

Memorandum



CITY OF DALLAS

DATE September 18, 2020

TO Honorable Mayor and Members of the City Council

SUBJECT **Agenda Item #88, September 23, 2020 Council Agenda - Villas at Western Heights (a Mixed-Income Development Project in the Fort Worth Avenue TIF District)**

On September 8, 2020, the Economic Development Committee was briefed on the Villas at Western Heights, a proposed mixed-income development project (“Project”) in the Fort Worth Avenue TIF District. The Economic Development Committee unanimously recommended that the Project be forwarded to City Council. As such, in advance of the September 23, 2020 City Council meeting, staff wanted to ensure that the Mayor and all members of City Council have the same information that was provided to the Economic Development Committee.

Several months ago, Villas at WH 20, LP (the “Developer”) submitted an incentive application to the City of Dallas Office of Economic Development, seeking assistance for the development of this mixed-income 9% Low Income Housing Tax Credit (“LIHTC”) project.

Located on 3.86 acres at 1515 Fort Worth Avenue, the Project is proposed to consist of 130 residential units for elderly households, including 88 one-bedroom and 42 two-bedroom units with 104 income-restricted (“affordable”) units and 26 market rate units. Of the 104 affordable units, 11 units are to be leased solely to households earning a maximum of 30% Area Median Family Income (“AMFI”), 42 units are to be leased solely to households earning a maximum of 50% AMFI, and 51 units are to be leased solely to households earning a maximum of 60% AMFI.

On February 12, 2020, City Council approved Resolution No. 20-0289, authorizing a Resolution of Support for the Developer’s application to the Texas Department of Housing and Community Affairs (“TDHCA”) for competitive 9% LIHTCs.

On June 24, 2020, City Council approved Ordinance 31570, authorizing a change in zoning for a 0.21-acre portion of the Project site from R7.5(A) to subdistrict 2A within Planned Development District No. 714.

On July 23, 2020, the Developer received notice from TDHCA that the Project was successfully awarded 9% LIHTCs. A Land Use Restriction Agreement (“LURA”) will be placed on the property in accordance with the LIHTC requirements for the Project. The LURA will ensure that the Project serves elderly residents (55 years or older) with incomes between 30% and 60% of AMFI for a period of 45 years.

In addition to the review and analysis conducted by TDHCA, the Office of Economic Development engaged an independent outside underwriter to review the Project and the

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Developer's incentive application. The underwriter concluded that TIF funding of \$7,678,874 is justified as gap funding to support the Project.

Using the outside underwriting as a guide, the Office of Economic Development negotiated a detailed Letter of Intent with the Developer for an amount not to exceed \$7,678,874 ("TIF Subsidy"), of which \$2,500,000 is to be made available upon acquisition closing, secured by a deed of trust on the property (which shall take the first lien position until such time of construction financial closing, at which time the deed of trust may be subordinate only to senior construction lenders holding a lien against all or part of the property). On August 12, 2020, the Developer accepted the detailed Letter of Intent. Staff's recommended TIF Subsidy of \$7,678,874 will be deployed from the Fort Worth Avenue TIF District Affordable Housing budget category.

City Council's approval of the September 23, 2020 agenda item will authorize the City Manager to execute a development agreement as well as any other related documents.

Staff's briefing to the Economic Development Committee is attached as **Exhibit A**.

Should you have any questions, please contact Kevin Spath, Assistant Director, Office of Economic Development at 214-670-1691.



Dr. Eric Anthony Johnson
Chief of Economic Development & Neighborhood Services

c: T.C. Broadnax, City Manager
Chris Caso, City Attorney
Mark Swann, City Auditor
Biliera Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizer 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
Nadia Chandler Hardy, Assistant City Manager
M. Elizabeth Reich, Chief Financial Officer
Laila Alequresh, Chief Innovation Officer
M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion
Directors and Assistant Directors

