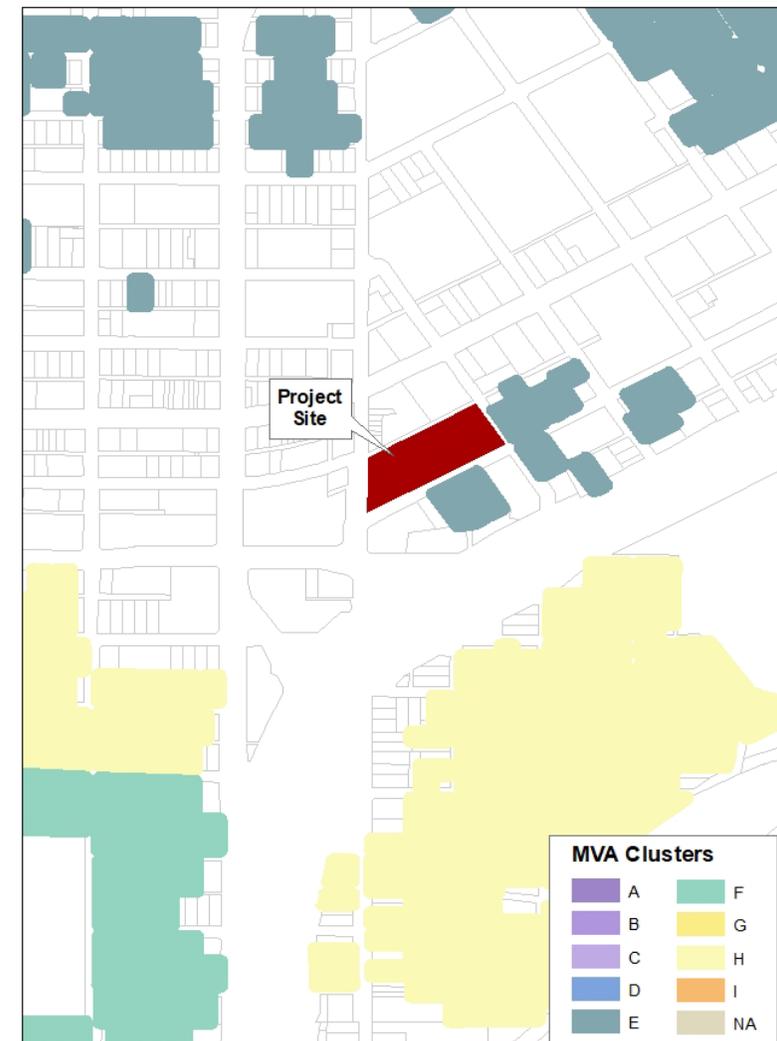


Proposed Project: MVA



Market Value Analysis (MVA)

- Market Value Analysis (MVA) is a tool to assist residents and policy-makers to more precisely target intervention strategies in weak residential markets and support sustainable growth in stronger residential markets
- located on a non-residential tract; surrounded to the north and east by residential market type E. Market type E reflects a middle residential real estate market in Dallas. Market type H is also immediately south, representing a weak residential real estate market
- existing use on the project site and much of the surrounding property is commercial or institutional uses.
- will provide much needed mixed-income housing in a rapidly changing neighborhood



Proposed Project: Budget



Uses	Amount	Percent
Acquisition	\$200,000	0.4%
Demolition	\$350,000	0.8%
On-Site Improvements	\$3,829,572	8.3%
Off-Site Infrastructure	\$340,394	0.7%
Building (Hard) Construction Costs	\$27,699,886	60.3%
Contingency	\$1,596,869	3.5%
Professional Fees	\$1,189,200	2.6%
Soft Costs	\$4,512,385	9.8%
Reserves	\$1,069,000	2.3%
Developer Fee	\$5,181,545	11.3%
Total Uses	\$45,968,851	100.0%



Staff Recommendation: TIF Funding



- Authorize a development agreement and all other necessary documents with Gateway Oak Cliff, LP and/or its affiliates in an amount not to exceed **\$4,245,432** payable upon completion of the Project and Developer's satisfaction of all terms and conditions in the development agreement

Category	Amount
Environmental Remediation and Demolition	\$350,000
Public Infrastructure Improvements	\$695,354
Economic Development Grant [^]	\$3,200,078
TOTAL (amount not to exceed)	\$4,245,432

Note: Funding could be less if final (actual documented) costs for the demolition and public infrastructure improvements are less. Funds may be shifted from one category to another as long as the total amount of TIF funding does not exceed \$4,245,432; however, the grant component will be limited to \$3,840,094. No interest shall accrue on any portion of the TIF funding. Related design, engineering, and professional services may be included in these categories.

