

Memorandum



CITY OF DALLAS

DATE May 17, 2018

Honorable Members of the Government Performance & Financial Management
TO Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson, Lee
M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **Housing Finance Corporation**

Summary

The Vice-Chair of the Government Performance and Financial Management Committee requested a briefing on the finances and activities of the City of Dallas Housing Finance Corporation (DHFC). Accordingly, since the primary purpose of the DHFC is residential development, staff determined it would be beneficial to brief the Economic Development and Housing Committee as well.

Background

The Texas Housing Finance Corporations Act (Act), Chapter 394 of the Texas Local Government Code, governs the powers and duties of Texas housing finance corporations (HFC). The primary purpose of the Act is to finance the cost of residential ownership and the development of decent, safe, sanitary housing at affordable prices for residents of local governments. Under the Act, all HFC property, income, and bonds are exempt from state and local taxes. HFCs can make contracts and other instruments necessary to exercise its powers under the Act. Additionally, HFCs can purchase, lease, sell mortgage and exchange its property and assets, can borrow and lend money for corporate purposes, may conduct studies and promote residential development, establish rules and regulations for loan applicants including income limits, issue bonds for the cost of residential development and home mortgages, and create subsidiary entities.

The Act preclude HFCs from other state statutes such as competitive bidding, requirements, restrictions applying to public property, and HFCs can accept and transfer a residential development site by sale or lease from a local government without the local government submitting the issue to voters and without regard to any other general or local law. Finally, the Act allows HFCs to contract with and to perform services for other HFCs, execute contracts for residential development with housing authorities, nonprofits or similar entities, the Texas Department of Housing and Community Affairs, and HFCs can designate an area as economically blighted after Council holds a public hearing and makes required findings.

Dallas Housing Finance Corporation History and Background

On April 25, 1984, the City Council approved creation of the DHFC, a public instrumentality and nonprofit corporation, and adopted the Articles of Incorporation. The purpose of the DHFC was to issue revenue bonds on behalf of the City for the purpose

of providing funds to finance multifamily developments and mortgage loans for the purchase of single family homes that serve low to moderate income households. On March 28, 1990, the DHFC bylaws were amended to expand the eligible loan area to citywide for the single-family mortgage program. In February 2007, the DHFC bylaws were amended to allow the DHFC to purchase, lease, hold title to, and take an ownership interest in a residential development subject to City Council approval. To date, the DHFC has an ownership interest in 5 properties. The chart below illustrates the DHFCs role in each of these properties.

| Development | Council District | Co-Developer | General Contractor | General Partner | Own Property | Own Improvements | Issue Bonds | Lender |
|-------------------------------------|------------------|--------------|--------------------|-----------------|--------------|------------------|-------------|--------|
| Gurley Place at Jubilee Park (2012) | 7 | | | | ✓ | ✓ | | |
| Providence Mockingbird (2012) | 2 | | | ✓ | ✓ | | | ✓ |
| Sterlingshire aka Bruton (2016) | 7 | ✓ | ✓ | ✓ | ✓ | | ✓ | |
| Park at Cliff Creek (2016) | 8 | | | ✓ | ✓ | | ✓ | |
| Martha's Vineyard (2017) | 2 | | | ✓ | ✓ | | ✓ | |

On March 27, 2013, the DHFC articles of incorporation were amended to state the DHFC was organized for charitable, religious, educational and scientific purpose including for making distributions to 501(c)(3) charitable organizations. Finally, on October 10, 2017, the DHFC Board approved changes to its articles of incorporation and other governing documents to include conflict of interest and contracting requirements; however, staff did not bring forward to Council for consideration.

Issues and Challenges

Recently, there have been several concerns raised regarding the DHFC. In particular, concerns raised with the role of the DHFC as intermediary for the Voucher Sublease Program adopted under the Comprehensive Housing Policy. Moreover, City staff has challenges with providing the DHFC Board with support and the Board has expressed concerns with staff overreaching its authority. To alleviate these concerns and overcome challenges staff recommends amending the DHFCs articles of incorporation and bylaws to provide staff administrative support and oversight, streamline functions, modify Board representation, memorialize Chapter 12A and portions of Chapter 8 of the City Code.

Alternatives

If the proposed amendments do not move forward, then the issues and challenges outlined will persist. Particularly regarding administrative oversight and concerns with overall operations of the DHFC. Additionally, the DHFC will be limited in terms of the

service area for bond issuances for residential developments. In order to fully implement the adopted Comprehensive Housing Policy, the DHFC's service area should be citywide.