EXHIBIT A

Villas at Western Heights

A Mixed-Income Development Project in the
Fort Worth Avenue TIF District

Economic Development Committee
September 8, 2020

Kevin Spath, Assistant Director
Office of Economic Development
City of Dallas



City of Dallas

Presentation Overview



- Background
- Proposed Project
- Staff Recommendation
- Next Steps

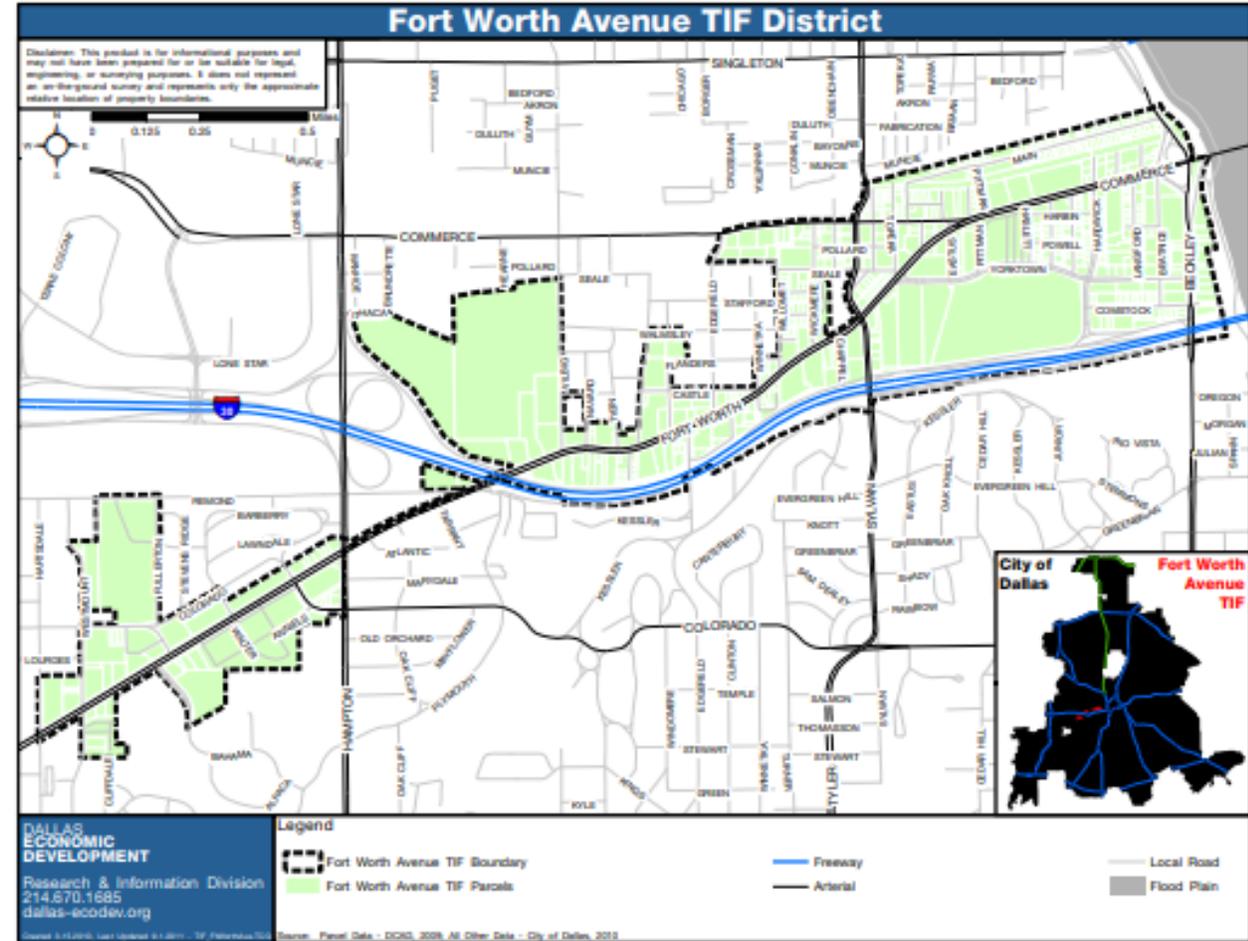
- Appendix



Background – Fort Worth Avenue TIF District



- Established in 2007 as a long-term tool to create a more sustainable mix of residential uses in the corridor and to take advantage of under-developed land parcels near downtown Dallas
- TIF District took effect on January 1, 2008 and is scheduled to terminate on December 31, 2029
- City of Dallas (85%) and Dallas County (55%) are the two participating jurisdictions; City's participation rate is 70% in 2021 and 2022 and drops to 55% thereafter until termination
- To date, taxable value of real property has increased by \$341.8 million within the District, an increase of 397% from the base value



