

Proposed Creation of the Dallas Public Facility Corporation

**Economic Development Committee
February 3, 2020**

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Office of Economic Development
City of Dallas**



Presentation Overview

- Issue
- Potential Tool for Housing and Economic Development
- Background and Process
- The San Antonio Housing Trust
- Proposed Structure and Purpose of Dallas Public Facility Corporation
- Case Studies
- Recommendation and Next Steps
- Appendices

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Issue

- **May 2018:** City Council **adopted** the first Comprehensive Housing Policy (**CHP**) data driven policy based on a Market Value Analysis (**MVA**) commissioned by Reinvestment Fund
- **CHP established 3 Broad Goals:**
 1. **Create** and **maintain** affordable housing units throughout Dallas
 2. Promote **greater** fair housing choices
 3. **Overcome** patterns of segregation and concentrations of poverty through incentives and requirements
- **Geographic Focus:** Adoption of **15** Reinvestment Strategy Areas (**RSAs**); **3** Types:
 1. Redevelopment
 2. Stabilization
 3. Emerging Markets

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Issue – cont'd

Redevelopment Areas (4)

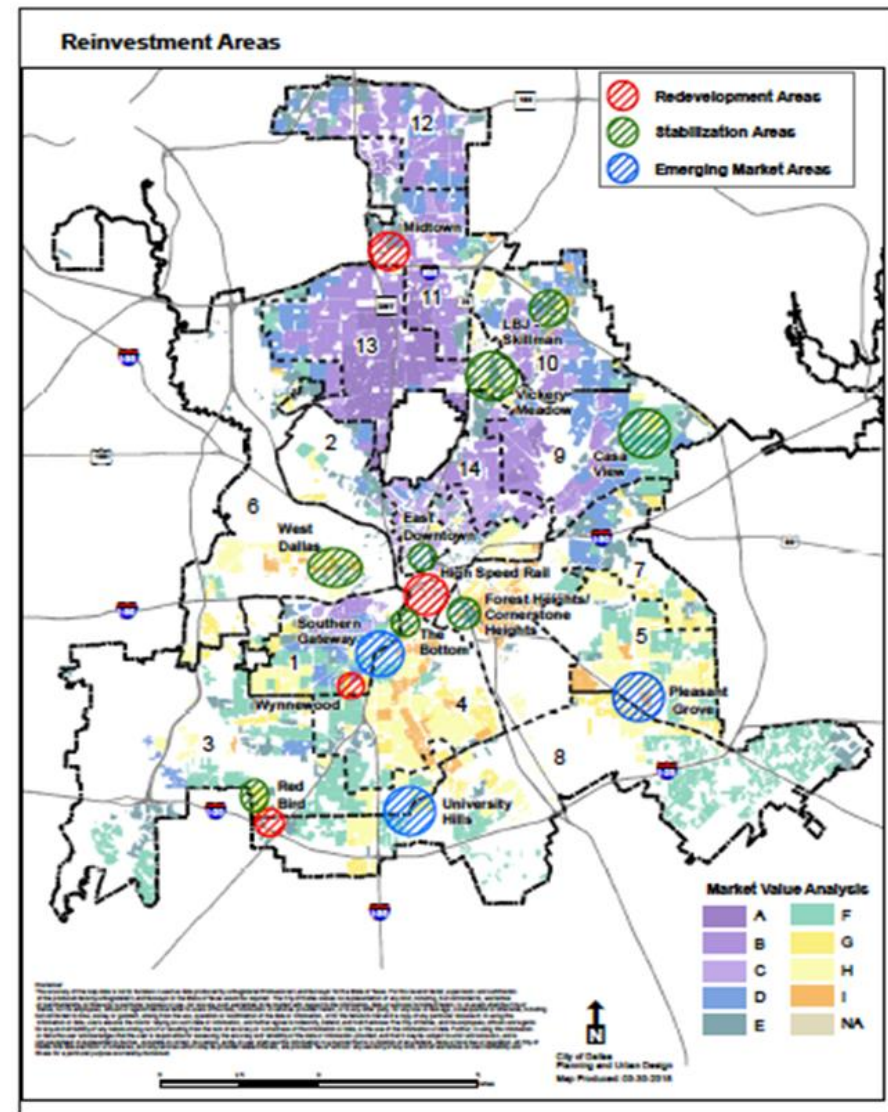
- Catalytic project scheduled to occur within the next 12 months that is supported by a third-party, independent market analysis. Project must include new housing production with affordable units offered for sale or rent to a mix of income bands.

Stabilization Areas (8)

- Weaker real estate markets (**G,H,I**) surrounded by stronger markets (**A-E**), and, as such, are at risk of displacement based on market conditions and scheduled redevelopment projects. New development and preservation of existing housing stock is prioritized.

Emerging Market Areas (3)

- A blend of middle markets (**C,D,E**) with mostly **G,H,I** markets. Needs intensive environmental enhancements, public infrastructure assessments and corrective plans, code enforcement, master planning and formalized neighborhood organizations to be prepared for real estate investment. Preservation of existing housing stock is prioritized.



Issue – cont'd

- Shortage of **20,000** units of rental and for sale housing at a range of income bands **30%-120%** of Area Median Income (**AMI**)
- Established **annual** production **goals** to housing shortage along with tools to address

Homeownership	% Total Units		HUD Area Median Income Dallas Metro	% Total Units	Rental
933	55%	Market Rate	120%	40%	587
1120			100%		587
1307	45%	Extremely Low, Very Low, Low Income	80%	60%	733
373			60%		440
			50%		293
			30%		293
Total: 3,733					Total: 2,933

Issue – cont'd

- **Barriers** to providing quality, affordable and workforce housing with access to **opportunity** or for area **redevelopment** include but are not limited:
 - X Land costs too **high**;
 - X Lack of **adequate** infrastructure;
 - X Environmental **remediation**; and
 - X No proven **market** for residential development
- Leads to **gap** under either the development sources and uses or **impacts** the operating proforma

Issue – cont'd

The most important number in real estate development is net operating income (**NOI**). NOI is the amount of cash flow or **revenue** available after expenses, debt service, etc. and is an indicator of lending potential for a development

Development Subsidy vs. Operating Subsidy

- Development subsidy or **gap financing** is needed when a development cannot move forward, after maximizing **debt capacity**, and there is still a gap in sources needed to complete the development compared to the uses
- Operating subsidy is assistance such as **tax exemptions**, rental subsidies or vouchers to offset the **loss** in potential revenue that would have otherwise been generated by a development
- In both instances, developers can **increase** borrowing capacity and fill a gap
- **Proposed** use of the PFC for the City would be as an **operating subsidy**

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Issue – cont’d

OPERATING PROFORMA		
LINE ITEM		COST
GROSS RENT		\$100,000
OPERATING EXPENSES	Taxes	(\$20,000)
	Insurance	(\$5,000)
	Maintenance	(\$5,000)
	Administration	(\$20,000)
NET OPERATING INCOME		\$50,000
DEBT SERVICE*		(\$25,000)
CASH FLOW BEFORE TAXES		\$25,000
DEPRECIATION		(\$15,000)
TAXABLE INCOME		\$10,000
X 35% TAX BRACKET		(\$3,500)
NET REVENUE		\$6,500
*Could include gap assistance from the City.		

