



Legislation Text

File #: 19-1808, **Version:** 1

STRATEGIC PRIORITY: Economic and Neighborhood Vitality
AGENDA DATE: January 22, 2020
COUNCIL DISTRICT(S): All
DEPARTMENT: Department of Housing & Neighborhood Revitalization
EXECUTIVE: Michael Mendoza

SUBJECT

Authorize **(1)** the creation of a Residential Neighborhood Empowerment Zone (NEZ) Program as authorized under Chapter 378 of the Local Government Code to **(a)** create residential NEZ to support tax abatements for the construction and renovation of single-family homes, duplexes, and multifamily developments located within NEZ, including within tax increment financing (TIF) districts; and **(b)** provide development grants in amounts equal to development fees and certain development-related costs to support construction and renovation of single-family homes, duplexes, and owner-occupied multifamily developments located within NEZ; **(2)** an amendment to the City of Dallas Comprehensive Housing Policy, previously approved on May 9, 2018, by Resolution No. 18-0704, as amended, to add the Residential NEZ Program and delegate authority to the City Manager to modify certain elements outlined in the appendix; **(3)** the City Manager to **(a)** utilize tax abatements offered through the City's Residential NEZ Program authorized under Chapter 378 of the Local Government Code to support construction and renovation of single-family homes, duplexes, and owner-occupied multifamily developments located within NEZ, including within TIF districts; and **(b)** utilize public funding under Chapter 380 of the Local Government Code to provide development grants in amounts equal to development fees and certain development-related costs to support construction and renovation of single-family homes, duplexes, and owner-occupied multifamily developments located within NEZ; **(4)** the City Manager to execute individual tax abatement agreements and other necessary documents up to \$50,000.00 in accordance with the Residential NEZ Program, including within TIF districts; **(5)** a one-time transfer of funds from the Dallas Housing Trust Fund to the NEZ Fund in an amount not to exceed \$1,000,000.00 to provide for development grants as authorized by Chapter 380; and **(6)** an increase in appropriations in an amount not to exceed \$1,000,000.00 from the Neighborhood Empowerment Zones Fund - Financing: Neighborhood Empowerment Zones Fund (\$1,000,000.00) and Estimated Revenue Foregone: General Fund (\$1,875,975.00 over a ten-year period)

BACKGROUND

The Comprehensive Housing Policy (CHP) has three main goals: (1) create and maintain available and affordable housing throughout Dallas; (2) promote greater fair housing choices; and (3)

overcome patterns of segregation and concentrations of poverty through incentives and requirements.

To further these ends, the CHP created stabilization areas as one form of reinvestment strategy area. Stabilization areas are characterized as areas with Market Value Analysis (MVA) categories G, H, and I that are surrounded by MVA categories A-E and, as such, are areas where residents are at risk of displacement based on known market conditions.

As an additional tool to reduce displacement and incentivize both new and renovated housing for a broad range of income levels, the CHP prioritized the creation of NEZ in stabilization areas to help the City encourage economic development while preserving affordability and deconcentrating racially and ethnically concentrated areas of poverty (RECAP).

Families and individuals in each of the stabilization areas recommended for these NEZs struggle with the effects of long-term disinvestment. They often balance their daily needs against the cost of needed maintenance of their homes. In addition, vacant lots become magnets for illegal activity and dumping, requiring the City's Code Compliance Department to expend City resources. As a result, both code and tax liens accumulate, pushing away new housing and economic development.

The proposed NEZ Program is designed to work in conjunction with other Housing & Neighborhood Revitalization Programs, other City initiatives, and philanthropic efforts to permanently address these issues while using tax abatements to incentivize middle- and lower-income property owners to invest in their properties and residential developers to create additional housing in these underinvested areas.

The Program would provide for 1) grants in amounts equal to eligible development fees and certain development-related costs and 2) tax abatements for:

- 1) **new construction** of single-family homes or duplexes that are sold or rented to eligible households, or new construction of multifamily dwelling units that are sold to eligible households, on lots that are either currently vacant, subject to an order of demolition under Chapter 27, or purchased through the City's Land Bank or Land Transfer Programs;
- 2) **renovation** of owner-occupied single-family homes, duplexes, and multifamily developments for income-qualified owners; and
- 3) **renovation, code compliance, and guaranteed affordability** for single-family rental and duplex rental housing units.

Within the Program, the term "Eligible Household" means, at the time of rental or purchase, 1) for rental, a family with a gross annual household income at or below 80% of Area Median Income (AMI); 2) for home ownership or purchase, a family with a gross annual household income at or below 120% AMI at the time of purchase; 3) for buyers of Land Bank Program homes, a Family who also meets all of the homebuyer eligibility criteria for the Land Bank Program; or 4) for home ownership or purchase, school teachers and first responders, including police officers, emergency medical technicians, and fire fighters.

