City of Dallas

Briefing on the Dallas Housing Finance (DHFC) and Dallas Public Facility (DPFC) Corporations

Housing and Homelessness Solutions Committee
May 22, 2023

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Presentation Overview

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Background

- Dallas Housing Finance Corporation (DHFC) and Dallas Public Facility Corporation (DPFC) were mainly created to:
    1. Leverage tax exemptions to produce affordable housing.
    2. Revitalize blighted properties and spur new investment in targeted areas of City.
    3. Share developer fees and annual cash flow to generate revenues for additional affordable housing activities.
    4. Expedite development activities.

Background (Continued)

Dallas Housing Finance Corporation	Dallas Public Facility Corporation
Financed with Private Debt and Equity	
Require Tax Exemptions to achieve affordability goals	
Financed with Low Income Housing Tax Credits (LIHTC) – Texas Department of Housing and Community Affairs (TDHCA) dictates locations	City Priorities and developer interest drive locations
LIHTC projects serve 30%, 60%, 80% Area Median Income (AMI), and Market Rate Tenants	N/A - No LIHTC projects through the PFC currently
Issues and utilizes Essential Function Bonds* for the purpose of financing affordable housing acquisitions	N/A
Essential Bond Projects serve 80%, 140% AMI, and Market Rate Tenants	PFC Structured projects serve 60% to 80% AMI, and Market Rate Tenants
HFC owns land and project, developer receives fee to operate for lease term	PFC owns land, charges annual lease payments to developer/operator, shares profits at sale

*Essential Function Bonds are tax exempt bonds used to finance public functions such as affordable housing. The DHFC is an authorized issuer of these bonds.

Recent Accomplishments

Dallas Housing Finance Corporation	Dallas Public Facility Corporation
10 properties/2,085 units complete	In Progress
20 properties/4,744 units under construction or awaiting loan closing	13 properties/3,660 units approved, under construction and awaiting closing
2 Projects acquired in high opportunity areas/8 projects developed in rest of City	No acquisitions proposed as of May 2023
All acquisitions are 10 years old or newer	All projects are new ground-up developments
All new developments are class A designed and built	

DHFC Structure – 4% Low Income Housing Tax Credits (LIHTC) Development

- DHFC acts as issuer to private developers who receive a Private Activity Bond (PAB) allocation from Texas Department of Housing and Community Affairs (TDHCA).
  - Most are used for ground-up developments, but have recently seen more activity in preservation.
  - 4% LIHTC properties are typically rent-restricted from 30-60% AMI, reaching deeper affordability levels that PFC programs cannot.
  - Affordability restrictions and property maintenance are regulated by TDHCA. If City subsidy is provided, City staff also monitor for compliance.
  - Tax credit properties are required to provide resident services.
  - Services may include job training, tutoring, food pantry, after school programs, scholarships, shuttles to grocery/pharmacy and more.

DHFC Structure – Essential Function Bonds

- Structure allows public private partnership to abate taxes in exchange for 50% of units restricted to affordable rates (typically 60-80% AMI).
- Public entity owns land and buildings 100%, but developer partner operates the property for an up-front fee.
- Existing properties are financed and purchased 100% using tax exempt bonds – no financial outlay is required from the DHFC and it owns the property entirely.
- Property is immediately acquired and affordability can be implemented as soon as the transaction is closed.
- All cash flow is used to retire the bonds.
- Once bonds are retired, property is owned free and clear with substantial equity to draw on.

DHFC Project Example – Palladium Redbird

- Class-A 300-unit property, Received 2022 National Association of Local Housing Finance Agencies (NALHFA) Award of Excellence.
- 90 market rate units, 196 units at 60% AMI, 14 units at 30% AMI.
- Built as a partnership between Palladium and the DHFC.
- Project utilized roughly $8 million in CDBG and HOME funds to cover gaps in project funding created by affordability restrictions.
- This project has set new market rents in an area undergoing heavy redevelopment.
- Restricted units will remain for at least 45 years under the 4% LIHTC program, while the market rate units will rise with the market.

