City of Dallas

Program Update: RFA: Low Income Housing Tax Credits (LIHTC) / Dallas Housing Finance Corporation

Housing & Homelessness Solutions
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Presentation Overview

- Background
- DHFC Production
- Application Process
- Proposed 2022 9% HTC Schedule
- Expiring Tax Credit Developments

Background

The Basics: Low-Income Housing Tax Credits (LIHTC)

- Tax Reform Act of 1986 enacted Section 42 of the IRS code creating Housing Tax Credits (HTC)
- Texas Department of Housing & Community Affairs (TDHCA) allocates and administers HTC through Qualified Allocation Plan (QAP)
- Comprehensive Housing Policy (CHP) amended and adopted in June 2019 modified the City's Housing Tax Credit Policy
- Tax credits provide equity for the development of affordable residential units rented to households earning at or below 60% of the area median income (AMI)
- HTC developments must remain affordable, in general, for 30 years
- Since 1987, over 2.3 million units have been produced nationwide

Background

The Basics: Low-Income Housing Tax Credits (LIHTC)

- Two Types of HTCs:
  - 9% (Competitive) and 4% (Non-Competitive)
- 9% Competitive HTCs issued once a year by TDHCA
  - TDHCA scoring based on Qualified Allocation Plan (QAP) requirements
  - City provides Resolutions of Support based on requirements set forth in the Comprehensive Housing Policy (CHP)
- 4% HTCs awarded throughout the year by TDHCA
  - Must meet TDHCA threshold and underwriting requirements
  - City provides Resolutions of No Objection based on requirements the set forth in the CHP
  - Must finance at least 50% of the project cost using Private Activity Bonds (PABs)

Background

Who is served by the LIHTC program?

- The LIHTC program primarily serves residents and families earning at or below 60% AMI

- The 2021 60% income limits in the City are as follows:

Household Members	Income Limit
1	$37,380.00
2	$42,720.00
3	$48,060.00
4	$53,400.00

- The incomes above equate to hourly wage rates from $18.69/hour to $26.70/hour based on a 50-week work year.

Background

Who is served by the LIHTC program?

- Data from the U.S. Bureau of Labor Statistics (2019) and the Texas Workforce Commission (2020) show a wide range of the City's workforce that will be served by the LIHTC program:

Occupation	Income	Occupation	Income
Medical Secretaries	$34,557	Waiters/Waitresses	$24,282
Security Guards	$30,067	Office Clerks	$36,040
Retail Salespersons	$27,152	Administrative Assistants	$40,269
Food Preparation (incl. Fast Food)	$21,893	Maintenance & Repair Persons	$41,442
Accounting/Audit Clerks	$45,331	Heavy Truck Drivers	$48,325
Mail Carrier	$38,410	Logistics & Freight Movers	$32,934
Construction Laborers	$32,929	Stock Clerks & Order Fillers	$29,558

Background

CHP LIHTC Policy

- LIHTC policy designed to support the broad goals of the CHP:
  - Create and maintain affordable housing throughout Dallas
  - Promote greater fair housing choices
  - Overcome patterns of segregation and concentrations of poverty through incentives

Per the CHP LIHTC Policy:

"Given the substantial need for affordable housing across the City and that TDHCA administers the process for awarding HTC, the City has an interest in broadly supporting quality and responsible HTC proposals across the City. As such, the City will be supportive of maximizing production using HTC."

Background

CHP LIHTC Policy Request for Application (RFA) Threshold Requirements

- Both 4% and 9% applications must meet the following threshold requirements for approval:
  - Submission of complete application
  - Must have evidence of site control
  - Must meet TDHCA minimum site and development requirements
    - Example: areas of poverty rates above 40% must be mitigated with additional resident services or other programs
      - CHP requires 17 points for elderly developments, 23 points for family developments, and 22 points for permanent supportive housing developments
  - All HTC developments must meet design standards set forth by TDHCA: 9-foot ceilings, energy efficient appliances, washer/dryer hookups, etc.
  - An overview of resident services to be provided

Background

CHP LIHTC Policy RFA Threshold Requirements

- Both 4% and 9% applications must meet the following threshold requirements for approval:
  - Must meet TDHCA underwriting standards
  - Must affirmatively further fair housing – independent review by the Office of Fair Housing using the Fair Housing Review Checklist
  - Application requires applicants identify and provide MOUs with anticipated project partners
  - Any existing residents at the development site must be notified at least 45 days prior to submitting application
  - Applications for substantial renovations must have property condition assessment, relocation plan, and City inspection of the property

Background

CHP LIHTC Policy RFA Threshold Requirements

- 9% applications must also qualify as a priority housing needs development or score 50 points on the CHP's HTC scoring matrix
- Priority Housing Needs Developments:
  - Development has been awarded City funding
  - Developer requesting DHFC partnership
  - Redevelopment of public housing
  - Located in census tract with a poverty rate below 20%
  - Development located in Redevelopment or Stabilization Reinvestment Strategy Area as identified in the CHP
  - Development will contain at least 20% of units reserved for Continuum of Care

