

# Memorandum



CITY OF DALLAS

DATE January 21, 2021

Honorable members of the Housing and Homelessness Solutions Committee: Casey Thomas II (Chair), Cara Mendelsohn (Vice Chair), Chad West, Carolyn King Arnold, Paula Blackmon, Lee Kleinman, Jaime Resendez

SUBJECT **Upcoming Agenda Item: Comprehensive Housing Policy Amendment to Modify Program Requirements – New Construction and Substantial Rehabilitation Program**

The City has recently received numerous development applications in response to the 2020 Standing NOFA for the development of affordable multifamily and single-family housing. To receive Council approval, an application must meet the applicable threshold requirements per the Comprehensive Housing Policy (CHP), and the applicable threshold requirements outlined in the NOFA solicitation. In addition to compliance with the NOFA and the CHP, projects must meet applicable underwriting standards. To meet those standards, projects are evaluated by Housing Staff and subsequently submitted to a third-party underwriter with initial funding recommendations based on available funding. During the most recent review of projects, the third-party underwriter identified two (2) areas of the CHP that significantly impact the City's ability to provide meaningful gap financing to a variety of multifamily developments.

## **Background**

The Comprehensive Housing Policy was adopted on May 9, 2018 and was most recently amended on August 26, 2020. As a precursor to the release of the 2020 NOFA (release August 7, 2020), Housing Staff recommended changes to the New Construction and Substantial Rehabilitation section of the CHP in June of 2020. Following review by the Housing Policy Task Force, the Housing and Homelessness Solutions Committee did not recommend proposed changes for full Council approval. Although the changes were not recommended by the committee, the committee provided valuable feedback regarding future adjustments to the CHP.

## **Issues Identified by the Third-Party Underwriter**

Between August and December of 2020, Housing staff received five (5) applications for multifamily developments seeking financial assistance from the City. Housing staff subsequently scored all projects, did preliminary reviews of the financials, and submitted eligible projects to an underwriter with funding recommendations. During the review of the projects, the underwriter identified two issues in the CHP preventing the projects from going forward:

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**Issue #1: City participation for multifamily projects is limited to 9% of the HUD 234 Limits.**

Each year, HUD releases city/county-specific HUD 234-Condominium Housing Limits that establish the maximum amount of federal funding that can be used to construct or rehabilitate a unit based on the number of bedrooms. When the CHP was adopted in 2018, the HUD 234 Limits were as follows:

- Efficiency - \$58,787.00
- 1 Bedroom - \$67,391.00
- 2 Bedroom - \$81,947.00
- 3 Bedroom - \$106,013.00
- 4 Bedroom - \$116,369.00

The CHP limits the City's per unit subsidy for rental projects to 9% of the HUD 234 Limits — regardless of financial need, underwriting, or funding source — to the following:

- Efficiency - \$5,290.83
- 1 Bedroom - \$6,065.19
- 2 Bedroom - \$7,375.23
- 3 Bedroom - \$9,541.17
- 4 Bedroom - \$10,473.21

HUD already provides subsidy limits to which the City must adhere. At present, the CHP further limits subsidy for both Federal and non-Federal funding sources. Financial underwriting should determine the appropriate level of subsidy, up to the Federal limits, on a project-by-project basis.

In June of 2018 (after the adoption of the CHP), City Council approved three (3) multifamily projects: 2400 Bryan, The Estates at Shiloh, and Palladium Redbird. None of the three projects approved in 2018 adhered to the 9% limitation of the HUD 234 Limits outlined in the CHP. Using the Palladium Redbird project as an example, the matrix below outlines what the CHP currently allows in juxtaposition to what HUD allows:

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<b>Palladium</b>					
<b># of Bedrooms</b>	<b># of Units</b>	<b>HUD 234 Limits (2018)</b>	<b>Multiplier</b>	<b>Subsidy Allowance</b>	<b>Subsidy Allowance (w/o 9% limit)</b>
0	0	\$ 58,787.00	0.09	\$ -	\$ -
1	129	\$ 67,391.00	0.09	\$ 782,409.51	\$ 8,693,439.00
2	130	\$ 81,947.00	0.09	\$ 958,779.90	\$ 10,653,110.00
3	41	\$ 106,013.00	0.09	\$ 391,187.97	\$ 4,346,533.00
4	0	\$ 116,369.00	0.09	\$ -	\$ -
			<b>Total</b>	<b>\$ 2,132,377.38</b>	<b>\$ 23,693,082.00</b>
			@ 70% Affordable	\$ 1,492,664.17	\$ 16,585,157.40

Had the CHP limitations been applied to the Palladium Redbird project, the City would have only been able to provide approximately \$1.49 million in development subsidy. Doing so would have left a \$6.8 million gap in financing effectively making the project impossible to execute. Ultimately, City funding sources (federal & non-federal) totaled \$8,300,000 and filled the necessary financing gap identified by the developer and confirmed by the underwriter.

**Issue #2: Comprehensive Housing Policy does not make any distinction between permanent supportive housing developments and other multifamily developments with regards to debt structuring.**

At present, the CHP requires that all loans be repayable and makes no distinction between project type or financial need. As outlined in the underwriting report for a proposed permanent supportive housing development, the project can ostensibly support debt service, however, by eliminating debt service on the City loan, the project is on firmer financial footing. The underwriter subsequently recommends that the City structure its debt as a recoverable loan without debt service.<sup>1</sup> Because the City is recommending Proposition J Bond funding for the proposed project, debt service repayment is not an issue. However, if federal sources were the only sources available for permanent supportive housing projects, they, too, would be subject to the current repayment requirements in the CHP.

Permanent supportive housing projects—when compared to non-permanent supportive housing projects—1) have higher operating costs due to required wrap-around services and 2) have lower operating income due to the profile of individuals served and restricted rents. To that end, structuring debt for a permanent supportive housing development and a LIHTC development in the same manner can be problematic.

**Recommendation**

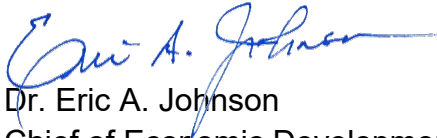
Staff recommends amending the CHP to remove the 9% cap to allow the City to provide subsidy based on financial need and underwriting. The third-party underwriter outlines

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the need to amend the CHP in the underwriting report for a proposed permanent supportive housing project. It is important to note that this limitation affects the remaining four (4) projects in the NOFA pipeline.

Similarly, staff recommends amending the CHP to allow debt to be structured as a forgivable loan for projects with permanent supportive housing units, subject to financial underwriting. Doing so recognizes the inherent challenges in developing permanent supportive housing and makes the CHP responsive to the need for such development.



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

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