Background – Location of Project



Villas at Western Heights (the "Project") is located at 1515 Fort Worth Avenue in City Council District 6



Background – Existing Conditions



- Project site has been cleared and is currently vacant, with the exception of a former machine shop and a structure that provides coverage for parking along Fort Worth Avenue
- Small single family parcel at the corner of N. Montclair and Castle was re-zoned to Subdistrict 2A of PDD 714 on June 24, 2020, to be consistent with remainder of site (structure was removed prior to re-zoning)



Proposed Project - Summary



Project Developer: Villas at WH 20, LP, a Texas limited partnership, with equity investment in the form of 9% Low Income Housing Tax Credits (LIHTC) from Royal Bank of Canada (TDHCA notification of LIHTC award July 23, 2020)

Project Summary: Developer submitted an incentive application to the City of Dallas Office of Economic Development for Villas at Western Heights (the "Project")

- 130 unit mixed-income senior residential development (104 affordable units; 26 market rate units)
- Total Project cost estimated at \$30.5 million

	RESID UNITS
30% AMI	11
50% AMI	42
60% AMI	51
Low Income Total	104
Market Rate	26
Total Units	130

Bedroom Type	RESID UNITS
1 Bedroom	88
2 Bedroom	42
Total Units	130



Proposed Project - Summary



- In January 2020, the City's Urban Design Peer Review Panel ("UDPRP") reviewed the Project
- UDPRP commended the development team for securing affordable housing and delivering the ability to age-in-place in a rapidly transitioning neighborhood
- UDPRP recommended:
 - Exploring the orientation along Ft. Worth Ave to improve the building's urban form
 - Re-orienting the structure and parking to provide a building facade along Castle Street
 - Determining if more density along Ft. Worth Avenue and Castle Street is possible
 - Reducing the building setback to create a consistent urban edge
 - Street-facing entries for ground-level units, including a small fenced front-yard
 - A landscape buffer with street trees between back-of-curb and sidewalk
 - Barrier-free ramp design at intersection corners at 90 degrees to intersections
- As a result, Developer made changes to accommodate UDPRP's recommendations



Proposed Project - Renderings



Detail View



View from North Windomere Avenue

Source: Mucasey & Associates



Proposed Project – Site Plan



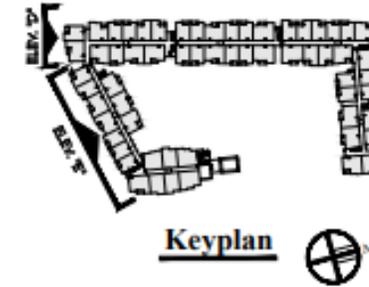
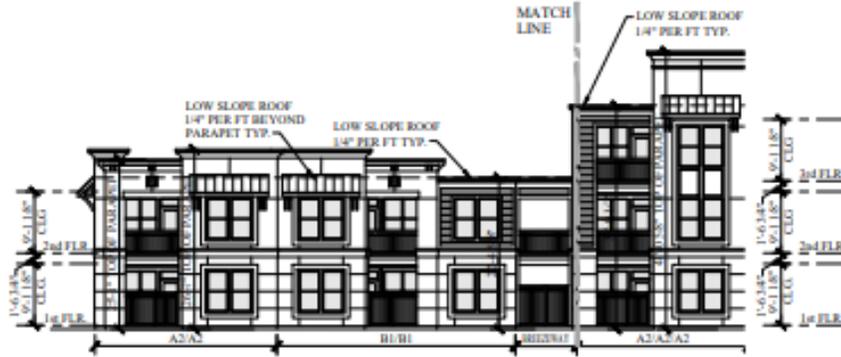
North
↓



Source: Mucasey & Associates



Proposed Project - Elevations



ELEVATION - FORT WORTH AVENUE - "D"



ELEVATION - FORT WORTH AVENUE - "E"

Villas At Western Heights
Mucasey & Associates, Architects

TDRCA Disclosure: In accordance with the rules of the Texas Department of Housing and Community Affairs, aspects of this development may be subject to change, including but not limited to, changes in the amenities ultimately selected and provided.