4% LIHTC – Palladium Redbird

Photos Courtesy of Palladium USA


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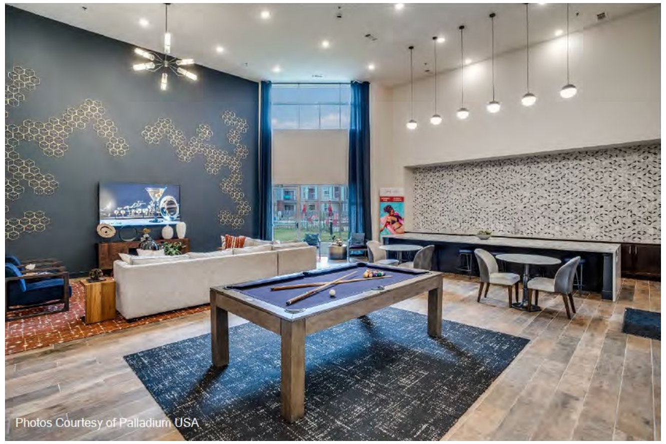
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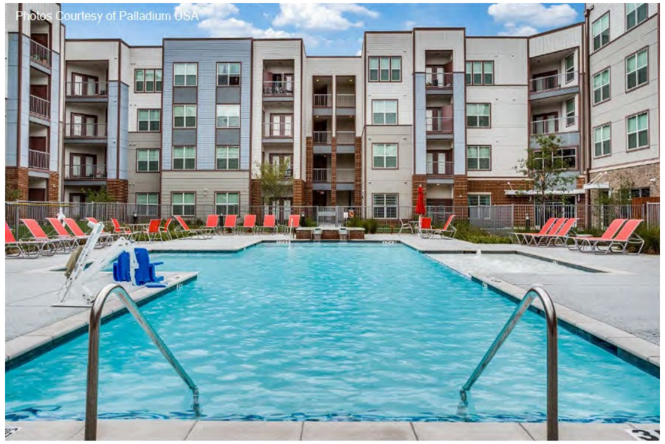
Photos Courtesy of Palladium USA


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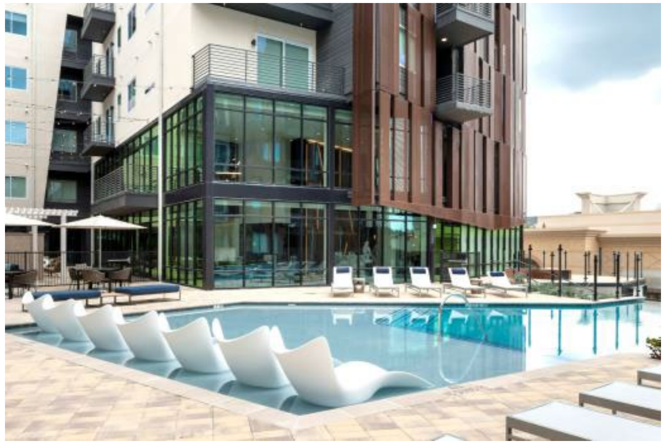
DHFC Example – The Muse

- Existing class-A 289-unit market rate property.
- 50% of the units converted to restricted rents at closing.
- Purchased using essential function bonds.
- Foregone taxes: $37 million over 35 years.
- Rent savings: average of $553 per month compared to market rates.
- Equity: at bond retirement in year 35, public entity is estimated to receive about $277 million in sales proceeds.
- Target audience: Workforce Housing to include teachers, first responders, government employees, healthcare providers, etc.