Potential Tool for Housing and Economic Development

- Public Facility Corporation (**PFCs**) are used as a **tool** to **create mixed income** residential housing in areas where there is **not** an existing market for housing or **difficult** to produce/develop workforce or housing for the “**missing middle**” (Income bands **80% - 120%** of AMI)
- PFCs through the **introduction** of a **mix** of workforce and market rate units (typically **50%** of the total units) **serve** as:
 - ✓ **Catalyst** for other high quality **Class A** residential development; or
 - ✓ Economic development due to additional rooftops and households with **higher** incomes needed to **attract** retail

Background and Process

- **December 2, 2019:** Presented the proposed **creation** of a PFC for the City at the Economic Development Committee (**EDC**); however, the item was delayed for staff to address questions raised by EDC members
- Series of stakeholder **input** meetings held at the Meadows Conference and hosted by the Housing Policy Taskforce and City staff to **address** questions and **establish** a guide or priorities on how the PFC could be **best utilized** as a tool for the City of Dallas

DATE	TIME
Friday, January 17, 2020	10:30 AM – 12:00 PM
Thursday, January 23, 2020	10:30 AM – 12:00 AM
Friday, January 24, 2020	1:30 PM – 3:00 PM

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Background and Process – cont'd

- **39** attendees including for profit and nonprofit developers, housing advocates, and attorneys
- Staff **provided** an overview of PFCs, proposed **structure** of Dallas PFC, **guide** for the use of the tool, and proposed **partnership** structure
- Feedback **received**:
 - ✓ Include mix of income bands and not limit all units at **80%** of AMI
 - ✓ Do **not** cap IRR;
 - ✓ Compliance and income verification to **ensure** meeting workforce housing requirements and housing families;
 - ✓ Transparent fee structure for **3rd**-party fees to close transactions;
 - ✓ **Fair Housing**: How does the tool impact the City's requirement to provide greater fair housing choice?;
 - ✓ Consider Stabilization RSAs; and
 - ✓ Nondisclosure Agreements

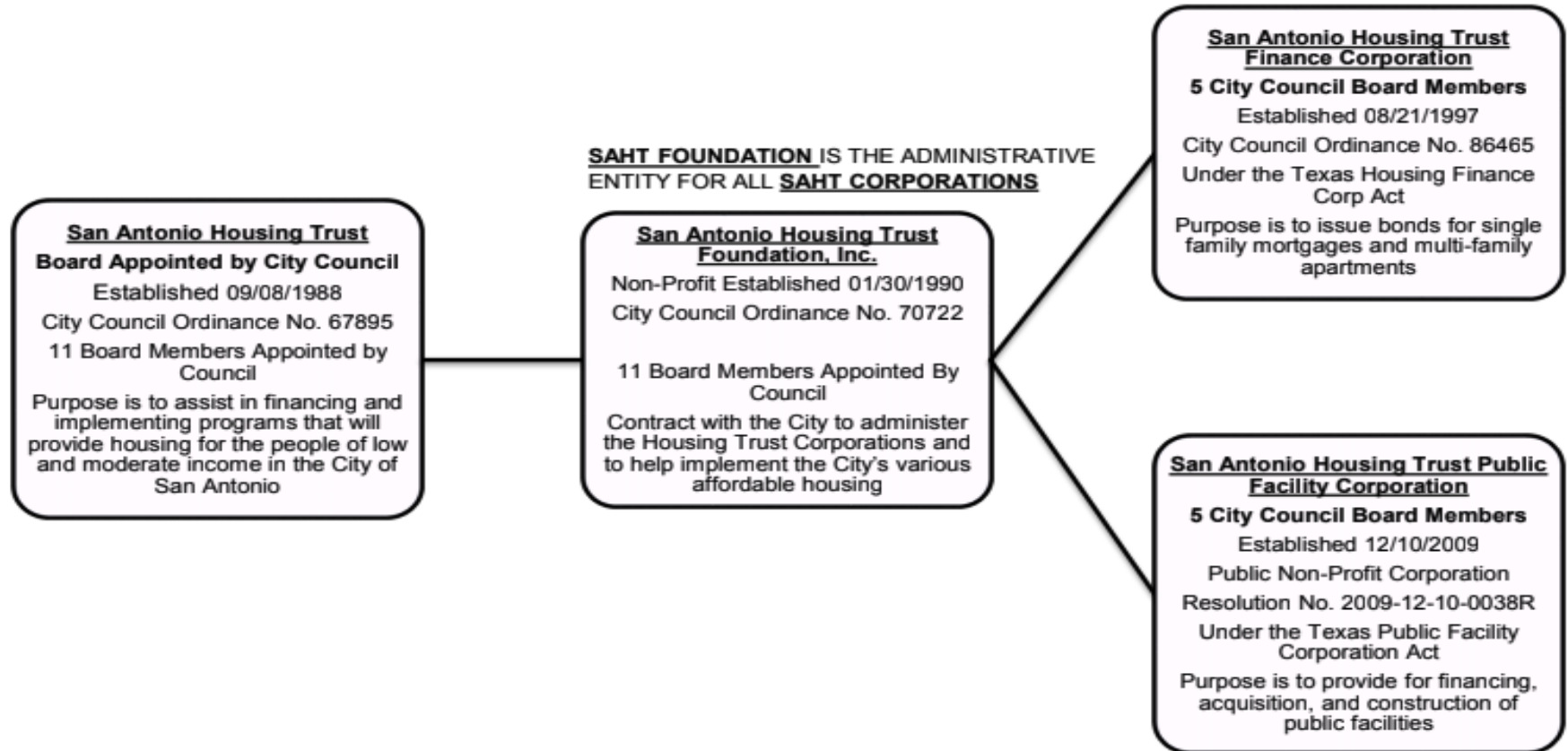
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The San Antonio Housing Trust (SAHT)