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VENEER:
70% PLASTER VENEER
30% FIBER CEMENT SIDING

Source: Mucasey & Associates

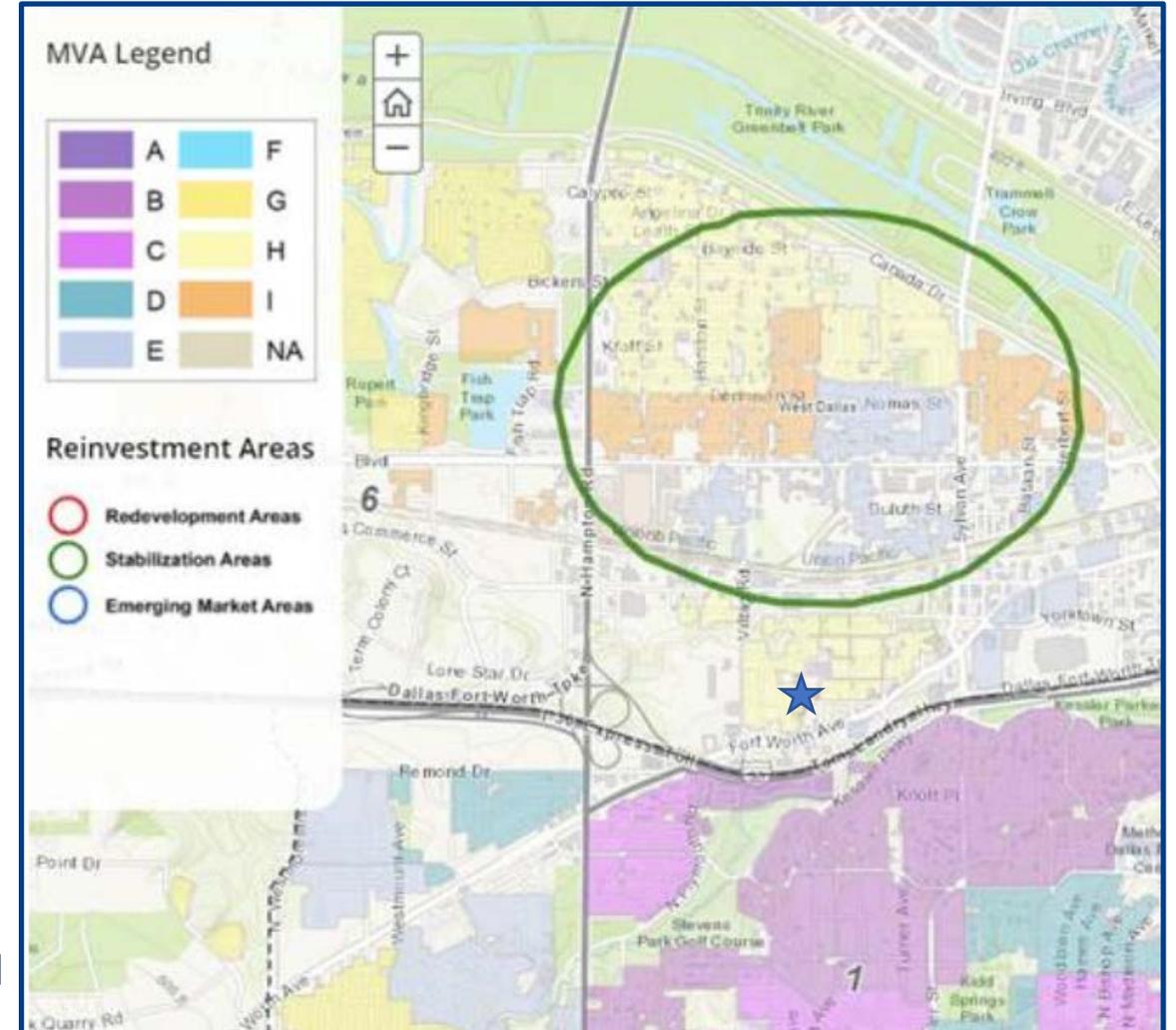


Proposed Project



Market Value Analysis (MVA)