[^] Grant pursuant to the adopted Oak Cliff Gateway TIF Grant Program and will offset the cost of mixed-income housing and function to help to make the project financially viable.



Staff Recommendation: TIF Funding



- To facilitate the TIF Subsidy for the Project, Staff proposed that the Oak Cliff Gateway TIF District Board of Directors **amend the District's Increment Allocation Policy**
 - The District's Increment Allocation Policy provides the prioritization rules for annual disbursement of current and future TIF funds
 - The amendment creates a "Mixed-Income Project Leveraging Non-City Funds" category for projects leveraging state or federal assistance
 - A Mixed-Income Project Leveraging Non-City Funds would:
 - a) be eligible to receive the District's Available Cash (not otherwise allocated or set aside), and
 - b) 50% of the Shared Increment, subject to the satisfaction of all Project terms and conditions, until the Project is paid in full (if there are additional TIF District Projects eligible for TIF payment)

Notes:

- Amendment would become effective once the existing obligation for the Bishop Arts Station Project has been fully paid. Other existing obligations from current funds including Hogg Elementary School improvements and Dallas Streetcar support are not impacted.
- Gateway Oak Cliff Mixed-Income Development Project could be paid in full upon completion of construction and satisfaction of all Project requirements



Staff Recommendation: Conditions



- Developer will invest and document a **minimum of \$30,000,000 in eligible expenditures** in the Project, including site acquisition, off-site infrastructure, on-site preparation, site amenities, building construction/finish-out/furnishings, and professional fees
- Project will include a minimum of **230 residential units, of which 80% (184 units) shall be set aside and rent restricted for households earning a maximum of 60%** of the Area Median Income for a minimum period of 15 years (although anticipated to be set aside for 45 years for LIHTC)
- At least 10% of the Project's residential units must be set aside and leased to **voucher holders** or abide by any amendments to Ordinance 30246 and Chapter 20A
- Developer will **obtain a building permit by December 31, 2022**; a foundation permit may constitute meeting the obligation of this requirement
- Construction of the Project, including associated public improvements/streetscape improvements, will be substantially complete by **December 31, 2024 or the placed in-service deadline established by Texas Department of Housing and Community Affairs (TDHCA)** as evidenced by letter of acceptance, certificate of completion, or similar documentation from the City



Staff Recommendation: Conditions



- Developer will execute a **20-year Operating and Maintenance Agreement** for all **non-standard public improvements**
- Developer will make a good faith effort to comply with City's Business Inclusion and Development ("BID") **goal of 32% participation by certified Minority/Women-owned Business Enterprises ("M/WBE")** for **all hard construction expenditures** of the Project and meet all reporting requirements
- Developer shall submit an **Affirmative Fair Housing Marketing Plan** for approval
- Until the Project has passed final building inspection and all required paperwork for payment has been submitted, Developer will submit to the Office of Economic Development **quarterly status reports** for ongoing work on the Project as well as public improvements (reporting information that will already be provided to the lender, tax credit investor, and TDHCA will be accepted)
- Developer will construct the Project (public and private improvements) in **substantial conformance with the conceptual site plan and conceptual renderings approved by the City's Planning and Urban Design Department, addressing the comments provided by the Urban Design Peer Review Panel on June 26, 2020**; allowable minor modifications may include those required for compliance with development regulations



Staff Recommendation: Conditions



- For all permanent employment opportunities, Developer shall submit **a written plan describing how Developer or property management group will use and document best efforts to recruit and hire residents of the city of Dallas**. At a minimum, the written plan shall describe how local recruitment will be targeted through local advertisement, community outreach, local engagement, participation in local job fairs, and/or coordination with local hiring sources
- **Director of the Office of Economic Development may authorize minor modifications** to the Project, including, but not limited to, adjustment in unit type, unit mix, set-aside duration, and/or qualifying Area Median Income (only if also consistent with the Texas Department of Housing and Community Affairs Project requirements and in compliance with Oak Cliff Gateway TIF District Policies and Plans)
- **With approval of the TIF Board and Director of the Office of Economic Development, deadline extension up to 12 months** may be granted