- **1989** SAHT is capitalized with **\$10,000,000**
- In **2009**, City of San Antonio created the San Antonio Housing Trust PFC (**SAHTPFC**) to serve as tool to **create** affordable housing and accomplish the City's **revitalization** goals
- SAHTPFC is **administered** by the San Antonio Housing Trust Foundation; and currently, **5** City Councilmembers serve on the Board
- Use PFC to **partner** with developers on tax credit developments and PFC deals with mixed income housing

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The San Antonio Housing Trust (SAHT) – cont'd



The San Antonio Housing Trust (SAHT) – cont'd

- Under the **proposed** DPFC structure, SAHTFPFC has mixed income developments as follows:
 - ✓ 4 Completed;
 - ✓ 5 Under construction; and
 - ✓ 4 In pipeline
- According to **2018** financial audit, SAHTFPFC, primary source of **revenue** are **developer fees (\$1,021,049)** associated with the construction of public facilities
- Currently, considering **restructure** for Board and development of **policies** for greater transparency

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Structure of Dallas PFC

- **Board of Directors: 15** members to be appointed by City Council
 - **3** Councilmembers as incorporators and initial directors and to serve on board
 - **Officers** – President, Vice President, Secretary, and Treasurer* (*Will be a City employee)
 - **Term:** Directors may not serve more than **6** years and can be removed without cause; Officers can not serve for a term of more than **3** years
 - Certain provisions of Chapter **8** of Dallas City Code will apply to the Board such as Section **8-1.4**, “Qualification Considerations in Appointments to Boards,”; Article IV, Section **8-14**, “Financial Interest,” and Article V, “Code of Conduct;”

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Structure of Dallas PFC – cont'd

- City **staff** to serve as **liaisons** in capacity of General Manager and Assistant General Manager to assist with management of operations
- Meetings will be held in accordance with the Texas Open Meetings Act and agendas shall be posted to the City Secretary's Office **72** hours prior to the meeting
- Overall structure and specific requirements as required by the Act, are in the **Articles of Incorporation** and **Bylaws**

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Public Purpose of Dallas PFC

- To assist the City in meeting its **production goals** established under the Comprehensive Housing Policy:
 - ✓ Develop housing for the “**missing middle**” or workforce housing.
 - ✓ Focus on areas of opportunity and as a tool for redevelopment
 - ✓ Deconcentrate poverty and provide greater fair housing choice
- Affordability mix dependent upon **market** and **location**, but no less than **30%** affordable and no more than **50%** with the remaining at market*

***The Act only requires the occupancy and set aside requirement for certain housing authority-created PFCs for multifamily residential developments**

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Public Purpose of Dallas PFC – cont'd

■ Area of Opportunity

- ✓ **A,B,C** markets only under MVA
- ✓ Redevelopment RSA
- ✓ Area with **20%** poverty rate or less
- ✓ TODs
- ✓ TIFs (Determine if **developer subsidy** or **operating subsidy** is needed to fill gap)

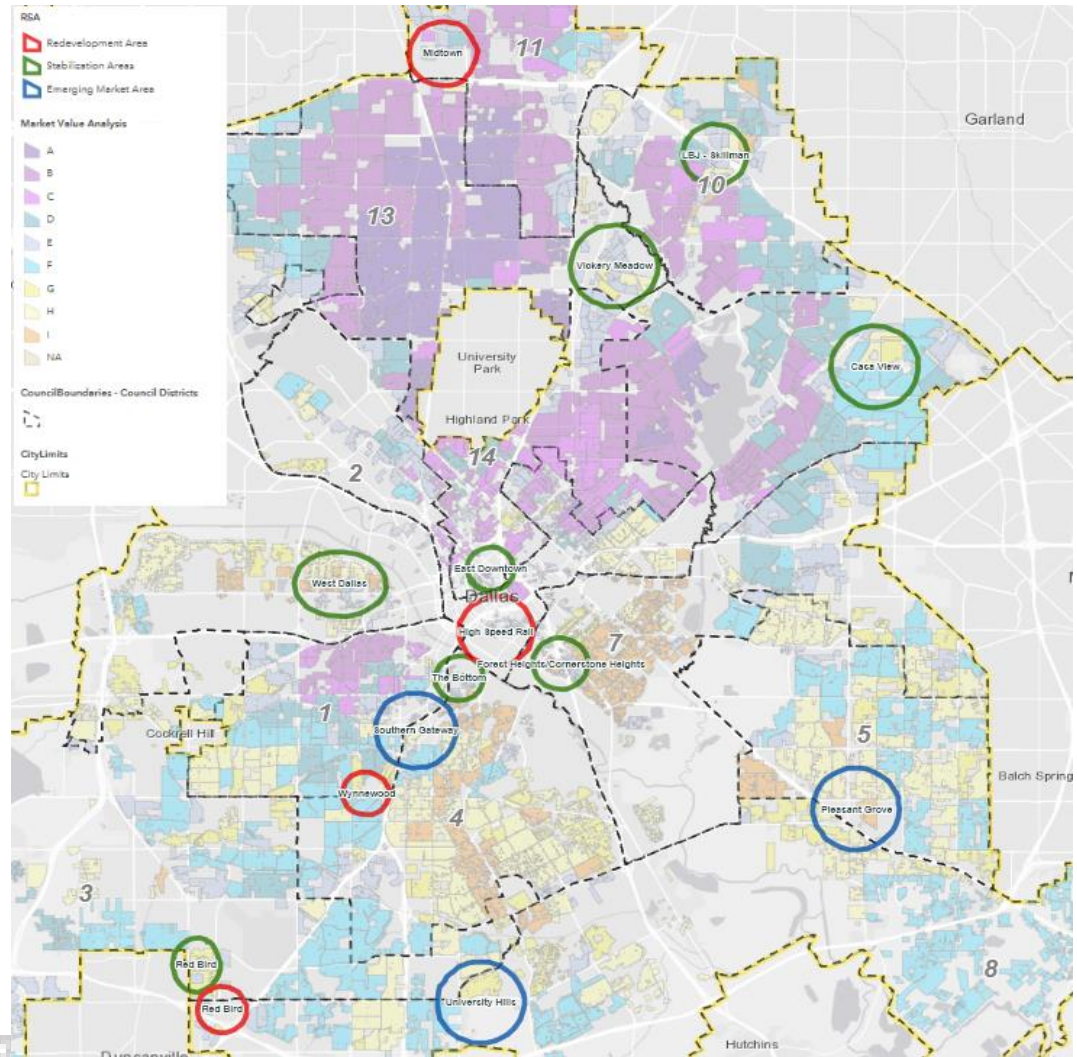
■ Affordability Mix (Income Band Range)

