

Memorandum



CITY OF DALLAS

DATE May 31, 2019

TO Members of the Economic Development & Housing Committee: Tennell Atkins, Chair, Rickey D. Callahan, Vice-Chair, Lee M. Kleinman, Scott Griggs, Casey Thomas, II, B. Adam McGough, Mark Clayton, Kevin Felder, Omar Narvaez

SUBJECT **Proposed Amendment to the Loan Agreement with Texas Heavenly Homes, Ltd. for the Acquisition and Development of Single-Family Homes in the Bottom Neighborhood to Extend Completion Deadlines, Incorporate Additional Requirements as Consideration, Convert the Loan Agreement to a Conditional Grant, and to Include Performance Thresholds**

On Monday, June 3, 2019, the Economic Development and Housing Committee will consider a proposed amendment to the Texas Heavenly Homes, Ltd. loan agreement for the acquisition and development of single-family homes in the Bottom neighborhood to extend completion deadlines, incorporate additional requirements as consideration, convert the loan agreement to a conditional grant, and to include performance thresholds.

Summary

In 2008, the City of Dallas entered into a loan agreement (Agreement) with Texas Heavenly Homes, Ltd. (THH) related to the acquisition of parcels of privately-owned real property in the Bottom neighborhood (Properties) and the development of new single-family housing units on such Properties. While THH acquired the Properties, THH did not develop any housing units on the Properties. Several factors contributed to the development delay, the primary barrier being the lack of upgraded public water and sewer infrastructure in the Bottom neighborhood (Bottom). However, on May 22, 2019, the Dallas City Council approved the initiation of a phased public infrastructure improvement project in the Bottom that will resolve many of the issues that led to THH's development delays, at least as they related to Properties located in the first phase of the of the public infrastructure improvement project. Therefore, the Department of Housing and Neighborhood Revitalization (H&NR) is proposing to amend the Agreement to extend the timeframe for development, incorporate additional requirements as consideration, convert the loan agreement to a conditional grant, and to include performance thresholds.

Background

Summary of Project and Terms of Development

The Bottom is defined as the neighborhood bounded by I-35 to the west, the Trinity River to the north, Corinth Street to the east and 8th Street to the south with approximately 500 residential lots.

THH is a Texas limited partnership with Hanover Development Company as the General Partner. Hanover Development Company, a Texas corporation, primarily specializes in the

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development of large-scale master-planned residential communities in Dallas-Fort Worth. The President of Hanover Development Company is Richard LeBlanc and the Vice President is Walter Damon.

On June 25, 2008, City Council authorized the City Manager to execute a loan agreement and related documents with THH for a loan in the amount of \$500,000 at 0% interest for the purposes of acquiring improved and unimproved Properties in the Bottom, and for associated relocation, environmental remediation or demolition. The terms of the Agreement also required THH to develop and sell or lease housing units on all of the Properties acquired with the City's loan to households earning 140% or less of area median income.

The Agreement was entered into pursuant to the City's Chapter 380 Program for Loans and Grants and the Public/Private Partnership Program, which, at the time, included a special category for an Economic Development General Obligation Bond Program for Southern Dallas. The funding source for the loan was 2006 General Obligation bond monies that were allocated to promoting economic development in the Southern area of the City. On January 8, 2009, the City of Dallas executed the loan agreement with THH.

The Agreement required THH to: (1) expend all of the loan proceeds in accordance with the terms of the loan agreement within two years from the effective date of the Agreement and (2) complete construction of the residential structures on each lot and sell or rent the homes to qualified buyers who would occupy the home as their principal residence within seven years of the effective date of the Agreement. Additionally, the Agreement required THH to impose deed restrictions on the Properties, which the City agreed to release upon sale to a qualified buyer.

Timeline of Activity Related to Redevelopment of the Bottom

By 2012, THH had acquired 36 residential lots in the Bottom and expended all loan proceeds. THH has also acquired an additional 55 residential lots in the Bottom without any City funding. However, THH did not, and has not, begun to develop housing units in the Bottom.

In 2015, the City Design Studio developed The Bottom Urban Structure and Guidelines, a future development vision for the Bottom based on input from residents and community stakeholders that was adopted by City Council on April 4, 2015. In 2016, the Department of Public Works commissioned design of utility infrastructure upgrades for the Bottom and the Trinity Watershed Management Department (now Dallas Water Utilities) commissioned a floodplain study to update the location of the 100-year regulatory floodplain.