Next Steps



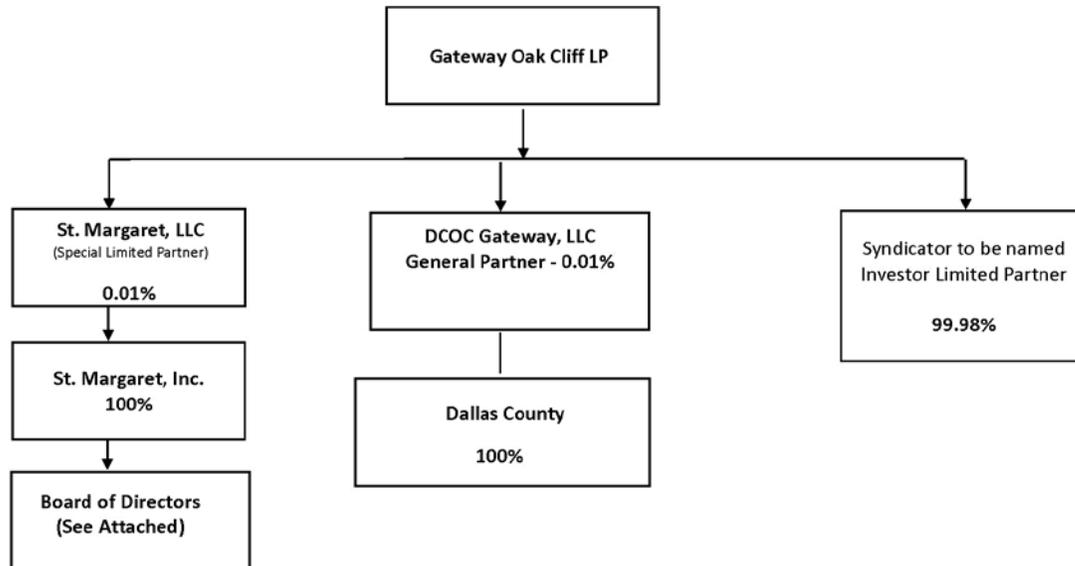
- On April 26, 2021, the Oak Cliff Gateway TIF District Board of Directors reviewed and recommended for approval TIF funding for the Gateway Oak Cliff Mixed-Income Development Project in an amount not to exceed \$4,245,432
- An agenda item will be placed on the City Council voting agenda on June 9, 2021



Appendix: Ownership Structure



Gateway Oak Cliff
Organizational Chart for
Owner



- Limited Partners/Owners
 - 0.01% owned by DCOC Gateway, LLC (General Partner or GP)
 - 100% by Dallas County Housing Finance Corp
 - 0.01% owned by St. Margaret, LLC (Special Limited Partner)
 - 100% by St. Margaret, Inc. (non-profit corporation)
 - 99.98% owned by a to be formed investor Limited Partner
 - National Equity Fund is the syndicator

Co-Developers:

65% - Carleton Development, Ltd. (Carleton)
35% - St. Margaret, LLC

Senior Lender:	Citi Community Capital
Construction Lender:	Citi Community Capital
LIHTC Syndicator:	National Equity Fund



Appendix: Development Team



Role	Party Name
Owner Entity/Primary Contact	Gateway Oak Cliff, LP
Developer	Carleton Development, Ltd.
Architect	HEDK Architects
Contractor	Treymore Construction, LLC (an affiliate of Carleton Development, Ltd.)
Property Management	Carleton Residential Limited Partnership (an affiliate of Carleton Development, Ltd.)



Appendix: Project History



- On May 12, 2020, Dallas Housing Finance Corp (“DHFC”) authorized a preliminary inducement of private activity bonds in an amount not to exceed \$33,000,000
- On May 25, 2020, Housing and Homeless Solutions Committee (“HHS”) was briefed on the Project
- On May 27, 2020, City Council held a public hearing and authorized a Resolution of No Objection for 4% Low Income Housing Tax Credit application to Texas Dept of Housing & Community Affairs (“TDHCA”)
- On January 6, 2021, an application for allocation of \$33,000,000 in private activity bonds was submitted to Texas Bond Review Board and a reservation was received
- On January 25, 2021, HHS was briefed regarding the bond issuance
- On January 27, 2021, City Council approved bond issuance by DHFC
- On April 12, 2021, Developer received notice from TDHCA that Project was awarded 4% LIHTCs
- On April 26, 2021, Oak Cliff Gateway TIF District Board of Directors reviewed Project and recommended City Council authorization of a development agreement with Gateway Oak Cliff, LP and/or its affiliates in an amount not to exceed \$4,245,432



