Legislation Text

File #: 22-2442, **Version:** 1

STRATEGIC PRIORITY: Housing & Homelessness Solutions

AGENDA DATE: November 9, 2022

COUNCIL DISTRICT(S): 2

DEPARTMENT: Department of Housing & Neighborhood Revitalization

EXECUTIVE: Majed Al-Ghafry

SUBJECT

Authorize the Dallas Housing Finance Corporation to issue tax-exempt essential function bonds to finance, acquire, and own The Dylan, a multifamily development located at 4533 Cedar Springs Road - Estimated Revenue Foregone: General Fund $3,775,412.13 (see Fiscal Information)

BACKGROUND

AMCAL Equities, LLC (Applicant or AMCAL), submitted an application to the Dallas Housing Finance Corporation (DHFC or Corporation) to issue tax-exempt essential function bonds to finance, acquire, and own The Dylan, a 125-unit multifamily development, located at 4533 Cedar Springs Road (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 DHFC, 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 DHFC, at least 40% of the units will be reserved for residents earning below 80% Area Median Income (AMI), 10% of the units will be reserved for residents earning below 60% AMI, 40% of the units will be reserved for residents earning between 80-140% of AMI, and 10% of the units will be market rate.

The owner of the project will be DHFC The Dylan Apartments, LLC, a to be formed limited liability company having the DHFC as its sole owner. AMCAL Equities LLC, a limited liability company authorized to do business in Texas, (AMCAL) is a real estate development firm that specializes in mixed-income and workforce multifamily projects throughout the country. AMCAL has over 43 years of experience in acquiring and developing multifamily communities throughout California, Texas, and Washington. They have successfully developed over 2,500 units in the state of Texas with another 1,600 units currently under construction.

The Project consists of 125 residential units. Included in the 125 units are 35 townhouses with a private parking garage on the first floor and two floors of residential above. The unit mix includes 46 one-bedroom units and 79 two-bedroom units. The units include energy efficient appliances, granite countertops, in-unit washer/dryers, and other Class-A features. The Property also includes a resort-style swimming pool, a fitness center, business and conference rooms, and a common area lounge. The Project does not require a zoning change because it is already existing and in operation. The Market Value Analysis Market Type is Type E. The Project is currently 95% 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	Rent
1BR	60%	$1,095.00
1BR	80%	$1,461.00
1BR	140%	$2,556.00
1BR	Market	$1,770.00
2BR	60%	$1,315.00
2BR	80%	$1,754.00
2BR	140%	$3,069.00
2BR	Market	$2,004.00
2BR TH	60%	$1,315.00
2BR TH	80%	$1,754.00
2BR TH	140%	$3,069.00
2BR TH	Market	$2,771.00

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 $306.00/month or $3,678.00/annually for residents earning less than 80% AMI compared to current market rents across all unit types. The rents for individuals and families earning between 60% and 80% 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% 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 individuals and families earning below 60% are included to provide deeper affordability at this high opportunity site. These incomes range from $40,920.00 to $58,440.00 depending on family size. The rents for 81% to 140% AMI restricted units function like market rate units, but are included to satisfy the requirements of the Act. The market rents are anticipated to grow much faster than the income restricted rents over the next 15 years resulting in exponential rental savings to residents earning less than 80% AMI. Total rental savings are estimated to be $8,250,531.00 over 15 years.

All acquisition costs, including operating, debt service and replacement reserves, are anticipated to be approximately $42,900,000.00. The financing will be funded 100% by tax-exempt essential function bonds which will be issued by the DHFC.

Proposed Financing Sources	**Amount**
Series A Bonds	$28,900,000.00
Series B Bonds	$11,500,000.00
PSA Assignment Note	$ 2,500,000.00
Total	**$42,900,000.00**
Proposed Uses	**Amount**
Acquisition	$34,750,000.00
PSA Assignment Note	$ 2,500,000.00
3rd Party Reports	$ 28,820.00
Title/Survey	$ 175,000.00
Insurance Escrow	$ 90,625.00
Operating Reserve Fund	$ 422,321.00
Debt Service Reserve Fund	$ 1,081,875.00
Replacement Reserve Fund	$ 1,250,000.00
Sponsor Fee	$ 1,500,000.00
Financial Advisor	$ 175,000.00
Bond Counsel	$ 250,000.00
Borrower Counsel	$ 25,000.00
Underwriter Fee	$ 505,000.00
Underwriter Counsel	$ 125,000.00
Trustee	$ 7,500.00
Trustee Counsel	$ 7,500.00
Misc Closing Expenses	$ 6,359.00
Total	**$42,900,000.00**

The Project will be owned by the DHFC outright, with the option to sell or refinance the Project beginning at year 15. Following the retirement of the bonds, the DHFC will own the asset free and clear. All of the 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 DHFC in the project. AMCAL 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 DHFC. As Project Administrator, AMCAL will receive a $1.5 million fee paid at closing as well as 1% of gross collections per year annually for the administration of the project. AMCAL will also receive subordinate bond proceeds of $2.5 million after the bond is retired in 15 to 35 years. This will act as compensation to AMCAL 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 DHFC will receive an annual asset management fee of 0.5% of effective gross income. The DHFC will also receive 100% of net proceeds from the sale of the asset, which is conservatively estimated to be at least $32 million in year 15 and $93 million if it is held until year 30. 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 plan to refinance the debt in year 15 to provide deeper affordability at the properties (30%, 50%, and additional 60% AMI units).

This proposed DHFC acquisition results in foregone tax revenues for the City until the project is sold and income restrictions are removed. The 2022 City tax bill for this property is $202,991.00 for year one taxes and the total 15-year estimate of foregone taxes is $3,775,412.00. However, the workforce housing rental savings ($8,250,531.00 over 15 years) and the estimated value of the property provides the City 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 DHFC's estimated revenues were calculated by the DHFC'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.

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. Staff recommend 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)

On October 13, 2022, 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; and

The Housing and Homelessness Solutions Committee was briefed by memorandum regarding this matter on October 24, 2022. <http://cityofdallas.legistar.com/gateway.aspx?M=F&ID=a2f53789-541d-499b-af2e-0274ec090319.pdf>

FISCAL INFORMATION

Estimated Revenue Foregone: General Funds $3,775,412.00 (15 Years of Estimated Taxes)

MAP

Attached