Fiscal Impact

There are no costs considerations to the City as the DHFC generates its own revenue from the following sources: **1)** issuer fees, **2)** application fees, **3)** developer fees, **4)** cash flow payments, **5)** partnership fees, and/or **6)** ground lease payments. In Fiscal Year 2017, the DHFC receipted and estimated **\$447,266.36**; this is based on bank statements provided and not actual deposit slips. A summary of the expenditures for the last **12** months is included as **Attachment I**. These expenditures include reimbursements for City staff salaries, reimbursements to Board members for travel and conferences, third party contractor payments, and legal services expenses for DHFC general counsel.

Department/Committee Coordination

HNR staff will work with the CAO, CFO, and the DHFC Board to finalize amendments the DHFCs articles of incorporation and bylaws.

Staff Recommendations and Next Steps

Staff recommends amending the DHFC articles of incorporation and bylaws to include the following:

1. Insert language that City Council in its sole discretion may amend the bylaws of the DHFC if it finds and determines such changes are wise, expedient, necessary or advisable. Currently, the articles of incorporation may be amended by the City Council in its sole discretion
2. Broaden service area to citywide; currently, restricted to CBD, CDBG eligible areas, and southern portion of Dallas for residential developments
3. Include language that City Councilmembers may appoint only one Director to the Board; increase members to 15
4. Incorporate Chapter 12A of the City Code in the articles of incorporation and bylaws; and statement of conflict of interests which is consistent with other Boards and Commissions of the City
5. Incorporate from Chapter 8 of the City Code; Article I sections 8-1.2. and 1.4. Chapter 8 covers Boards and Commissions and includes qualifications for appointment such as no criminal history and residency requirement, etc.
6. Incorporate General Manager which must be the Director of the Housing and Neighborhood Revitalization Department; General Manager may appoint Assistant General Manager and Administrator

7. Staff services for the Board must be provided by the City including the City Attorney's Office (CAO) as general counsel, and the City's Chief Financial Officer (CFO) or designee as Treasurer. The Board must reimburse the pro rata share of City staff salaries and benefits

The proposed amendments to the articles of incorporation and bylaws are in draft form, are still under review and subject to change. At its May 8, 2018 meeting, the DHFC Board approved the Director and Assistant Director of Housing and Neighborhood Revitalization (HNR), and the City's Chief Financial Officer (CFO) as signatories for all DHFC bank accounts; however, any expenditure over **\$10,000** will require Board approval.

The DHFC Board was briefed at its regularly scheduled Board meeting on May 8, 2018. The Board requested time to provide comments to the proposed amendments; therefore, the Board can submit comments until June 1, 2018. Staff will respond to comments and bring forward final recommended amendments to the articles of incorporation and bylaws at the June 12, 2018, DHFC Board meeting. In August 2018, staff will bring forward amendments to Council for consideration and adoption. If approved, the articles of incorporation will be filed with the Texas Secretary of State.



Raquel Favela
Chief of Economic Development & Neighborhood Services

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| Honorable Mayor and Members of the City Council | Jon Fortune, Assistant City Manager |
| T.C. Broadnax, City Manager | Joey Zapata, Assistant City Manager |
| Larry Casto, City Attorney | Jo M. (Jody) Puckett, Assistant City Manager (Interim) |
| Craig D. Kinton, City Auditor | M. Elizabeth Reich, Chief Financial Officer |
| Billierae Johnson, City Secretary | Nadia Chandler Hardy, Chief of Community Services |
| Daniel F. Solis, Administrative Judge | Theresa O'Donnell, Chief of Resilience |
| Kimberly Bizer Tolbert, Chief of Staff to the City Manager | Directors and Assistant Directors |
| Majed A. Al-Ghafry, Assistant City Manager | |

Attachment I

| LINE ITEM | AMOUNT |
|--|---------------------|
| Travel Reimbursement & Conference Registration for Board Members (7 Board Members) | \$15,333.15 |
| Travel Reimbursement & Conference Registration for City Staff | \$4,492.84 |
| Reimbursement for City Staff Salaries (8% Interim Director, 3% AD, 0.5% Fin Mgr, 0.5% Comm Coord, 0.5% Ag Coord, 0.5% Secretary; 100%DHFC Coord 5pps+1 Interim); salaries reflect 7+part Pay Periods and no salary for Acct {Note: this includes the amount of the Term Pay}** | \$203,081.75 |
| Reimbursement for City Staff Mileage | \$242.96 |
| 3rd Party Consultant (Includes Mileage)* 2016 invoices paid in 2017 | \$14,523.63 |
| 3rd Party Consultant (Includes Mileage)* | \$24,386.41 |
| Legal Services | \$46,194.11 |
| Audits | \$5,500.00 |
| Membership Fees & Dues (NALHFA, TALHFA, & Apartment Association of Greater Dallas) | \$9,478.25 |
| Nonprofit Donations | \$318,000.00 |
| Food for Board Meetings | \$2,843.57 |
| Marketing & Advertisement | \$2,658.15 |
| Insurance | \$15,948.30 |
| Partnership Expenses | \$12,826.00 |
| Other DHFC Expenses (Interpretation, Bank Statements, etc.) | \$325.00 |
| ***Total | \$675,834.12 |

