

# Memorandum



DATE April 1, 2016

TO Housing Committee Members: Scott Griggs, Chair, Carolyn King Arnold, Vice-Chair, Mayor Pro-Tem Monica R. Alonzo, Tiffinni A. Young, Mark Clayton, and Casey Thomas, II

SUBJECT Creating a New Market for Attainable Housing

On Monday, April 4, 2016, you will be briefed on Creating a New Market for Attainable Housing. A copy of the briefing is attached.

Please let me know if you have any questions.



Alan E. Sims  
Chief of Neighborhood Plus

c: The Honorable Mayor and Members of the City Council  
A. C. Gonzalez, City Manager  
Rosa A. Rios, City Secretary  
Warren M.S. Ernst, City Attorney  
Craig Kinton, City Auditor  
Daniel F. Solis, Administrative Judge  
Ryan S. Evans, First Assistant City Manager  
Eric D. Campbell, Assistant City Manager  
Jill A. Jordan, P. E., Assistant City Manager  
Mark McDaniel, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Jeanne Chipperfield, Chief Financial Officer  
Sana Syed, Public Information Officer  
Elsa Cantu, Assistant to the City Manager – Mayor and Council



# Creating a New Market for Attainable Housing

A Briefing to the Housing Committee

April 4, 2016

Council Member Lee M. Kleinman



# Goal

- Provide an incentive for developers to participate in the City's housing initiatives that intend to increase the middle class in the City of Dallas by substantially increasing the affordability of the City's housing stock
- Use a market-based approach to incentives as opposed to a governmental regulation approach



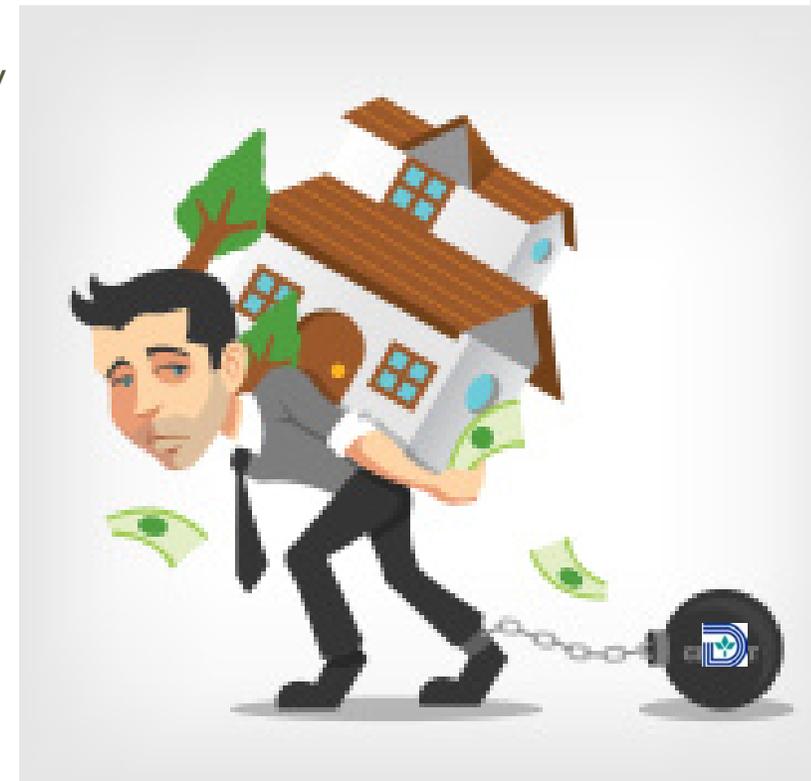
# Background

- June 25, 2015, the United State Supreme Court ruled that disparate impact claims are cognizable under the Fair Housing Act and upheld the 2013 HUD regulations regarding burdens of proof in disparate impact cases
- The practical implication of this decision is that the City of Dallas must:
  - Conduct an Assessment of Fair Housing to look at integration and segregation patterns, concentrations of poverty, disparities of opportunity and disproportionate housing needs for any protected class
  - Identify goals to overcome the prioritized factors
  - Prioritize factors that limit or deny fair housing choice or access to opportunity
  - The actionable strategies may include new affordable housing, place-based strategies to encourage community revitalization, including preservation of existing affordable and HUD assisted housing



# Current Practice

- Review of existing “best practices” (few have proven to be effective)
  - Inclusionary Zoning - ordinances that require a share of new housing development to be set aside as affordable
  - Tax Credits, TIF policies, Zoning Rights and other incentives
- The burden of attainable housing is borne by the residential development community
- Our current system causes a bias toward commercial development, because developers can get entitlements, benefits and tax credits without building residential
- These approaches are punitive to the development community, creating resistance, concentrations and limited opportunities



# Challenges to Current Practice

- City provided benefits (zoning, TIFs, grants, tax credits, abatements, etc.) are subjective and fall to political negotiation. The Council picks winners and losers
- Results are “win/lose” scenarios for the citizens who need attainable housing



- Now is the time to take the lead in partnership with the development community to ensure housing choices for everyone