Enabled under Chapter 378 of the Texas Local Government Code (Chapter 378), a NEZ is a flexible tool that cities can use to implement an Economic Development Program; to create or rehabilitate affordable housing in the zone; and to increase the quality of social services, education or public

safety provided to the residents of the zone. Chapter 378 authorizes municipalities to, among other things, (1) waive or adopt fees related to the construction of buildings in the zone, including fees related to the inspection of buildings and impact fees; (2) enter into agreements, for a period of not more than 10 years, for the purpose of benefiting the zone, for refunds of municipal sales tax on sales made in the zone; and (3) enter into agreements abating municipal property taxes on property in the zone subject to the duration limits of Section 312.204, Tax Code.

Over the past two years, staff has met with individual council members, staff from other City departments and offices, community members, and members of the housing policy task force, including the housing policy task force steering committee, to receive feedback and refine the eligibility criteria, program elements, and boundaries of the proposed NEZs.

Exhibit A, the proposed amendment to the CHP, outlines the policy guidance and states the broad program requirements. The proposed amendment to the CHP also includes a new appendix which delegates to the City Manager - with notice to the Council, the housing policy task force steering committee, and the city secretary - the authority to modify or correct elements in the appendix, including implementation procedures and minor program details.

Development fees and development-related costs - Chapter 380 of the Local Government Code

Although Chapter 378 allows for development fee *waivers*, staff recommends using economic development *grants* under Chapter 380 of the Local Government Code. The grants are proposed to be paid in amounts equal to a portion of the development fees and certain development-related costs for each project only *after* all requirements of the development grant agreement have been met. Staff recommends that the Residential NEZ Program remain separate from the City's Public/Private Partnership Program.

Although the proposed Residential NEZ districts are designed to support additional affordable housing, they are also an economic development tool designed to generate new construction spending in and near the City's stabilization areas.

A report authored by the National Association of Home Builders (NAHB), called The Metro Area Impact of Home Building in Dallas, Texas, reported the results of an NAHB economic model that studied the effect of single family and multifamily home construction on the Dallas Metropolitan Statistical Area (MSA), including Collin, Dallas, Denton, Ellis, Hunt, Kaufman, and Rockwall counties. The report studied the economic impact of 17,000 new single family and 14,000 new multifamily homes valued at approximately \$244,113.00 for single family and \$139,728.00 for multifamily on average. The total first-year direct, indirect, and induced impact on the Dallas MSA of these 31,000 homes was \$4.5 billion in both income and government revenue. The annual, ongoing impact was \$1.0 billion.

This translates to an additional direct, indirect, and induced economic impact of \$0.85 in the first year for each dollar spent in residential single-family construction, and an additional \$0.21 for each year afterward. Although the NAHB study was region-wide, a significant portion of the economic benefits of these districts is expected to remain within the city's boundaries.

This program is also anticipated to reduce code compliance expenses and return vacant property to productive use. Each City-owned, medium-sized lot costs on average \$50.00 every three weeks to

mow and weed, for a total of \$866.00 for the year. Privately-owned lots can be more complex and cost \$109.00 on average each time the City comes to mow and clean the property. Further, these unkempt properties dissuade investment in nearby properties, bringing down the property value of the nearby homes.

Specific development fees and costs associated with development that are proposed to be eligible for development grants once all program obligations are met are listed in the *Residential NEZ Implementation Guidelines* appendix of the CHP. Eligible items include:

- Fees found in Section 52.300 of the Dallas City Code, with certain exceptions
- Zoning and platting fees found in Chapter 51A-1.105 of the Dallas Development Code
- Dallas Water Utility fees related to water and sewer service required for the development
- Costs associated with completing a tree survey as required in Chapter 51A-10 (Article X) of the Dallas Development Code
- Additional professional services related to tree preservation at the discretion of the Director
- Waiver of parkland dedication requirements per Sec. 51A-4.1002(c) of the Dallas Development Code

The appendix provides for a cap of \$15,000.00 per reserved dwelling unit, with an additional \$5,000.00 allowed at the discretion of the Director. Additional grant amounts are allowable subject to separate Council approval. The staff recommendation related to Article X acknowledges the effort expended over several years in developing Article X, the Landscape and Tree Conservation Regulations.

Staff proposes that the funding for these reimbursement grants be dedicated from the Dallas Housing Trust Fund, currently controlled by the Office of Economic Development. Staff proposes a one-time transfer of up to \$1,000,000.00 from the Dallas Housing Trust Fund within the Office of Economic Development to the NEZ Fund within the Department of Housing & Neighborhood Revitalization. The NEZ Funds will be used under the guidance laid out in the CHP for housing trust fund monies.

It is anticipated that each new reserved dwelling unit will incur approximately \$10,000.00 to \$15,000.00 in eligible development fees and development-related costs. This amount of funding is anticipated to generate 65-100 new homes affordable to families making less than 120% of AMI and spur an undetermined number of home renovation projects with much lower development fee expenses.

Tax abatements - Chapter 378 of the Local Government Code

In addition to development fee reimbursements, staff proposes tax abatement agreements under Chapter 378 for qualified projects.

Homes in these proposed NEZ districts are vulnerable to the negative economic impacts of deteriorating structures while also being in the path of new high-income development and experiencing escalating taxable values. Concern about increased taxable value can deter a property owner from investing in a property and can create affordability issues for families. The proposed tax abatement provides needed relief for these vulnerable families while encouraging additional investment.