- Market Value Analysis (MVA) is a tool to assist residents and policy-makers to more precisely target intervention strategies in weak residential markets and support sustainable growth in stronger residential markets
- located on a non-residential tract; surrounded to the north by residential market type H. Market type H reflects a weak residential real estate market in Dallas. Market type E is also nearby, representing a middle residential real estate market
- I-30 is a barrier separating the Project from the stronger market type B in the north Oak Cliff area
- located on the periphery of the West Dallas Stabilization Area as designated in the City's Comprehensive Housing Policy
- will provide much needed mixed-income housing focused on elderly households in a rapidly changing neighborhood



Proposed Project – Budget



Uses	Amount	Percent
Acquisition	\$7,510,000	25%
Off-Site Infrastructure	\$342,400	1%
On-Site Preparation	\$806,835	3%
Site Amenities	\$506,560	2%
Building Construction, Finish-Out & Furniture	\$12,017,193	39%
Contingency (5.5%)	\$751,793	2%
Contractor Overhead & Profit	\$1,846,509	6%
Professional Fees (e.g. A&E, landscape architecture, interior design)	\$1,598,656	5%
Soft Costs (e.g. legal, marketing and financing fees, leasing commissions)	\$1,813,555	6%
Reserves	\$671,972	2%
Developer Fee	\$2,593,000	9%
Total Uses	\$30,458,473	100%



Staff Recommendation – TIF Funding



- Authorize a development agreement and all other necessary documents with Villas at WH 20, LP, (“Developer”) and/or its affiliates in an amount not to exceed **\$7,678,874** for affordable housing, of which \$2,500,000 is to be advanced into the Project at the acquisition closing, secured by a deed of trust

Villas at Western Heights – City Funding Sources	Amount
Fort Worth Avenue TIF District Affordable Housing Budget Category	\$7,678,874
TOTAL CITY FUNDING – amount not to exceed	\$7,678,874



Staff Recommendation – TIF Funding



TIF Subsidy in a total amount not to exceed \$7,678,874, payable in at least two (and possibly three) installments

- Installment #1 (anticipated in 2020 or 2021). Contemporaneously with the acquisition closing of the Project, \$2,500,000 of *available* cash in the Fort Worth Avenue TIF District Fund shall be provided to facilitate construction of the Project. City's payment of Installment #1 shall be secured by a Deed of Trust on the property and shall take the 1st lien position until such time of construction financial closing, at which time the Deed of Trust may be subordinate only to senior construction lenders holding a lien against all or part of the property
- Installment #2 (anticipated in 2022 or 2023). Upon completion of the Project and Developer's satisfaction of all terms and conditions in the Development Agreement, the Deed of Trust shall be released. At that time, the Developer shall become eligible to receive the *available* remaining portion of the TIF Subsidy in the form of Installment #2 in accordance with the Fort Worth Avenue TIF District Increment Allocation Policy (as proposed to be amended)
- Installment #3 (in the year following payment of Installment #2, if needed to reach the total TIF subsidy amount)



Staff Recommendation – TIF Funding



- To facilitate the TIF Subsidy for the Project, Staff proposes that the Fort Worth Avenue TIF District Board of Directors amend the District's Increment Allocation Policy
 - The District's Increment Allocation Policy provides the prioritization rules for annual disbursement of current and future TIF funds
 - The recommended amendment creates a "Mixed-Income Project Leveraging Non-City Funds" category for projects leveraging state or federal assistance
 - A Mixed-Income Project Leveraging Non-City Funds would:
 - a) be eligible to receive the District's Available Cash (not otherwise allocated or set aside) as of the date of the amended Increment Allocation Policy (approximately \$4.25 million), and
 - b) 75% of the Shared Increment, subject to the satisfaction of all Project terms and conditions, until the Project is paid in full, if there are additional TIF District Projects eligible for TIF payment

Notes:

- The current Increment Allocation Policy contemplates payment prioritization for a catalyst project that is no longer relevant
- At this time, there are no TIF projects in the payment queue
- Villas at Western Heights could be paid in full upon project completion and satisfaction of all Project requirements