On April 21, 2017, due to its failure to begin development on any of the Properties, THH deeded seven of the Properties to the City via a deed in lieu of foreclosure. However, THH

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still did not initiate the construction of any homes on either the Properties or on the parcels of real property it acquired with private funds.

Therefore, beginning in the Fall of 2018, H&NR initiated discussions with: (1) THH, (2) other stakeholders in the Bottom, (3) the Councilmember representing the Bottom, and (4) representatives from numerous City departments to determine if the Agreement should be amended to extend the development timeframe or if the City should initiate foreclosure proceedings on the Properties and restart the redevelopment project with a new development partner.

On May 17, 2018, the City Plan Commission authorized a public hearing to consider appropriate zoning for the Bottom, including use, development standards, parking, landscape, sign, and other appropriate standards.

On May 22, 2019, City Council approved a construction contract for the construction of street paving, drainage, and water and wastewater main improvements for the Bottom Phase I Project (Phase I) which consists of: (1) North Denley Drive from Hutchins Avenue to Levee; (2) North Moore Street from Hutchins Avenue to Levee; and (3) May Hall Street from North Denley Drive to Moore Street. A second phase of the public infrastructure improvement project (Phase II) would tentatively include infrastructure improvements to the following eight streets: (1) Cleaves Street from Hutchins Avenue to the levee, (2) Bobbie Street from Canyon street to the levee, (3) Albright Street from Canyon street to the levee, (4) Viaduct Street from Canyon street to the levee, (5) Sparks Street from Hutchins street to the levee, (6) Hart Street from Canyon street to the levee, (7) Pecan Drive from Canyon street to the levee and (8) a shared street along the sump/levee with loop connections between the dead end streets. However, full funding for Phase II has not yet been identified.

Issues

Reasons for THH's Failure to Develop Housing Units in The Bottom

The City has worked to redevelop the Bottom for more than a decade with little success. The THH Agreement was intended to be a catalyst for the initiation of housing development in the Bottom, but after 10 years, redevelopment activities remain stalled. Other property owners and investors have shied away from redevelopment activities in the Bottom due to the financial risks associated with "being the first" to attempt to redevelop the neighborhood, including uncertainty regarding appraisals of newly-constructed homes and the level of interest from potential homebuyers for purchasing homes in the neighborhood.

THH's failure to develop housing units can be attributed to a combination of several factors, including: (1) the lack of upgraded public water and sewer infrastructure, (2) the small lot size of many of the Properties, (3) the costs and regulations related to developing in the floodplain, and (4) THH's desire to deviate from certain components of the Bottom Urban Structure and Guidelines.

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The recently initialed Phase I public infrastructure improvement project will resolve many of the issues that led to THH's development delays, at least as they relate to land located in Phase I of the public infrastructure improvement project. Additionally, H&NR and Planning and Urban Design (P&UD) have met with THH to discuss the purpose and nature of the Bottom Urban Structure and Guidelines in order to address THH's questions and concerns about the Bottom Urban Structure and Guidelines.

Therefore, H&NR is proposing to amend the Agreement to extend the timeframe for development, incorporate additional requirements as consideration, convert the loan agreement to a conditional grant, and to include performance thresholds. The terms of the amended Agreement differ significantly from the original Agreement. The amended Agreement: (1) sets specific deadlines by which THH must demonstrate that it is moving forward with constructing homes, (2) requires homes to be designed in accordance with the Bottom Urban Structure and Guidelines, (3) requires the constructed homes to be sold to households earning 80% of AMI and below rather than 140% of AMI, (4) imposes a 5-year period of affordability wherein the home must remain occupied by an eligible household, (5) converts the Agreement from a loan to a conditional grant, (6) include performance thresholds and requirements.