However, portions of the proposed NEZ boundaries lie within the tax TIF districts. Section 311.0125 of the Texas Tax Code (Chapter 311) requires that tax abatements within TIF districts be approved by the board of directors of the TIF district and the governing body of each participating taxing jurisdiction. Staff recommends Council authorized the City Manager to execute future proposed tax abatement agreements for projects that comply with the Residential NEZ Program, within proposed NEZ Nos. 11 through 17, and are within a TIF district.

Proposed approvals from the related TIF Boards, including any necessary amendment to the TIF districts' allocation policies, and proposed approvals from the Dallas County Commissioners Court of such tax abatement agreements are currently planned.

Fiscal Impact

Staff developed scenarios to determine the fiscal impact of this program. Under a moderate growth scenario, staff estimated 75 new homes and 125 renovated homes at an annual taxable property value inflation rate of 5%. Under this scenario, \$1,000,000.00 in housing trust fund money supports the development fee reimbursements, and another \$1,875,975.00 is tax revenue foregone. Based on the stabilization of these properties alone, the development fee reimbursement funding and the revenue foregone is recouped within seven years.

Companion resolutions

The current Council agenda includes companion resolutions to create seven NEZs in various stabilization areas, including Lyndon B. Johnson Freeway (LBJ)/Skillman, Vickery Midtown (formerly Vickery Meadow), Casa View, Forest District (formerly Forest Heights/Cornerstone Heights), The Bottom/Tenth Street, West Dallas, and Red Bird North. Several of these proposed NEZ boundaries overlap with one or more TIF districts, and the request for authorization for tax abatement agreements within the individual TIF districts is contained in these companion resolutions.

City Council approval of this item will:

- Create a Residential NEZ Program
- Approve an amendment to the CHP to add the Residential NEZ Program and delegate authority to the City Manager to modify certain implementation elements outlined in the appendix
- Delegate authority the City Manager to provide development grants under Chapter 380 and tax abatements under Chapter 378 to support construction and renovation of single-family homes, duplexes, and owner-occupied multifamily dwelling units located within NEZ including within tax increment financing districts
- Delegate authority to the City Manager to execute tax abatement agreements up to \$50,000.00, including within TIF districts
- Authorize a one-time transfer of funds to the Department of Housing and Neighborhood Revitalization in an amount not to exceed \$1,000,000.00 from the Dallas Housing Trust Fund to provide for development grants as authorized by Chapter 380

PRIOR ACTION/REVIEW (COUNCIL, BOARDS, COMMISSIONS)

On May 9, 2018, City Council adopted the CHP and created the Dallas Housing Policy Task Force by Resolution No. 18-0704, as amended.

On November 28, 2018, City Council authorized amendments to the CHP, to make technical changes to the Home Improvement Preservation Program (HIPP), the Dallas Homebuyer Assistance Program (DHAP), and the New Construction and Substantial Rehabilitation Program by Resolution No. 18-1680.

On December 12, 2018, City Council elected to continue its participation in economic development incentives and re-adopted its Public/Private Partnership Program - Guidelines and Criteria, by Resolution No. 18-1861.

On December 12, 2018, City Council authorized five resolutions to transfer funds from the Public/Private Partnership fund and various TIF districts funds to the Dallas Housing Trust fund in the Office of Economic Development by Resolutions No. 18-1789, 18-1791, 18-1792, 18-1793, and 18-1795.

On May 22, 2019, City Council authorized a resolution in furtherance of the City of Dallas' efforts to support diverse racial, ethnic, cultural, and socio-economic backgrounds and to promote equity in the Dallas community by Resolution No. 19-0804.

On May 22, 2019, City Council authorized an amendment to the CHP to add a Land Transfer Program to incentivize the development of quality, sustainable housing that is affordable to the residents of the City and the development of other uses that complement the City's CHP, economic development policy, or redevelopment policy by Resolution No. 19-0824.

On June 12, 2019, City Council authorized amendments to the CHP to amend and restate the low-income Housing Tax Credit policy by Resolution No. 19-0884.

On June 26, 2019, City Council authorized amendments to the CHP to amend the DHAP, the HIPP, and the HIPP Landlord Program by Resolution No. 19-1041.

On September 25, 2019, City Council authorized amendments to the CHP to create the Title Clearing and Clouded Title Prevention Pilot Program by Resolution No. 19-1498.

The steering committee of the housing policy task force was briefed on this item on September 18, 2019 and October 29, 2019. Additionally, staff sent a meeting invitation to more than 400 members of the broader task force and met with more than 50 members of the task force on September 24, 2019 to discuss the proposal.

City Council will be briefed regarding this matter on January 15, 2020.

FISCAL INFORMATION

Cost consideration to the City: Neighborhood Empowerment Zones Fund - 1,000,000.00

Estimated Revenue Foregone: General Fund (\$1,875,975.00 over a ten-year period) beginning in FY 2019-20