Appendix: Oak Cliff Gateway TIF District Budget



Category	Estimated TIF Expenditures (Current dollars)	Allocated to Date	Pending Allocation for Gateway OC Project	Balance
Oak Cliff Gateway Sub-district *Public Infrastructure Improvements – Streets, Streetscape, Water, Wastewater, Utility Burial, etc. *Façade Improvements *Environmental Remediation and Demolition *Pedestrian Linkages/Lighting *Economic Development Grants	\$32,724,483	\$18,596,326		\$14,128,157
Bishop/Jefferson Sub-district *Public Infrastructure Improvements – Streets, Streetscape, Water, Wastewater, Utility Burial, etc. *Façade Improvements *Environmental Remediation and Demolition *Pedestrian Linkages/Lighting *Economic Development Grants	\$30,188,111	\$11,250,000	\$4,245,432	\$14,692,679
Educational/Training Facilities	\$742,369	\$742,369		\$0
Streetcar Support	\$950,000	\$475,000		\$475,000
Administration	\$2,766,552	\$1,142,417		\$1,624,135
Total Project Costs	\$67,371,515	\$32,206,112	\$4,245,432	\$30,919,971
<i>Budget shown in total dollars. TIF Plan shows budget in net present value (NPV)</i>				



Appendix: Projected Tax Increment



- Property is currently tax-exempt (owned by Dallas County)
- Property will remain tax-exempt under the structure to be established with the general partner of Gateway Oak Cliff, LP being a public entity. The land will remain in title to Dallas County and will be leased to Gateway Oak Cliff, LP
- Although the Project will not generate tax increment, TIF Subsidy will provide the public benefit of mixed-income housing in an area that has seen new housing primarily at market rate and allow for public streetscape improvements that would not otherwise occur.
- Based on current projections, sufficient tax increment from the overall TIF district is anticipated to be available when the Project is complete and eligible for payment.



Appendix: Underwriting



- Project has also been through underwriting process with LIHTC application to TDHCA
- Developer's amended incentive application requested \$4,991,121 in TIF funding
- National Development Council (NDC), under contract with the City, conducted independent underwriting of the incentive application
- Conclusions of independent underwriting:
 - **Development team:** highly qualified to carry out the project
 - **Equity investors:** as a tax credit project, nearly one-third of project funding comes from equity generated from the LIHTCs; the tax credit investor requires several guarantees including completion. Should the Developer not perform, the investor may intercede to complete the project. Audited Financial Statements for the guarantor General Partner involved in the ownership structure were reviewed and show more than \$3.8M in liquid assets to fund guarantees
 - **Permanent debt capacity of Project:** Maximized
 - **Appraisal and Market Study:** applicant's assumptions are consistent with information presented
 - **Cost estimates of Project:** costs reasonable in current market; development costs could be higher than projected since the figures provided by the developer do not represent contracted prices
 - **Rationale for subsidy:** main driver of the subsidy need is that, even with the 4% credit now fixed at 4%, it does not fully cover the cost of constructing an income/rent restricted unit. The mixture of some market rate units alleviates the gap somewhat but not fully. Also, a significant increase in Treasury yield has impacted the pricing of permanent debt and the cost of building materials has risen.
 - **Rational for subsidy based on Returns:** 6.06% IRR for tax credit investor; within reasonable range; no undue enrichment



Appendix: Permanent Sources



Staff, in consultation with the underwriter, structured the proposed TIF Subsidy to balance the uncertainty created by potential higher construction costs and the increased cost of permanent debt with requiring the Developer to maximize non-City resources in filling the gap

- defers 35% of the developer fee to be used as project financing so that there is capacity to direct the remainder towards construction contingency, if needed

Permanent Sources	Amount	Percent
Permanent Loan (Citi Community Capital)	\$24,300,000	53%
3rd Party Equity as 4% LIHTC (National Equity Fund)	\$15,623,419	34%
Deferred Developer Fee	\$1,800,000	4%
City (Oak Cliff Gateway TIF Funds)	\$4,245,432	9%
Total Uses	\$45,968,851	100%



Appendix: Mixed-Income Housing Development Bonus (MIHDB)



- Current zoning is MU-1
- Developer has sought a Mixed-Income Housing Development Bonus (MIHDB) administered by the City's Housing Department. MIHDB allows additional density, removes the floor area ratio (FAR) limits for residential uses, and provides for a parking reduction.
 - Project density will be approximately 80 units per acre (as opposed to maximum 15-25 units per acre)
 - Project will provide 1.25 parking spaces per unit (as opposed to 1 space per bedroom, plus guest parking)
 - Project will not be limited by the maximum FAR of 1.1
- In exchange for MIHDB, Project must provide 5% of the units for households earning maximum 80% AMI (20 year restricted covenant)





Gateway Oak Cliff

A Mixed-Income Development Project in the
Oak Cliff Gateway TIF District

Economic Development Committee
May 3, 2021

Kevin Spath, Assistant Director
Office of Economic Development
City of Dallas

