1500 Marilla Street
Council Chambers, 6th Floor
Dallas, Texas 75201

City of Dallas

Legislation Text

File #: 23-1527, **Version:** 1

STRATEGIC PRIORITY: Housing & Homelessness Solutions

AGENDA DATE: June 14, 2023

COUNCIL DISTRICT(S): 1

DEPARTMENT: Department of Housing & Neighborhood Revitalization

EXECUTIVE: Majed Al-Ghafry

SUBJECT

Authorize the Dallas Housing Finance Corporation to acquire and own Axis Kessler Park, a multifamily development located at 2400 Fort Worth Avenue - Estimated Revenue Foregone: General Funds $7,880,155.00 (15 Years of Estimated Taxes) (This item was deferred on May 24, 2023)

BACKGROUND

Waterford Property Company (Applicant), submitted an application to the Dallas Housing Finance Corporation (DHFC or Corporation) to acquire, develop, and own Axis Kessler Park, a 299-unit multifamily development, located at 2400 Fort Worth Avenue (Project). The Corporation will own the site and improvements while contracting with the Applicant who will act as the Project Administrator. Pursuant to the Texas Housing Finance Corporation Act, Chapter 394 of the Texas Local Government Code (Act), a Housing Finance Corporation (1) may issue bonds to acquire affordable housing; and (2) any residential property owned by a Housing Finance Corporation is exempt from all ad valorem taxes. As with all bonds issued by the Corporation, they are non-recourse to both the City and the Corporation. They are not liabilities of the City and are repaid solely through the revenues of the Project.

The Project is currently market rate/non-income restricted. However, upon acquisition by the Corporation, at least 50.00% of the units will be reserved for residents earning below 80.00% Area Median Income (AMI), 40.00% of the units will be reserved for residents earning between 80.00%-140.00% AMI, and 10.00% of the units will be market rate.

The owner of the project will be Axis Kessler Park, LLC, a limited liability company having the Corporation as its sole owner. Waterford Property Company, a corporation authorized to do business in Texas, is a real estate development firm that specializes in mixed-income and workforce multifamily projects throughout the country. Since its founding in 2014, Applicant’s principals have acquired and developed over 7,500 apartments using the proposed public bond financing structure as well as other programs.

The Project consists of 299 residential units. The unit mix includes 207 1-bedroom units, 74 2-bedroom units, and 18 3-bedroom units. The units include energy efficient appliances, granite countertops, in-unit washer/dryers, and other Class-A features. The Property also includes a swimming pools with outdoor fire pit and grilling area, fitness center, business and conference rooms, dog park, electric vehicle charging stations, and common area lounge. The Project does not require a zoning change because it is already existing and in operation. The Project is currently 94.00% occupied.

Upon acquisition, the unit mix and rental rates will be the lesser of the Texas Department of Housing and Community Affairs (TDHCA) published income restricted rents or market rents:

Unit Type	AMI	Units	Rent
1BR	80.00%	104	$1,461.00
1BR	140.00%	83	$1,646.00
1BR	Market	20	$1,646.00
2BR	80.00%	37	$1,754.00
2BR	140.00%	30	$2,145.00
2BR	Market	7	$2,145.00
3BR	80.00%	9	$2,026.00
3BR	140.00%	7	$2,507.00
3BR	Market	2	$2,507.00

All income qualifying residents that are currently paying more than the TDHCA income restricted rents will see their rents lowered to that amount instead of being increased to market rents. This represents annual average rent savings of $254.00/month or $3,048/annually for residents earning less than 80.00% AMI compared to current market rents across all unit types. The rents for individuals and families earning less than 80.00% AMI are meant to provide housing to the “missing middle” of the market: residents that earn above low-income housing tax credit income restrictions of 60.00% AMI but would be cost burdened by market rents. These incomes range from approximately $54,560.00 to $77,900.00 in the City based on family size and represent a wide variety of employment sectors including, but not limited to, teachers, first responders, government employees, health care providers, etc. The rents for 81.00% to 140.00% AMI restricted units function like market rate units, but are included to satisfy the income requirements of the Act. The market rents are anticipated to grow much faster than the income restricted rents over the next 40 years resulting in exponential rental savings to residents earning less than 80.00% AMI. Total rental savings are estimated to be roughly $67,809,588.00 over 40 years.

Total bond issuance is anticipated to be approximately $92,785,680.00. The financing will be funded 100.00% by tax-exempt essential function bonds which will be issued by the Corporation. The bond issue premium of $2,732,815.00 is deducted from the initial issue amount which will leave $90,052,865.00 in bond proceeds to cover the acquisition costs of the transaction.

