

Memorandum



CITY OF DALLAS

DATE December 8, 2023

TO Honorable Mayor and Members of the City Council

SUBJECT **Development Programs Update**

The Department of Housing & Neighborhood Revitalization (Housing) briefed the Housing and Homelessness Solutions Committee (HHSC) on November 14, 2023 on development program updates. The presentation highlighted current challenges facing two developer programs administered by Housing, 1) the Single-Family Homeownership Development Requirements Program (SFHDR) and, 2) the Land Transfer Program (LTP). The overall purpose of the introductory briefing was designed to solicit feedback and direction on the ongoing challenges.

Under the SFHDR, gap financing is provided to developers constructing single-family homes in the form of a repayable loan which is repaid on a pro-rata amount as each home is sold from sales proceeds. The current challenge under the SFHDR with the repayable loan creates a financial burden on developers when providing affordable homes to households ranging from 60%-80% Area Median Income (AMI). Under the LTP, City-owned lots are sold at below-market prices to developers to spur additional affordable housing. LTP lots are secured by deed restrictions to ensure long-term affordability of the homes occupied by low-income to moderate-income homebuyers which conflicts with the federal deed restriction requirements once a home is subsequently sold to an income-eligible homebuyer receiving homebuyer assistance through the Dallas Homebuyer Assistance Program (DHAP).

The purpose of this memo is to summarize the feedback received by the Committee and solicit any additional feedback from City Council Members as we determine next steps in this process to remove any barriers to single-family homeownership opportunities for Dallas residents.

During the discussion at the November Committee meeting staff was asked to look into alternative funding sources that are less restrictive than federal sources to assist in the development of single-family housing. Currently, Housing utilizes a plethora of funding sources in the Notice of Funding Available (NOFA) both federal and non-federal. Federal funding sources include Community Development Block Grant (CDBG), HOME Investment Partnerships (HOME), Community Development Block Grant Disaster Recovery (CDBG-DR), and Coronavirus State and Local Fiscal Recovery Funds through the American Rescue Plan Act (ARPA) to provide acquisition, rehabilitation, and construction of affordable housing projects. CDBG funds cannot be used for new construction but can be used for a variety of uses to include acquisition, rehabilitation, infrastructure improvements, neighborhood development, neighborhood facilities, and to expand economic opportunities for primarily low-income to moderate-income households. Utilizing all federal funds set aside in the NOFA for acquisition costs in development

projects and non-federal sources for other projects would restrict the funds needed by developers as deals are brought forth for gap financing for a variety of uses to include rehabilitation, vertical construction costs, and acquisition. The non-federal sources include the Mixed Income Housing Development Bonus Program Fee-in-lieu fund (MIDHB) and any future allocation of bond funds. These funds are less stringent than federal funds and can be used for a variety of uses to help produce more affordable and mixed-income housing opportunities.

Current non-profit and for-profit developers utilizing the SFHDR or NOFA funds for developer subsidy, to construct and develop single-family housing options, have expressed the financial burden on their proformas when required to repay a pro-rata share of the developer subsidy at the time each home is sold to an eligible homebuyer. Developers have informed us about the current market conditions such as increased costs, interest rates, and lot development costs over the past three years that have created undue hardships on their bottom line resulting in their inability to provide single-family housing options to families at the 60-80% AMI range in addition to the required repayment of City funds at each closing.

Additional discussions centered around the Land Transfer Program (LTP) five-year deed restrictions to ensure long-term affordability which will transfer from the developer to the low-income to moderate-income homebuyer upon closing. Should the eligible homebuyer utilize the DHAP program for homebuyer assistance to purchase the home, a DHAP deed restriction is required pursuant to HUD regulations for a specified period of time due to the amount of direct subsidy provided to the homebuyer. This conflict the with the LTP deed restrictions.

Recommended Solutions

A potential resolution to this challenge as discussed during the meeting included the update to the Dallas Housing Resource Catalog changing terms for the Single-Family Homeownership Development Requirements Program to a forgivable loan rather than a repayable loan to non-profit and for-profit single-family homeownership developers with current development projects underway and future ones. This recommendation would require an amendment to the current program statement.

Currently, the Dallas Housing Resource Catalog LTP program statement is silent on the authority to release the LTP deed restriction when a developer sells a home to an income-eligible homebuyer as a potential resolution. A potential solution to this challenge would require an amendment to the LTP program statement to provide explicit authority for the release of the LTP deed restrictions and right of reverter upon the following conditions: 1) City will release the right of reverter upon build of an affordable unit and sale of property to qualified homebuyer in compliance with developer agreement, 2) for LTP properties that sell to qualified homebuyer participating in the Dallas Homebuyer Assistance Program (DHAP) or other program using federal dollars and having deed restrictions with recapture provisions, LTP deed restrictions will be released upon sale to the qualified

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homebuyer and DHAP or other program deed restrictions will recapture provisions will be placed on the property instead. The HUD minimum affordability period under the DHAP program is based on the amount of homebuyer assistance provided directly to the homebuyer. For example, less than \$15,000 in assistance requires a five-year deed restriction, \$15,000 to \$40,000 is 10 years, and any assistance more than \$40,000 requires a 15-year deed restriction to ensure long-term affordability. As a result of this recommended solution with replacing the LTP deed restriction with the DHAP recapture deed restriction for eligible homebuyers, the City has the option to enforce additional years on the affordability period to mitigate any risk ensuring any assisted homes remain affordable for a longer period of time under the DHAP recapture provisions.

We will continue to solicit any additional feedback and questions as we work to recommend workable policy solutions to these current challenges for both programs. Housing staff will present updates to any additional feedback at the HHS Committee meeting on January 22, 2024.

Should you have any questions or require any additional information, please contact Cynthia Rogers-Ellickson, Director (I), Department of Housing & Neighborhood Revitalization cynthia.rogersellic@dallas.gov or 214-670-3601.



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