- ✓ **50%** of the units to be reserved for individuals or families whose income is **80%** or less than the AMI. The remaining units must be market rate

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Public Purpose of Dallas PFC – cont'd

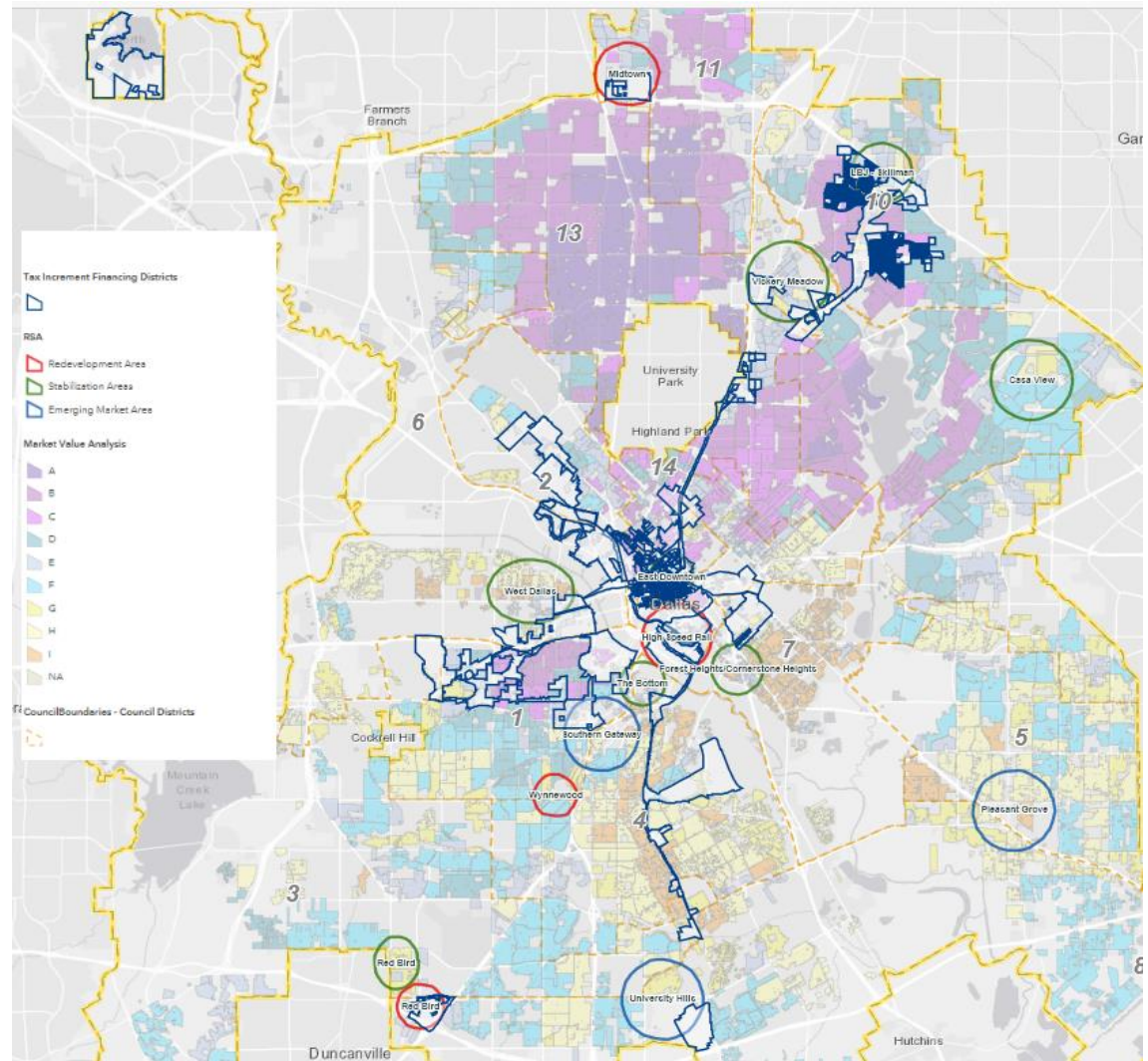
City-wide Map with MVA and RSAs



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Public Purpose of Dallas PFC – cont'd