Recent 9% HTC Development: The Galbraith

Background

Dallas Housing Finance Corporation

- Housing Finance Corporations (HFC): authorized by Chapter 394 of the Texas Local Government Code – the Housing Finance Corporation Act (Act)
- The Dallas Housing Finance Corporation (DHFC) was incorporated in 1984; amended and restated bylaws approved by City Council in 2018
- Any housing development owned by an HFC is exempt from all property taxes
- HFCs also issue PABs that are administered at the state level by the Texas Bond Review Board (TBRB)
- Bonds issued by the DHFC are **NOT** an obligation of the City
- The DHFC is governed by a 15-member, Council-appointed Board of Directors

Background

Dallas Housing Finance Corporation

- The DHFC partners with affordable housing developers to issue PABs and/or serve as the General Partner of the partnership entity created to own the property
- DHFC ownership provides a property tax exemption for all taxes including City, County, DISD and other jurisdictions
- For serving as the issuer of the bonds and partnering with the developer to provide a property tax exemption, the DHFC receives:
  - Issuer Fee equal to .5% of the total par amount of bonds, for example $50,000,000 equates to $250,000 in fees paid to the DHFC
  - Annual Administrative Fee of .1% of the total par amount of bonds
  - Developer Fee Split – generally ~25% to the DHFC
  - Cashflow Split – varies 25% to 50% of annual cashflow
  - Residual Sales Proceeds Split – mirrors cashflow split

DHFC Production

Dallas Housing Finance Corporation Portfolio								
Project	**C.D.**	**Status/Completion**	**Development Cost**	**30%AMI**	**50% AMI**	**60%AMI**	**Market**	**Total**
Gurley Place	7	2012	$ 2,000,000		24			24
Providence Mockingbird - Renovation	2	2012	$ 14,360,000			251		251
Sterlingshire Apartments	5	2015	$ 37,000,000			264		264
Park at Cliff Creek - Renovation	8	2016	$ 22,500,000			280		280
Martha's Vineyard Place	2	2017	$ 13,700,000			100		100
2400 Bryan	14	*Under Construction*	$ 77,746,799	11	45	55	106	217
Palladium Redbird	8	*Under Construction*	$ 60,806,749	14	0	196	90	300
Estates at Shiloh	9	*Under Construction*	$ 40,781,976	4	4	231	25	264
Ridgecrest Terrace - Renovation	3	*Under Construction*	$ 57,361,222	25	0	225	0	250
The Ridge at Lancaster	8	*Under Construction*	$ 77,020,538	0	0	270	30	300
Gateway Oak Cliff	1	*Under Construction*	$ 47,131,511	0	0	184	46	230
Midpark Towers - Renovation	11	*Under Construction*	$ 32,230,000	0	0	202	0	202
Westmoreland Station	3	*Under Construction*	$ 51,561,000	0	0	223	25	248
			$ 534,199,795	**54**	**73**	**2481**	**322**	**2930**

DHFC Production

Production since adoption of the Amended & Restated Bylaws (2018)

- The DHFC has closed financing on 8 mixed-income housing developments since 2018:
  - 6 partnerships/issuances, 1 issuance, and 1 partnership
  - $444,000,000 in total development
  - 2,011 mixed income units
    - 1,689 affordable
    - 322 non-income restricted
  - Current pipeline of DHFC-approved projects awaiting financial close totals 1,995 units (571 units acquisition/rehabilitation of existing LIHTC developments)
  - Current pipeline is estimated at over $450,000,000 in total development costs

DHFC Production

Production since adoption of the Amended & Restated Bylaws (2018)

- DHFC Revenues have consistently increased since 2018:

  - FY 2018 Net Operating Income: $40,632
  - FY 2019 Net Operating Income: $1,107,634
  - FY 2020 Net Operating Income: $1,521,680
  - YTD 2021 Net Operating Income: $2,876,058

- Current assets include $6,213,199 in cash and cash equivalents

- DHFC Board in the process of determining potential uses of funds including gap financing for new development, down payment assistance programs for low to moderate income families, or other potential programs

Application Process

Requests for Resolutions / DHFC Partnerships

- Developers submit complete HTC application (if requesting DHFC partnership, DHFC application is also submitted)
- Staff reviews application for completeness and confirms all threshold requirements are met
  - Staff also reviews:
    - Project site/neighborhood characteristics
    - Confirmation of Priority Housing Needs Development and/or application score (Resolutions of Support only)
    - Analyze/Score proximity to amenities (grocery, transit, schools, job centers)
    - Resident services to be provided (after school tutoring, adult financial literacy class, health fairs)
    - Review Market Value Analysis (MVA) – Types A through I
    - Third party market feasibility studies (DHFC Applications)
    - Proximity to other LIHTC development and respective "placed in service" dates
- Office of Fair Housing conducts independent review
- If all threshold requirements are met, Staff submits to City Attorney's Office for resolution preparation and Housing & Homelessness Solutions Committee for recommendation