Staff Recommendation – Conditions



- Developer will invest and document a **minimum of \$18,500,000 in private improvements** in the Project, including site acquisition (excluding City's advance), off-site infrastructure, on-site preparation, site amenities, building construction/finish-out/furnishings, and professional fees
- The Project will include a minimum of **130 residential units of which 80% (104 units) shall be set aside for elderly households earning 30%, 50% and 60%** of the Area Median Income for a minimum period of 15 years (although anticipated to be set aside for 45 years for LIHTC)
- At least 10% of the Project's residential units must be set aside and leased to **voucher holders** or abide by any amendments to Ordinance 30246 and Chapter 20A
- Developer will **obtain a building permit by September 30, 2021**; a foundation permit may constitute meeting the obligation of this requirement
- Construction of the Project, including associated public improvements/streetscape improvements, will be substantially complete by **December 31, 2022 or the placed in-service deadline established by Texas Department of Housing and Community Affairs (TDHCA)** as evidenced by letter of acceptance, certificate of completion, or similar documentation from the City



Staff Recommendation – Conditions



- The **proposed management entity for the Project must be submitted at least three months prior to Project completion for review by the Director** of the Office of Economic Development to consider acceptance
- Developer will execute a **20-year Operating and Maintenance Agreement** for all **non-standard public improvements** prior to payment of Installment #2
- Developer will make a good faith effort to comply with City's Business Inclusion and Development ("BID") **goal of 25% participation by certified Minority/Women-owned Business Enterprises ("M/WBE")** for **all hard construction expenditures** of the Project and meet all reporting requirements
- Until the Project has passed final building inspection and all required paperwork for payment of Installment #2 has been submitted, Developer will submit to the Office of Economic Development **quarterly status reports** for ongoing work on the Project as well as public improvements
- Developer will construct the Project (public and private improvements) in **substantial conformance with the conceptual site plan and conceptual renderings approved by the City's Planning and Urban Design Department, addressing the comments provided by the Urban Design Peer Review Panel on January 24, 2020**; allowable minor modifications may include those required for compliance with development regulations



Staff Recommendation – Conditions



- For all permanent employment opportunities, Developer shall submit a **written plan describing how Developer or property management group will use and document best efforts to recruit and hire residents of the city of Dallas**. At a minimum, the written plan shall describe how local recruitment will be targeted through local advertisement, community outreach, local engagement, participation in local job fairs, and/or coordination with local hiring sources
- Prior to payment of Installment #2, Developer will provide evidence that a **minimum of 40% of the residential units are leased and occupied**. Prior to payment of Installment #3, Developer will provide evidence that a **minimum of 60% of the residential units are leased and occupied**
- Developer shall submit the **Affirmative Fair Housing Marketing Plan** for approval
- Within 90 days of site acquisition closing, Developer shall provide **evidence of binding commitments of all capital sources** necessary to complete the Project
- **Director of the Office of Economic Development may authorize minor modifications** to the Project, including, but not limited to, adjustment in unit type, unit mix, set-aside duration, qualifying Area Median Family Income and/or evidence of capital commitment extension (if consistent with TDHCA Project requirements and TIF District policies)
- **After approval of the TIF Board and Director of the Office of Economic Development, deadline extension up to 12 months** may be granted