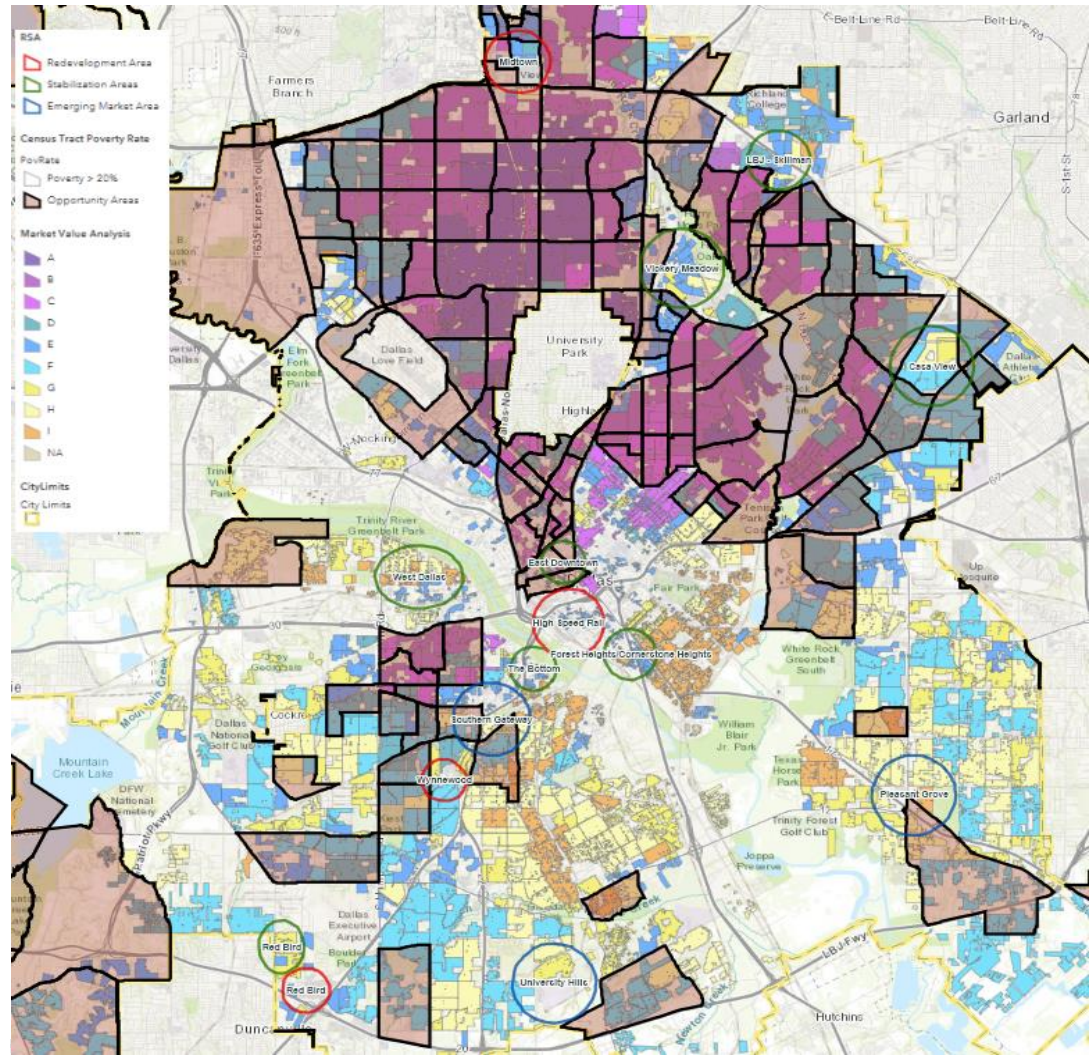
City-wide Map with MVA, RSAs, and TIFs



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Public Purpose of Dallas PFC – cont'd

City-wide Map with MVA, RSAs, and Census Tracts with Poverty Rate < 20%



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Public Purpose of Dallas PFC – cont'd

■ Redevelopment

- ✓ Emerging RSA where there is other **investment** including from the City
- ✓ Opportunity Zones (**OZs**)
- ✓ R/ECAP Areas
- ✓ TODs
- ✓ TIFs (Determine if **developer subsidy** or **operating subsidy** is needed to fill gap)

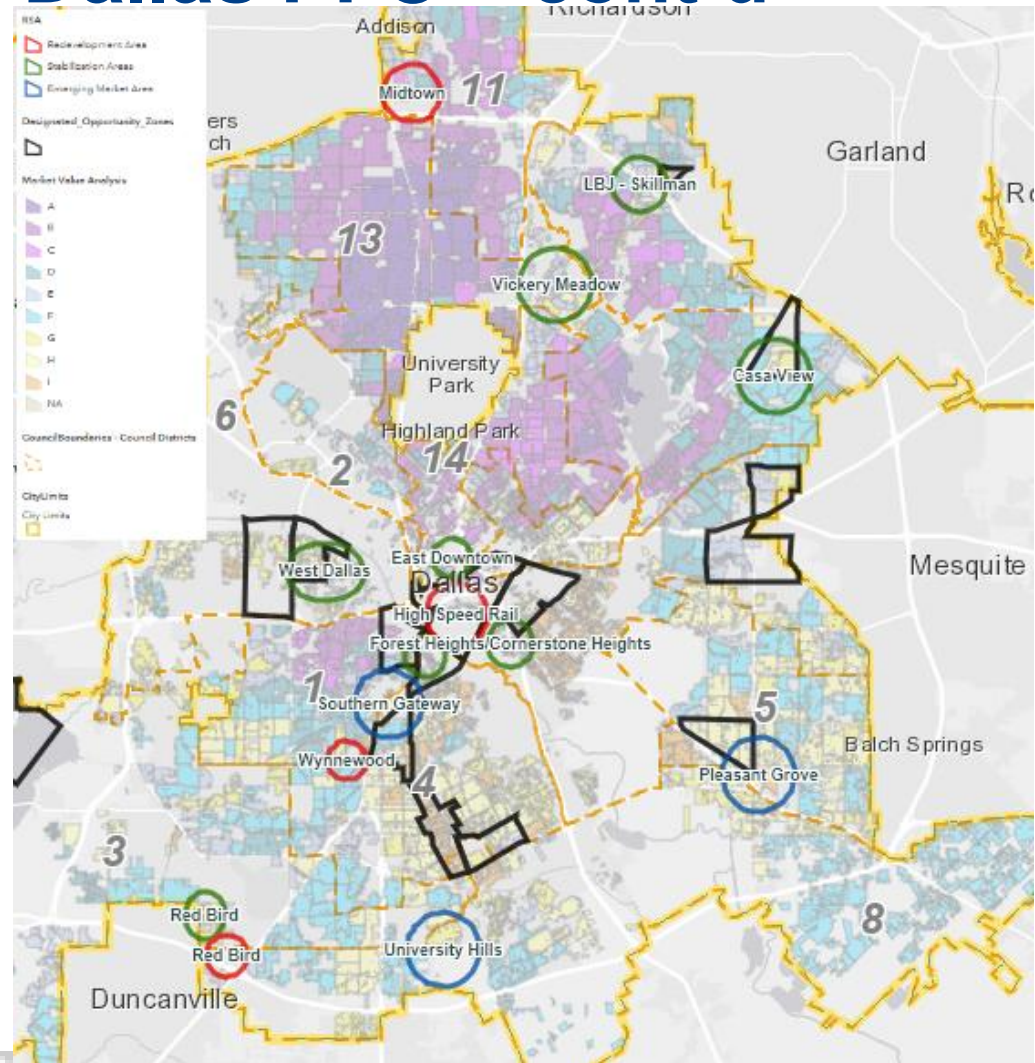
■ Affordability Mix

- ✓ No less than **30%** of the total units set aside for households at **80%** or below of AMI; the remaining units **market rate**