Proposed Financing Sources	Amount
Series A Bonds	$65,877,833.00
Series B Bonds	$26,907,847.00
Original Issue Premium	($ 2,732,815.00)
Total	**$90,052,865.00**

Proposed Uses	Amount
Deposit to Project Acquisition Account	$75,497,500.00
Total Capital Expense Fund	$ 1,196,000.00
Capitalized Interest Account	$ 2,934,113.00
Deposit to Operating Reserve	$ 395,031.00
Deposit to Coverage Reserve	$ 790,534.00
Senior Debt Service Reserve	$ 3,952,670.00
Capitalized Admin Fees	$ 448,500.00
Extraordinary Expense	$ 500,000.00
Operating Account	$ 167,014.00
Initial Payment to Project Administrator	$ 1,500,000.00
Cost of Issuance	$ 2,671,503.00
Total	**$90,052,865.00**

The Project will be owned by the Corporation outright, with the option to sell or refinance the Project beginning at year 15. Following the retirement of the bonds, the Corporation will own the asset free and clear. All excess cash flow will go toward the retirement of the bonds, further strengthening the financial position of the property and increasing the equity of the Corporation in the project. Applicant will act as the Project Administrator to negotiate the Purchase Sale Agreement, provide the required deposit, assemble third party reports, and take on the risks of performing all the front-end “sponsorship” functions. Following the closing, the Project Administrator will work with the property manager in the administration of the Project, oversight of affordability compliance, operational management and in providing of information on Project performance to bond holders on behalf of the Corporation. As Project Administrator, Applicant will receive a $1.5 million fee paid at closing as well as $500.00/unit per year annually for the administration of the project. Applicant will also receive subordinate bond proceeds of $5 million after the bonds are retired at some point between years 15 to 40. This will act as compensation to Applicant in consideration for the long-term administration and careful management of the property over the course of operations.

In consideration for the Corporation’s participation in the Project, the Corporation will receive an annual asset management fee of 0.50% of effective gross income. The Corporation will also receive 100.00% of net proceeds from the sale of the asset, which is conservatively estimated to be at least $204 million if it is held until year 40. These revenues generated for the Corporation will be used to fund operations and the provision of additional affordable and workforce housing throughout the city. Other cities that have utilized this essential use bond structure to provide workforce housing have planned to refinance the debt in year 15 to provide deeper affordability at the properties (30.00%, 50.00%, and 60.00% AMI units).

This proposed Corporation acquisition results in foregone tax revenues for the City until the project is sold and income restrictions are removed. The 2022 City tax for this property is $423,689.00 and the 15-year estimate of foregone taxes is $7,880,155.00. However, the workforce housing rental savings of $67 million over the course of ownership and estimated net proceeds from sale at year 40 of $204 million provides the City with benefits that outweigh the foregone revenue. This acquisition and financial structure also allows the City to immediately own and provide mixed-income housing in a high opportunity area nears jobs, parks, transportation, retail, and other amenities.

The Corporation's estimated revenues were calculated by the Corporation's partnership Counsel and Financial Advisors. Market rent and sales comps were analyzed to ensure the project costs were reasonable for the market. Corporation financial advisors also confirmed that but for the ad valorem tax exemption and the issuance of tax-exempt bonds, the Project would not be economically feasible with the workforce housing income restrictions.

On April 11, 2023, the Dallas Housing Finance Corporation Board of Directors adopted a resolution declaring its intent to issue bonds for the financing of the acquisition and authorizing negotiation and execution of a Memorandum of Understanding with the Applicant.

Staff and the Corporation's Counsel and Financial Advisors have confirmed that this Project would not be feasible but for the Corporation's participation and that the Project furthers the goals of the Comprehensive Housing Policy (CHP). Staff recommends approval of this item as it furthers the goals of the CHP by providing mixed-income housing in a high opportunity area of the City with access to amenities, jobs, and other resources.

PRIOR ACTION/REVIEW (COUNCIL, BOARDS, COMMISSIONS)

The Housing and Homelessness Solutions Committee was briefed by memorandum on April 24, 2023. <
https://cityofdallas.legistar.com/View.ashx?M=F&ID=11909887&GUID=26DE8AF4-D8A0-4A58-926B-5F38B11A1887>

On May 24, 2023, this item was deferred by Councilmember Chad West.

FISCAL INFORMATION

Estimated Revenue Foregone: General Funds $7,880,155.00 (15 Years of Estimated Taxes)

MAP

Attached