The amended terms are more specifically described below:

1. The completion date is extended from January 9, 2016 to: (a) June 1, 2020 or within 30 days of completion of Phase I of the public infrastructure improvement project, whichever occurs first, for the 10 parcels of real property located in Phase I of the public infrastructure improvement project and (b) within two years of completion of Phase II of the public infrastructure improvement project for the 19 parcels of real property, THH must apply for building permits for the 10 parcels of real property located in Phase I of the public infrastructure project, including, specifically Properties on: (a) North Denley Drive from Hutchins Avenue to Levee; (b) North Moore Street from Hutchins Avenue to Levee; and (c) May Hall Street from North Denley Drive to Moore Street by June 1, 2020 or within 30 days of completion of Phase I infrastructure work, whichever occurs first.
2. For the 10 parcels of real property located in Phase I of the public infrastructure project, complete and submit the following documents to the applicable City departments by the dates provided:
 - a. a zoning and platting application to the Sustainable Development Department for review and approval by August 1, 2019,
 - b. a civil engineering review of streets and drainage and soil and utility tests to P&UD for review and approval by August 1, 2019,
 - c. house elevations and plans to P&UD for review and approval by August 1, 2019, related to the plans' conformance with the adopted Bottom Urban

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- Structure and Guidelines and the Urban Design Expectations described more fully in Item No. 4, below, and,
- d. tree surveys and mitigation plans to the City Arborist for review and approval by September 1, 2019.
3. The single-family house elevations and plans for redevelopment of the 29 parcels of real property located in Phases I and II of the public infrastructure project shall comply with the following Urban Design Expectations:
- a. All homes shall have pitched roof forms. Structures that are visible from the public street must have pitched roofs. Any flat roof structures provided shall not be visible from any public street, and
 - b. 70% of all homes on any block face must have covered front porches with a minimum depth of 6 feet (max 10 ft.) and a minimum area of 80 sq. ft., and
 - c. New driveways and curb cuts must be co-located along shared property lines on adjacent properties. Driveways shall be a maximum of 16 feet wide at the curb. Where lot widths are 27 feet or less, driveway curb cuts shall leave an uninterrupted length of no less than 9 feet of curb along the lot frontage. Dual entry and circular driveways are not permitted, and
 - d. Garages shall be placed a minimum of 2 feet behind the street-facing façade, if the home has a porch in compliance with subsection (b). A street facing façade is defined as the façade on which the home's front door is located. If the home has no porch, the garage must be placed a minimum of 8 feet behind the street-facing façade. Front-facing garages shall be architecturally treated to de-emphasize their visual impact and prominence from a public street, and
 - e. To promote a variety of architectural interest on each block, every block face shall have homes with a variety of elevations and floor plans. No two homes with identical floor plans or street facing elevations shall be placed next to each other or directly across the street from each other.
4. THH must provide any additional information requested by the City to process the documents described above. Such information must be provided within a reasonable time, as determined by the Director of H&NR (Director), in his/her sole discretion.
5. The Director may approve up to two one-year extensions of the development timeframe, in his/her sole discretion.
6. All 29 single-family homes constructed on the properties listed in Exhibit B must be deed restricted for sale to households earning 80% of the area median income and below, who must occupy the homes as their principal place of residence for a minimum of 5 years.

The City will also amend the deed of trust, the deed restrictions, and the note to reflect the amendments to the Agreement and will convert the Agreement to a conditional grant agreement.

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In the event that any conditions of the amended contract are not met, the City of Dallas reserves the right to foreclose on the Properties or to pursue other remedies available to it under the agreement or under any document securing the contract requirements.

Alternatives

If the THH Agreement is not amended to provide additional time for THH to develop the required single-family homes, the City may be required to initiate a foreclosure action against THH to gain ownership of the Properties. During the course of the lawsuit, the Properties would remain undeveloped, thereby further stymying efforts to jumpstart redevelopment in the Bottom.

Fiscal

There is no cost consideration to the City.

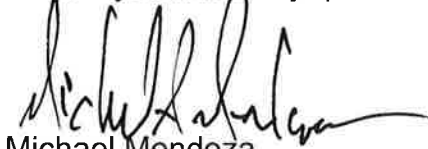
Departments/Committee Coordination

H&NR coordinated with P&UD, Sustainable Development and Construction, Public Works and Dallas Water Utilities.

Staff Recommendation

Staff recommends that the Economic Development and Housing Committee vote to forward the proposed contract amendment to the City Council for consideration.

Should you have any questions, please do not hesitate to call me.



Michael Mendoza

Chief of Economic Development and Neighborhood Services

c: Christopher Caso, City Attorney (Interim)
Craig D. Kinton, City Auditor
Billerae Johnson, City Secretary
Daniel F. Solis, Administrative Judge
Kimberly Bizzor Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager

Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
M. Elizabeth Reich, Chief Financial Officer
Nadia Chandler Hardy, Assistant City Manager and Chief Resilience Officer
Directors and Assistant Directors