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Public Purpose of Dallas PFC – cont'd

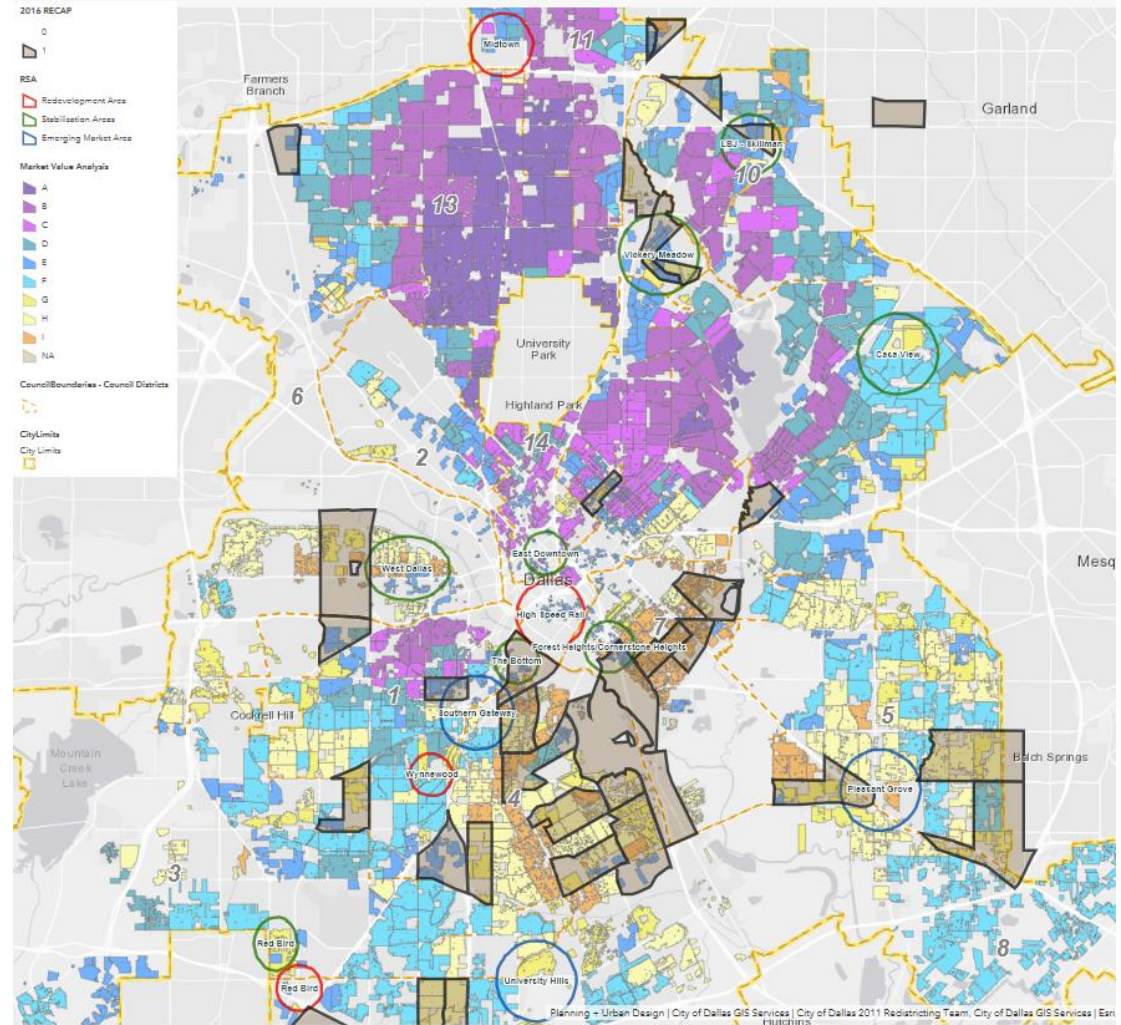
City-wide Map with MVA, RSA, and OZs



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Public Purpose of Dallas PFC – cont'd

City-wide Map with MVA, RSA, and R/ECAP Areas



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Public Purpose of Dallas PFC – cont'd

Partnership Structure:

- Transaction/Closing Fee: **\$200,000 - \$225,000**
- Cash flow split **15%-25% or annual fee (includes share of sales proceeds and transfer)** dependent upon income bands served
 - ✓ For instance, if target **deeper** income bands; then; DPFC would accept **lower** cash flow split to provide rental subsidies;
- Minimum **experience** requirements and background verification
- Letters of commitment **must** be provided from lenders and equity investors **prior** to consideration