Essential Function Bonds – The Muse



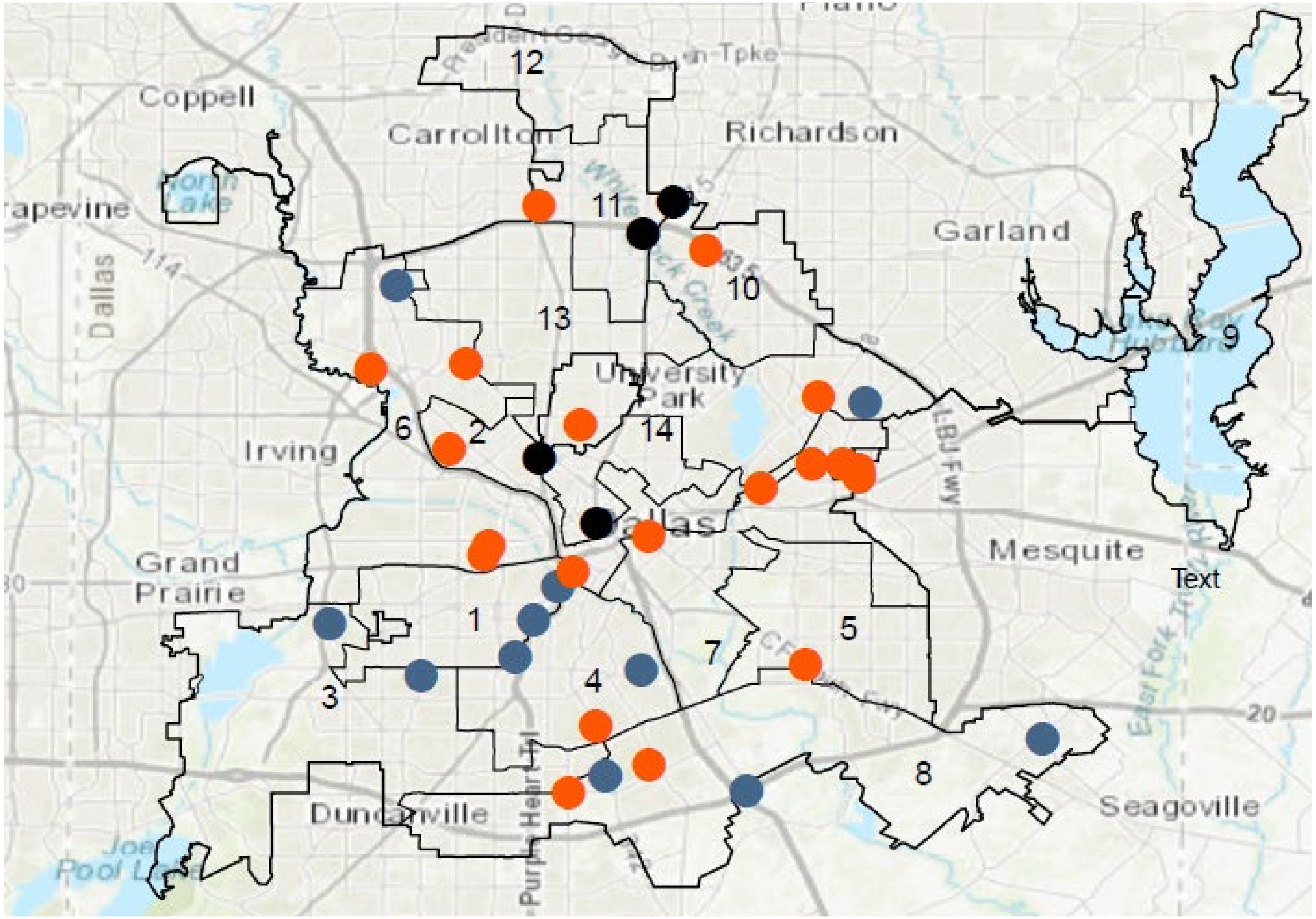
DPFC Structure

- PFC Structure- allows public private partnership to abate taxes in exchange for 50% of units restricted to affordable rates.
- Public entity owns land and collects annual lease payment from developer partner.
- Developer partner finances the construction and operates the property.
- Public entity as part owner is entitled to percentage of gross profits from sale.
- Example – Oakhouse at Colorado:
  - 212 Units, 50% restricted to residents earning up to 80% AMI.
  - 50% of units market rate.

DPFC Example – Oakhouse at Colorado

DPFC Example – Oakhouse at Colorado

Project Maps – DHFC/DPFC Properties



Legend

- Pre-Development DPFC and DHFC
- Under Construction DPFC and DHFC
- Completed DPFC and DHFC
- City Council Districts

DPFC Legislative Update

- Current Bill set to Reform PFC program HB 2071:
  - Sets minimum affordability to 75% of units.
  - Requires permission from county, school district, and other taxing entities.
- These two reforms alone will effectively prevent any proposal from moving forward by making the approvals process too cumbersome and lengthy.
- The deals currently approved by the PFC board have just barely been able to achieve financial viability at 50% affordable. 75% affordability would kill these entirely.

New Business Opportunities

Single Family Initiatives:

- Homebuyer Assistance Loans – TDHCA will allot bond funds to the HFC to issue for low cost mortgages to City of Dallas residents who qualify.
- DHFC has issued bonds to fund 90 low cost loans totaling over $22 million to homeowners.
- Average loan value is $249,000.
- Income levels of homebuyers vary, but are typically less than 80% of AMI.
- Loans are administered through TDHCA-qualified lender partners where residents can submit applications.

New Business Opportunities (Continued)

- Alignment with Dallas Housing Policy 2033-driving investment to target areas.
- PFC and HFC can be utilized as subrecipients to City allocating bond funds, HOME, and CDBG funds, or General Funds.
  - As a subrecipient, the corporations have a stable pipeline of projects that already need gap funding and can spend the dollars more quickly and efficiently using their approvals process rather than going through the lengthy City Council approvals.
- Staffing vs. Outsourcing
  - City staff is limited to what they can accomplish, but the corporations can effectively hire outside experts and third parties without having to go through a procurement process to achieve results much more quickly

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