*\$30,000 contract with Board member for social services compliance monitoring and to serve as Board liaison with property managers

**Includes estimated accrual for July thru December 2017; dollars have not been reimbursed to the City

***These are preliminary estimates and numbers are unaudited

Housing Finance Corporation

Government Performance and Financial Management Committee May 21, 2018

**Raquel Favela, Chief of Economic
Development & Neighborhood Services**

**Avis F. Chaisson, Assistant Director
Housing & Neighborhood Revitalization
City of Dallas**



Presentation Overview

- Powers and Duties of Texas HFCs
- History and Background of DHFC
- DHFC Developments
- DHFC Revenue & Expenditures
- Proposed Amendments to the DHFC Articles of Incorporation and Bylaws
- Next Steps



Powers and Duties of Texas HFCs

- Authorized under Chapter **394** of the **LGC** which the primary purpose is to finance the cost of residential ownership and the development of decent, safe, sanitary housing at affordable prices for residents of local governments
- Make contracts and other instruments necessary to exercise powers
- Can purchase, lease, sell mortgage and exchange its property and assets
- Can borrow and lend money for corporate purposes
- May conduct studies and promote residential development

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Powers and Duties of Texas HFCs – cont'd

- Establish rules and regulations for loan applicants including income limits
- Operate a public instrumentality on behalf of the City, not a division of the City
- Issue bonds for the cost of residential development and home mortgages
- Create subsidiary entities
 - DHFC Jubilee Seniors, LLC
 - DHFC Providence at Mockingbird, LLC (Alden Torch)
 - Bruton Apartments GP, LLC (NRP Group, LLC)
 - PCC280, LLC (Cesar Chavez Foundation)
 - Unicom Crest Development GP, LLC (Deaf Action Center)

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Other Exemptions and Eligible Activities of Texas HFCs

- Not subject to competitive bidding statutes
- All of its property, income and bonds are exempt from state and local taxes
- Can accept transfer of a residential development site by sale or lease from a local government without local government submitting the issue to voters and without regard to any other general or local law
- Exempt from requirements and restrictions applying to public property
- Can contract to perform services for other HFCs
- Can contract for residential development with housing authorities, nonprofits or similar entities
- Can contract with Texas Department of Housing and Community Affairs
- Can designate an area as economically blighted after Council holds a public hearing and makes required findings

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History and Background of DHFC

- **April 25, 1984:** City Council approved creation of the City of Dallas Housing Finance Corporation, a public instrumentality and nonprofit corporation, and adopted the Articles of Incorporation
- **Purpose:** To issue revenue bonds on behalf of the City for the purpose of providing funds to finance multifamily developments and mortgage loans for the purchase of single family homes that serve low to moderate income households
- **March 28, 1990:** Amended bylaws expanded the eligible loan area to make single family mortgage program citywide



History and Background of DHFC – cont'd

- **February 28, 2007:** Bylaws were amended to allow the Corporation to purchase, lease, hold title to, and take an ownership interest in a residential development
- **March 27, 2013:** Articles were amended to state the DHFC was organized for charitable, religious, educational and scientific purpose including for making distributions to 501 (c) (3) charitable organizations
- **October 10, 2017:** Board approved changes to bylaws and other governing documents to include conflict of interest and contracting requirements; staff did not bring forward to Council for consideration

DHFC Developments

- Since **2002**, the DHFC has issued bond obligations to partially fund **14** projects for families totaling **\$183.3M** in conjunction with **4%** housing tax credits allocated by the Texas Department of Housing Community Affairs
- Since **2007**, the DHFC has taken a ownership interest in **5** properties

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DHFC Developments

Providence Mockingbird
Apartment Homes
251 Units
CD 2



Jubilee at
Gurley Place
24 Units
CD 7



Park At Cliff Creek
280 Units
CD 8



Sterlingshire Village
264 Units
CD 7



Martha's Vineyard
100 Units
CD 2

DHFC Revenue

- The DHFC receives revenue from the following sources:
 - ✓ Issuer Fees
 - ✓ Application Fees
 - ✓ Developer Fees
 - ✓ Cash Flow Payments
 - ✓ Partnership Fees
 - ✓ Ground Lease Payments
- For **FY 17**, the DHFC booked **\$447,266.36** in Revenue; the amount is based on bank statements and not actual deposit slips