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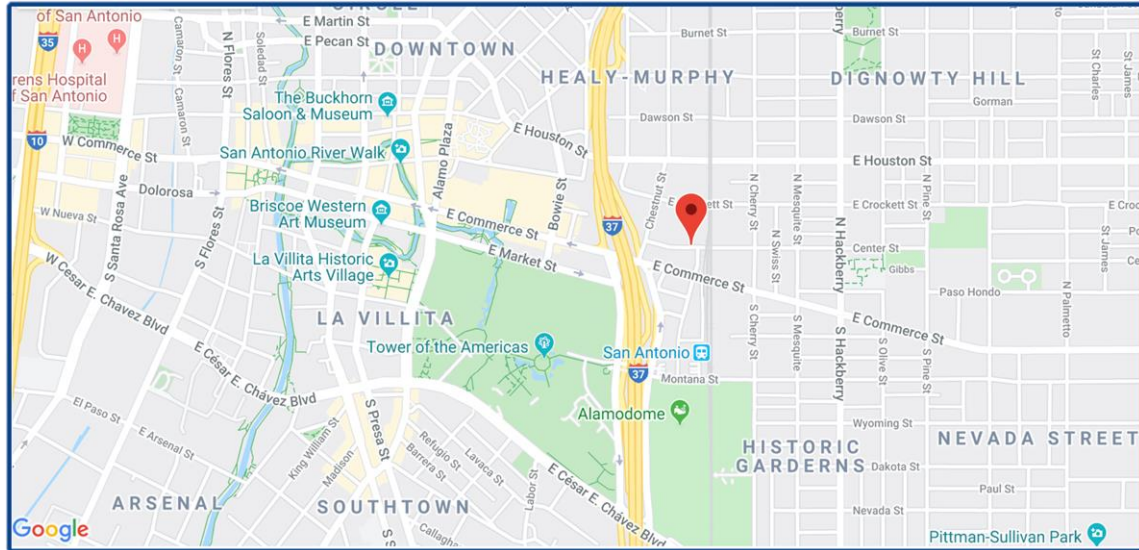
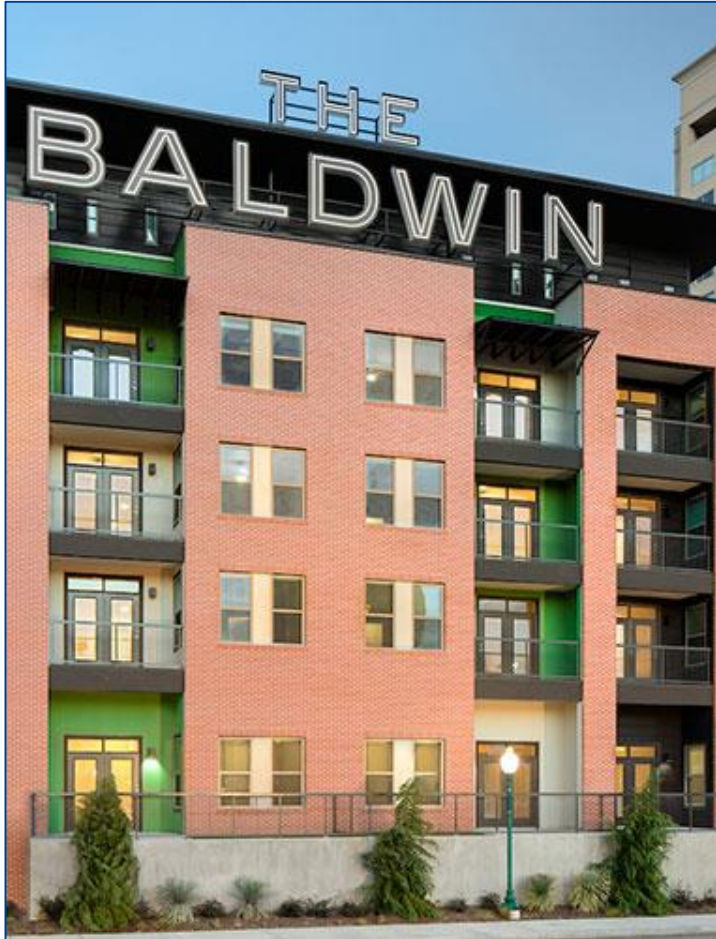
Public Purpose of Dallas PFC – cont'd

- Other proposed **recommendations** based on **feedback** from stakeholder input sessions:
 - ✓ **Incorporate** in the bylaws that the tool should **only** be used in the instance a development could not move forward “**but for**” the operating subsidy the tax exemption would provide by offsetting the loss of rental revenue or cash flow to provide workforce housing at income bands **80%** of AMI and below
 - ✓ Include in DPFC bylaws that the **net revenue** generated by the DPFC be **utilized** for the purpose of furthering the City’s affordable housing goals; and
 - ✓ Add Chapter **20A** of City Code requirements for voucher holders

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Case Studies

✓ The Baldwin @ St. Paul Square – San Antonio, Texas



80% AMI	Market Rate	Total Units	Development Costs
136	135	271	\$48,433,744

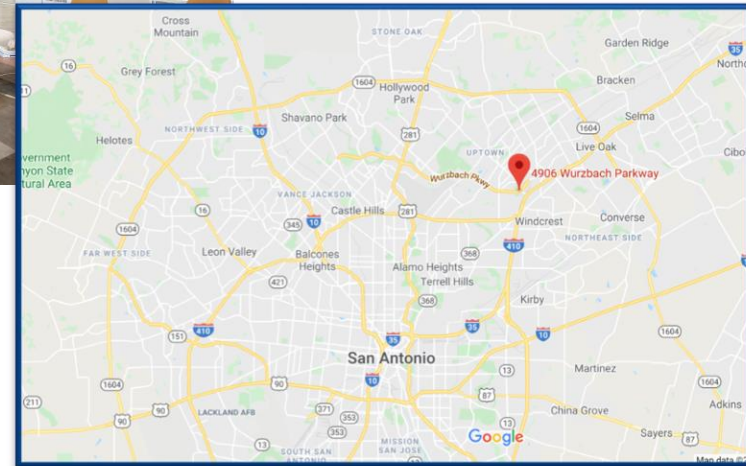
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Case Studies – cont'd

✓ The Upton @ Longhorn Quarry – San Antonio, Texas



80% AMI	Market Rate	Total Units	Development Costs
156	149	305	\$38,187,121

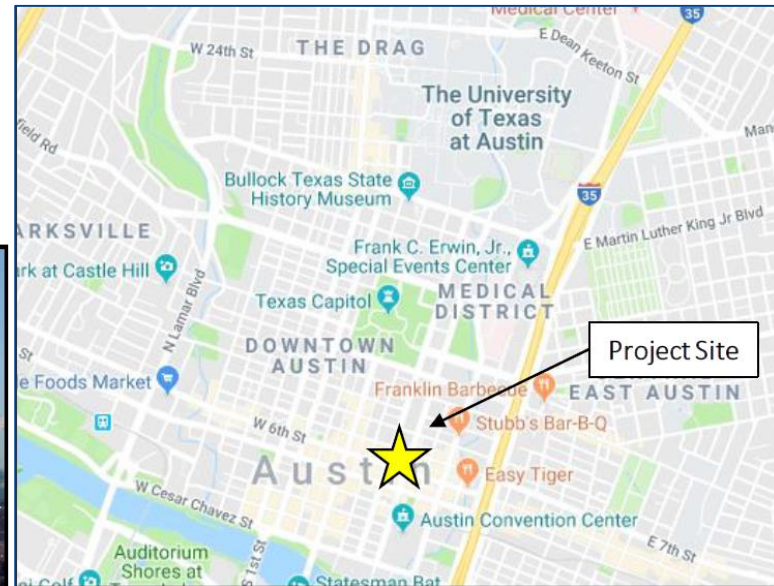


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Economic and Neighborhood Vitality

Case Studies cont'd

✓ Block 87 – Austin, Texas



342 unit residential tower with 330,000 SF of office space and 14,000 SF of ground floor retail

AFFORDABILITY SUMMARY

Max Income Band	Number of Units	% of Property
80% AMI	154	45%
140% AMI	154	45%
Market	34	10%
Totals	342	100%