# Marketable Housing Certificate System (MHCs)

## Marketable Housing Certificates



- Create a market-based system for “Win/Win” scenarios
- Key factors:
  - Create an exchange for Housing Certificates
  - Include all developers, not just residential
  - Have objective measures for certificate acquisition and use
  - Underlying land value factored in to create dispersion \*

\* assumes affordable units concentrate in areas of low land value



# How would it work?

- Every building permit (regardless of use) would require MHCs based on the square footage being developed
- MHCs would be generated from the development of residential properties that have an attainable component
- Factors such as the number of square feet developed and underlying land value would determine the number of certificates generated
- Certificates would be earned upon certificate of occupancy
- Developers would be required to attach MHCs to every building permit application, regardless of use
- Attainable housing developers generate excess certificates and are allowed to market these to other developers



# How would it work?

- For every square foot of attainable housing developed, the developer earns Marketable Housing Certificates
- MHCs must be acquired by those not building attainable housing
- Underlying Land value provides a multiplier / divisor effect on the generation and use of the certificate

New Certificates  
Generated via  
attainable units  
C/O Process



Certificates  
Applied to other  
developments

Certificates  
Traded via an  
Exchange



# MHC System at Work

- The MHC System is implemented via the permitting and c/o process based on objective criteria
  - It is not tied to the zoning process which might be subjective
  - City staff would merely issue MHCs and track their utilization
- MHC Marketplace
  - Excess MHCs may be sold in the marketplace to developers who need MHCs in order to pull a permit
  - MHCs are permanently retired when permits are issued
  - MHCs are fungible and liquid and brokered independent of the City
- Other considerations:
  - Limit eligible percentage of SF for MHC generation to encourage mixed income development



# Marketable Housing Certificate System (MHCs)

- All developers, regardless of land use, would participate via permit requests
  - By requiring all permitted projects to participate, the benefits and costs of the program are widely spread and the overall market is strengthened
- MHCs would create an additional financing tranche to alleviate the burden of development costs in higher priced neighborhoods
  - Further encouraging dispersion of attainable housing throughout the city and eliminate future concentrations of affordable housing in parts of Dallas where land values are lower



# Outcomes of MHC Program

- This method will encourage attainable housing development in more expensive areas by providing additional MHCs to help offset the cost of developing where land values are more expensive
- The market will determine where extra credit is given
- The market provides incentives in the areas of greatest opportunity
- MHCs provide financial support for attainable housing while preserving maximum flexibility for the development community
- Answers the Voluntary Compliance Agreement by promoting affordable housing and geographic dispersion



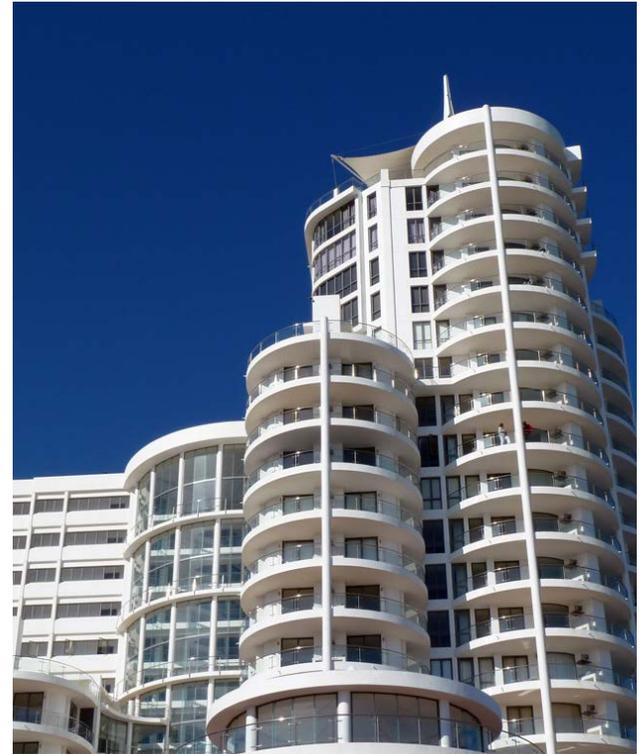
# Tax Increment Financing (TIF)

- The MHC System would simplify TIF requirements for affordable housing
- Current TIF policies with regard to affordable housing have punitive requirements
  - Creates bias in favor of non-residential development
  - Uses TIF funds to benefit one project, not the TIF zone broadly
  - Uses taxpayer dollars to subsidize affordable housing in the TIF rather than building infrastructure
- The City would use MHC System provide incentives for attainable housing development in TIF districts by increasing the multiplier for the certificate generation.



# Benefits to the City of Dallas

- The City has the power to create value via entitlements and incentives or reduce value via requirements and regulations
- The Marketable Housing Certificate System creates value as a tool to implement the vision for the City of Dallas
- A strong market creates demand for MHCs which become scarce and therefore more valuable
- This will attract MHC development into the market and provide another financial layer in the funding stack
- Creates a sustainable and resilient system that withstands economic volatility and budget pressure



## Next Steps

- Housing Committee directs Staff to develop the economic models for this system
- Brief full Council on policies, economics and ordinance changes
- Adopt ordinances that activate the Marketable Housing Certificate system.