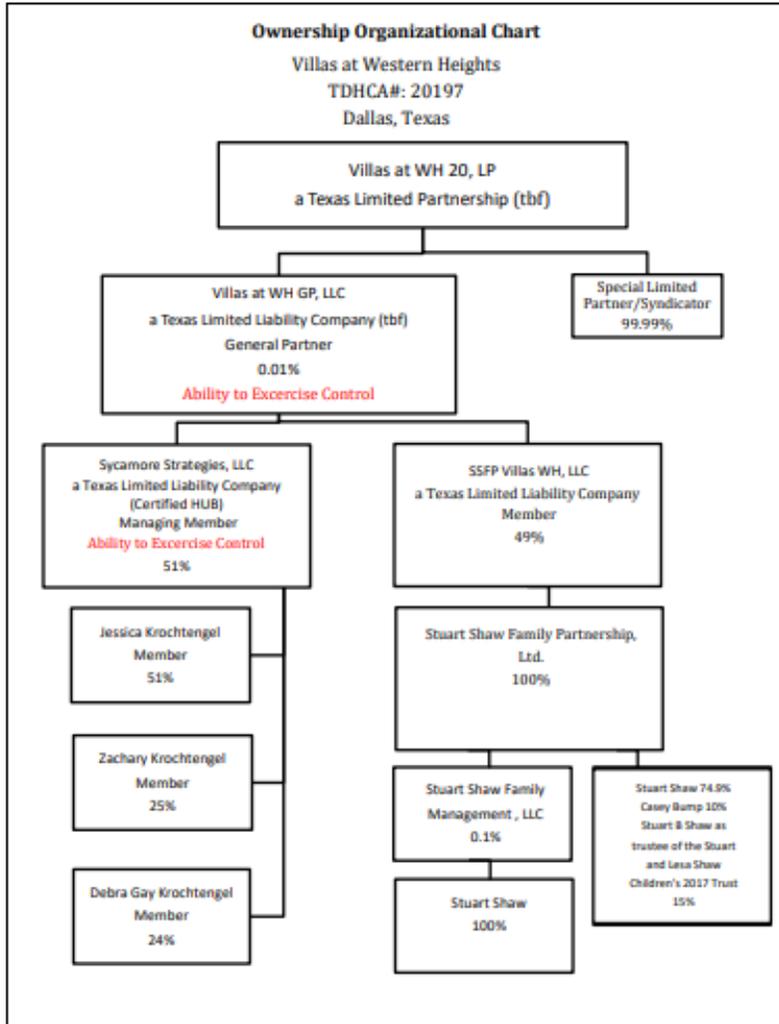
Next Steps



- On September 1, 2020, the Fort Worth Avenue TIF District Board of Directors reviewed and recommended for approval TIF funding for the Villas at Western Heights in an amount not to exceed \$7,678,874
- An agenda item will be placed on the City Council voting agenda on September 23, 2020



Appendix: Ownership Structure



- Limited Partners/Owners

- 0.01% owned by Villas at WH GP, LLC. (General Partner)
 - 49% SSFP Villas WH, LLC (Stuart Shaw)
 - 51% by Sycamore Strategies, LLC
 - Founded in 2016 by Jess Krochtengel, with Zachary Krochtengel as a minority member
 - Part of the development group on two successful applications during the 2017 TDHCA 9% competitive round
 - Legacy Trails of Decatur, a 70-unit Elderly Limitation property and Westwind of Killeen, a 110-unit general population property, representing over \$18,000,000 of LIHTC and over \$40,000,000 in development
- 99.99% owned by a to be formed investor Limited Partner. Developer Stuart Shaw Family Partnership, Ltd. (SSFP)

Senior Lender: Amegy Bank or Chase Bank
 Construction Lender: Amegy Bank or Chase Bank
 LIHTC Syndicator: Royal Bank of Canada Capital Markets



Appendix: Development Team



Role	Party Name
Developer Entity/Primary Contact	Villas at WH 20, LP (Sycamore Strategies, LLC)
Developer	Stuart Shaw Family Partnership, Ltd. (SSFP)
Architect	Mucasey & Associates
Contractor	Bonner Carrington Construction (an SSFP affiliate)
Property Management	SSFP or an affiliate
Leasing	Alpha Barnes Real Estate Services



Appendix: Fort Worth Avenue TIF District Budget



Fort Worth Ave TIF District Plan Budget Category	Fort Worth Ave TIF District Budget*	Budget Allocated to Date	Budget Allocated to Villas at WH	Budget Remaining
Public infrastructure improvement	\$78,952,931	\$1,062,563		\$77,890,368
Affordable housing	\$10,594,923	\$0	\$7,678,874	\$2,916,049
Environmental remediation & demolition	\$12,713,908	\$0		\$12,713,908
Parks, open space, trails, and gateways	\$12,713,908	\$250,000		\$12,463,908
Façade restoration	\$6,356,954	\$0		\$6,356,954
Economic development grants	\$21,189,846	\$2,500,000		\$18,689,846
Administration and implementation*	\$4,661,766	\$508,784		\$4,152,982
Total project costs	\$147,184,237	\$4,321,347	\$7,678,874	\$135,184,016

* Budget shown above in current dollars; TIF Project Plan shows budget in net present value