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Recommendation and Next Steps

- Staff **recommends** that the Economic Development Committee approve the creation of the Dallas Public Facility Corporation
- **February 26:** If recommended by this Committee, the item would move forward for full City Council **consideration** on the City Council agenda including the staff recommended DPFC Articles of Incorporation and Bylaws
- The Articles of Incorporation would be **filed** with the Texas Secretary of State if City Council **approves** the creation
- **March/April 2020:** City Council appointments to DPFC
- **May 2020:** 1st potential PFC Board of Directors meeting

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Proposed Creation of the Dallas Public Facility Corporation

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Appendices

- A. Legal Authority for Public Facility Corporation (**PFC**)
- B. What is a PFC?
- C. Housing Finance Corporations (**HFC**) vs. PFCs
- D. Powers and Duties of Texas PFCs
- E. Risks and Benefits of PFCs

Appendix A - Legal Authority

- Authorized under Chapter **303** of the Texas Local Government Code, the Public Facility Corporation Act authorizes the City to create one or more nonmember, nonprofit, public facility corporations (**PFC**) to act on behalf of the City (**Sponsor**)
- The purpose of the Act is to **create** and **use** PFCs with the broadest possible powers to **finance** or to **provide** for the acquisition, construction, rehabilitation, renovation, repair, equipping, furnishing, and placement in service of **public facilities** in an orderly, planned manner and at the lowest possible borrowing costs

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Appendix A - Legal Requirements

- To **create** a PFC, the City Council, as the governing body of the Sponsor, **must**:
 1. Determine that it is in the **public interest** and to the **benefit** of its residents and the citizens of the Texas that a corporation be created to finance, refinance, or provide the costs of public facilities; and
 2. **Authorize** and **approve** the creation of the PFC on behalf of the Sponsor and approve the PFC's proposed Articles of Incorporation and Bylaws

Appendix B - What is a PFC?

- A PFC is a nonmember, nonstock, nonprofit public facility corporation separate from the creating Sponsor but acting on the Sponsor's behalf pursuant to the Act
- In addition to municipalities, the Act authorizes counties, school districts, **housing authorities**, and special districts such as hospital districts and junior college districts to create PFCs
- PFC's board must be **appointed** by the governing body of the sponsor
 - Members of the **governing body** or **employees** of the sponsor are eligible to serve on the board as directors
 - Board members have the same **immunity** from liability as the sponsor's governing body
- Board meetings must be **open** to the public and are subject to the **Texas Open Meetings Act**

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Appendix B - What is a PFC? – cont'd

- PFCs have been used by other jurisdictions to develop a variety of public facilities including **workforce housing**
- Public facilities can include the following:
 - ✓ Real, personal, or mixed property – **Mixed income** housing, student housing, hotels, downtown developments, etc.
 - ✓ Property devoted or to be devoted for **public use** – Parks, parking garages, conference facilities, etc.
- PFCs own the **land** and the **improvements** and may enter into **agreements** with private entities for the development and use of such land and improvements

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Appendix B - What is a PFC? – cont'd

- Generally, PFCs as public nonprofit corporations are **not** subject to taxation, including sales tax
- Public facilities owned or leased by the a PFC are **tax exempt** as authorized under the Act
- On a case by case basis and **subject to predetermination**, a private user may be considered an owner of a PFC-owned facility for tax exemption purposes
- The tax exemption benefit to the user could provide **flexibility** and a **viable** mechanism to assist in the mitigation of costs associated with the development and construction of a public facility

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Appendix C - PFCs vs. HFCs

Entity	PFC	HFC
Authorization	Chapter 303	Chapter 394
Assets	Own land and improvements	Own land only
Lease	Land and improvements to user	Land to owner of improvements
Property Tax Exemption	<p>By statute*</p> <p>*PFC will be a part of user entity to receipt revenue such as cash flow (15%-20% or annual fee; after return of equity)</p> <ul style="list-style-type: none"> ✓ \$250,000 closing fee ✓ Percentage of proceeds from sales and transfer 	<p>Must have equitable title:</p> <ul style="list-style-type: none"> ✓ 100% sole member of the general partner of the owner of the improvements (DCAD) ✓ Right of first refusal to purchase improvements
Gap Assistance	No , tax exemption could fill financing gap along with private equity	Yes , primarily partner with housing tax credits developers and typically require soft financing
Income Bands	50% of units for households with incomes 80% or below the AMI; 50% remaining units are market rate	Address households with incomes 60% or below the AMI; can go up to 80% with income averaging

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Appendix D -Powers and Duties of Texas PFCs

- The Sponsor can **create** a PFC to:
 1. Issue bonds under the Act, including bonds to purchase City obligations;
 2. Finance public facilities on behalf of the City; and
 3. Loan the proceeds of the obligations to other entities to accomplish the purposes of the Sponsor; and
- The Sponsor can **use** the PFC to:
 1. Acquire, construct, rehabilitate, renovate, repair, equip, furnish, or place in service public facilities; or
 2. Issue bonds on the City's behalf to finance the costs of public facilities

Appendix D - Powers and Duties of Texas PFCs

- Other **powers** and **duties** of PFCs include:
 - ✓ Lending;
 - ✓ Investing;
 - ✓ Borrowing Money;
 - ✓ Accepting, Granting or Mortgaging a Public Facility;
 - ✓ Entering into Contracts (including agreements with private entities); and
 - ✓ Incurring Liability

Appendix E - Risks

- Does **not** increase the City's tax base. However, staff would underwrite deals to determine if the tax exemption is no longer vital and look at payment in lieu of taxes (**PILOT**) arrangements
- Development may not make **projected** projects; however, there is no investment requirement by the PFC
- Development entity **may** default on lender and equity obligations which could result in failure of the public facility and any applicable recourse by the lender or equity provider

Appendix E - Benefits

- ✓ **No** investment required by the PFC outside of tax benefit which can be leveraged to invest in a critical need; housing
- ✓ PFC would **not** assume the risk of construction, operations, or debt of any development
- ✓ Development entity would be required to raise equity and secure financing
- ✓ Would **require** design requirements; unit set asides, tenant services
- ✓ **Catalyst** for other Class A development or economic development
- ✓ Potentially **minimize** Not In My Back Yard (**NIMBY**) issues
- ✓ **Net revenue** earned from development can be used to **fund** programs and/or projects for the benefit of the City

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