DHFC Expenditures for Last 12 Months

| LINE ITEM | AMOUNT |
|---|---------------------|
| Travel Reimbursement & Conference Registration for Board Members (7 Board Members) | \$15,333.15 |
| Travel Reimbursement & Conference Registration for City Staff | \$4,492.84 |
| Reimbursement for City Staff Salaries (8% Interim Director, 3% AD, 0.5% Fin Mgr, 0.5% Comm Coord, 0.5% Ag Coord, 0.5% Secretary; 100% DHFC Coord 5pps+1 Interim); salaries reflect 7+part Pay Periods and no salary for Acct {Note: this includes the amount of the Term Pay}** | \$203,081.75 |
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*\$30,000 contract with Board member for social services compliance monitoring and to serve as a Board liaison with property managers

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***These are preliminary estimates and numbers are unaudited

Purpose of Proposed Amendments to the DHFC Articles of Incorporation and Bylaws

- The proposed amendments are in **DRAFT** form, are still under review and subject to change
- Housekeeping items to reflect transition from Office of Economic Development to Housing and Neighborhood Revitalization Department as Board liaison
- Provide Board with Administrative Support and Oversight
- Streamline Functions
- Modify Board Representation
- Memorialize Chapter 12A of the City Code and portions of Chapter 8 of the City Code

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Proposed Amendments to the DHFC Articles of Incorporation and Bylaws

- Insert language that City Council in its sole discretion may amend the bylaws of the DHFC if it finds and determines such changes are wise, expedient, necessary or advisable. Currently, the articles of incorporation may be amended by the City Council in its sole discretion
- Broaden service area to citywide; currently, restricted to CBD, CDBG eligible areas, and southern portion of Dallas for residential developments
- Include language that City Councilmembers may appoint only **one** Director to the Board; increase members to **15**
- Incorporate **Chapter 12A** (Code of Ethics) of the City Code in the articles of incorporation and bylaws; and statement of conflict of interest making DHFC consistent with other Boards and Commissions

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Proposed Amendments to the DHFC Articles of Incorporation and Bylaws – cont'd

- Incorporate from **Chapter 8** (Boards and Commissions) of the City Code; Article I sections **8-1.2.** and **1.4.**
- Board Appointee must adhere to the following:
 - ✓ Accept appointment by signature within **15** calendar days and acknowledge read the code of ethics and agree to comply; must submit to City Secretary
 - ✓ Resident of the City for at least **6** months prior to date of appointment
 - ✓ Must be a qualified voter in the City at the time of appointment
 - ✓ Cannot have a conviction that is considered to be serious by the City Council
 - ✓ Cannot individually, be an employee, or business associate of an adversary party or representative in any pending litigation against the City
 - ✓ Cannot be in arrears on any City taxes or other obligation owed the City
 - ✓ Creditable record of attendance
 - ✓ May only serve on 1 Board; except TIF Boards

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Proposed Amendments to the DHFC Articles of Incorporation and Bylaws – cont'd

- Incorporate General Manager which must be the Director of the Housing and Neighborhood Revitalization Department; General Manager may appoint Assistant General Manager and Administrator
- Staff services for the Board must be provided by the City including the City Attorney's Office as general counsel, and the City's Chief Financial Officer or designee as Treasurer. The Board must reimburse the City for staff salaries and benefits
- Authorize, Director and Assistant Director of Housing and Neighborhood Revitalization, and Chief Financial Officer or designee to be signatories for all DHFC bank accounts

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Recommended Next Steps

| Action | Date |
|---|---------------|
| Presentation to the Economic Development & Housing Committee | May 21, 2018 |
| Presentation to the Government Performance & Financial Management Committee | May 21, 2018 |
| DHFC Board Comments Due | June 1, 2018 |
| Proposed DHFC Board Adoption of Amendments to Articles of Incorporation and Bylaws | June 12, 2018 |
| Adoption of Amendments of Articles of Incorporation and Bylaws to Council for Consideration | August, 2018 |

Housing Finance Corporation

Government Performance and Financial Management Committee

May 21, 2018

Raquel Favela, Chief of Economic
Development & Neighborhood Services

Avis F. Chaisson, Assistant Director
Housing & Neighborhood Revitalization
City of Dallas