Application Process

Requests for Resolutions / DHFC Partnerships

- Housing and Homelessness Solutions Committee (HHSC) briefed
  - After committee review and discussion, application must be approved and recommended for Council approval
- If seeking DHFC partnership, DHFC Board of Directors provided complete application, proposed term sheet, and publicly briefed
  - DHFC considers application at public meeting subject to the Texas Open Meetings Act; Board votes to approve or deny the partnership
  - DHFC allows public comment on all applications & partnership proposals
- If approved and recommended by HHSC, City Council considers authorization of the Resolution of Support/No Objection
- If approved, application is submitted to the Texas Department of Housing & Community Affairs (TDHCA) and, if the DHFC is issuing PABs, the Texas Bond Review Board for a bond reservation
- Final approval of all DHFC partnership documents and issuance of any bonds subject to further approval by the DHFC Board of Directors and City Council

Application Process

9% Competitive HTCs Application Timeline

- TDHCA application process dictates the timeline the City must provide Resolutions of Support for 9% HTC developments – it is a tight timeline
- The QAP is issued in early/mid December that sets for the rules by which applications will be scored at the State level
- To give applicants enough time to assemble pre-applications to TDHCA and our application, Staff sets the Request for Applications (RFA) deadline in late December
- Applications are due to TDHCA on or about March 1 of the next year
- Staff must review each application and prepare Council items to be considered and approved in February for applicants to include in their application to TDHCA
- It takes a rush effort by Housing, CAO, Fair Housing, and Agenda coordinators/managers to review and prepare each item for consideration
- Staff received 19 applications in 2021 cycle

Proposed 2022 9% HTC Schedule

Tentative 2022 9% Application Timeline

- Applications Due to City – December 23, 2021
- Housing & Homelessness Solutions Committee – TBD, must be prior to February 23, 2022
- City Council Agenda – February 23, 2022
- Applications Due to TDHCA – March 2022

Expiring Tax Credit Developments

Over the next 10 years, 9,472 LIHTC units may potentially reach the end of their Tax Credit Compliance Period (TCCP)*

- HTC developments must remain affordable for 30 years (new 9% HTC developments award additional points for extending the TCCP to over 40 years)
- At the end of the TCCP, the affordability requirements wear off and the property can begin charging market rates
- Depending on the location of the property, this could result in a significant increase in rents and subsequent displacement of low- to moderate-income residents
- Additionally, at year 15, the initial 15-year compliance period is complete, and the project is no longer at risk of tax credit recapture
  - At this time, the property can be resyndicated with tax credits to substantially renovate the property and maintain affordability for another 30 years
  - There are approximately 3,000 units* within 3 years of the 15-year initial compliance period

*Based on current TDHCA property inventory list

Expiring Tax Credit Developments

There are 3 Outcomes for Expiring Tax Credit Developments

1. The property is purchased by an affordable housing preservation buyer and resyndicated through the tax credit or similar program maintaining affordability

2. The property exits the tax credit program and converts to market rate with significant reinvestment/redevelopment based on increased rental rates

3. The property exits the tax credit program but the market rents at the property are not high enough to generate private sector reinvestment and the property deteriorates and contributes to neighborhood decline

Expiring Tax Credit Developments

The City should support preservation buyers seeking to reinvest in expiring tax credit development to maintain affordability

- The UT Austin Entrepreneurship and Community Development Clinic published a report in 2018 outlining opportunities to preserve affordable housing
- Strategies included:
  - Tracking projects at risk of exiting the tax credit program
  - Identifying and marketing of exiting tax credit developments to preservation buyers
  - Creation of a preservation policy
  - Requiring longer affordability terms for projects seeking resolutions of no objection or support

Expiring Tax Credit Developments

While not a formal Policy, the City can support the preservation of expiring tax credit developments

- Staff are now collecting data on existing LIHTC developments nearing the end of their TCCP
  - An effort to coordinate with preservation buyers, investors, and the brokerage community to meet City goals is underway
  - Some expiring developments are located within redevelopment areas and coordination with existing owners to prevent displacement while redeveloping the site is ongoing
- If the development is not located in an active redevelopment area, support/no objection for substantial renovation funded by tax credits or a similar program should be supported to maintain affordability and ensure the project does not contribute to blight

Expiring Tax Credit Developments

While not a formal Policy, the City should support the preservation of tax credit developments nearing the end of their 15-year initial compliance period

- Projects nearing the end of their initial compliance period have similar outcomes to the projects exiting the program:
  - A tax credit resyndication and the property undergoes a substantial renovation and extends the useful life of the property; or
  - The property does not receive a substantial renovation and deferred maintenance issues begin to compound
- Reinvestment locks in affordability for another 30 years and shields the existing residents from displacement, as recommended by the UT report
- Provides upgraded and modernized housing the existing residents deserve while not impacting rent or risking displacement

Expiring Tax Credit Developments

While not a formal Policy, the City should support the preservation of tax credit developments nearing the end of their 15-year initial compliance period

- The approval process for a resolution of support/no objection should be streamlined and only withheld in 1) areas undergoing significant redevelopment with direct City involvement to ensure no displacement will occur, 2) the existing owner/property manager has Fair Housing/Compliance issues, or 3) other extreme scenarios

- Certainty of approval will provide confidence to preservation buyers that the City is committed to not only preserving but investing in its existing housing stock

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