Appendix: Projected Tax Increment



- Current (2020) taxable value of the real property per DCAD: \$1,056,880 (\$8,208 annual City taxes)
- DCAD values LIHTC projects using a formula of 7% cap rate; therefore, the estimated post-completion taxable value (City staff estimate): \$8,966,014

Projected Tax Increment created by the Project through life of Fort Worth Avenue TIF District

Tax Year	Property Value Estimate	Anticipated Captured Value	Participation Rate City	TIF Contribution City	Participation Rate County	TIF Contribution Dallas County	Total TIF Contribution
2020 "Base"	\$1,056,880						
2022	\$8,966,014	\$7,909,134	70%	\$42,996	55%	\$10,575	\$53,571
2023	\$9,145,335	\$8,088,455	55%	\$34,548	55%	\$10,815	\$45,363
2024	\$9,235,814	\$8,178,934	55%	\$34,935	55%	\$10,936	\$45,870
2025	\$9,325,329	\$8,268,449	55%	\$35,317	55%	\$11,055	\$46,372
2026	\$9,413,771	\$8,356,891	55%	\$35,695	55%	\$11,174	\$46,868
2027	\$9,602,047	\$8,545,167	55%	\$36,499	55%	\$11,425	\$47,924
2028	\$9,794,088	\$8,737,208	55%	\$37,319	55%	\$11,682	\$49,001
2029	\$9,989,970	\$8,933,090	55%	\$38,156	55%	\$11,944	\$50,100
TOTAL				\$295,464		\$89,606	\$385,070



Appendix: Underwriting



- Developer's amended incentive application requested \$8,000,000 in TIF funding
- National Development Council (NDC), under contract with the City, conducted independent underwriting of the incentive application
- Conclusions of independent underwriting:
 - **Development team:** highly qualified; experienced
 - **Equity investors:** as a tax credit project, nearly half of project funding comes from equity generated from the LIHTCs; audited Financial Statements for the guarantor general partner show a more than adequate ability to fund required guarantees
 - **Permanent debt capacity of Project:** Maximized; Letters of interest from two lenders, each with very similar terms; Project does not have additional debt capacity beyond \$8.15 million assumed by Developer
 - **Appraisal and Market Study:** applicant's assumptions are consistent with information presented
 - **Cost estimates of Project:** costs reasonable; development costs could be higher than projected since the figures provided by the developer do not represent contracted prices. The potential for higher costs merits developer's argument for not maximizing the deferral of the developer fee
 - **Rationale for subsidy:** main driver of the subsidy need is TDHCA's artificial restriction of the tax credits to \$1.5 million per year (\$15 million total). Without the TDHCA restriction, the project has the potential to qualify for over \$25.5 million in tax credits which would eliminate the gap
 - **Rational for subsidy based on Returns:** 4.87% IRR, within reasonable range; no undue enrichment



Appendix: Sources and Underwriting



- TIF Subsidy Installment No. 1 provides equity for land acquisition (unimproved land is challenging to finance/achieve favorable loan terms since low collateral)

Construction Sources	Amount	Percent
Debt (Amegy Bank or Chase Bank)	\$21,826,778	72%
3rd Party Equity as 9% LIHTC (Royal Bank of Canada*)	\$4,262,029	14%
TIF Funds Installment No. 1	\$2,500,000	8%
Deferred Developer Fee	\$1,869,166	6%
City Grant (Approved Feb. 12, 2020 by Resolution 20-0289)	\$500	0%
Total Uses	\$30,458,473	100%

* Royal Bank of Canada (RBC) Community Investments, the tax credit investment arm of Royal Bank of Canada

- Staff utilized the underwriter's preferred scenario when structuring the proposed TIF Subsidy, balancing the uncertainty created by potential higher construction costs with requiring the Developer to maximize non-City resources in filling the gap

Preferred Source Scenario (Permanent)	Amount	Percent
Permanent Loan (Amegy Bank or Chase Bank)	\$8,150,000	27%
3rd Party Equity as 9% LIHTC (Royal Bank of Canada*)	\$13,948,605	46%
Deferred Developer Fee	\$680,994	2%
City (Fort Worth Avenue TIF District Funds)	\$7,678,874	25%
Total Uses	\$30,458,473	100%

- defers a portion of the developer fee to be used as project financing so that there is capacity to direct the remainder towards construction contingency, if needed





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