

Memorandum



CITY OF DALLAS

DATE April 3, 2015

TO Members of the Housing Committee: Carolyn R. Davis, Chair, Scott Griggs, Vice-Chair, Dwaine Caraway, Rick Callahan, Monica Alonzo, and Philip Kingston

SUBJECT **Deaf Action Center/ Martha's Vineyard Place**

On April 6, 2015, you will be briefed on the Deaf Action Center's/ Martha's Vineyard Place development. Briefing materials are attached.

Should you have any questions, please contact me at (214) 670-3296.

A handwritten signature in black ink, appearing to read 'Ry - S. E.' followed by a horizontal line.

Ryan S. Evans
First Assistant City Manager

C: The Honorable Mayor and Members of the City Council
A.C. Gonzalez, City Manager
Warren M.S. Ernst, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
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
Karl Zavitkovsky, Director, Office of Economic Development
J. Hammond Perot, Assistant Director, Office of Economic Development
Elsa Cantu, Assistant to the City Manager – Mayor & Council

Deaf Action Center Martha's Vineyard Place

Housing Committee

April 6, 2015



Purpose

- Provide background information on the Deaf Action Center's Martha Vineyard project
- Seek Housing Committee approval for council consideration on 4/22 of the following:
 - Dallas Housing Finance Corp (DHFC) issuance of tax exempt bonds in an amount not to exceed \$10M to finance new construction of Deaf Action Center's 100 unit Martha's Vineyard Project (3155 Crest View)
 - A resolution to support TDHCA's award of 4% Housing Tax Credits
 - Approval for DHFC to form a subsidiary single-purpose entity to be General Partner (GP) of Limited Partnership (LP) to develop/own the improvements.
 - Approval for DHFC to accept title to ground/dirt at 3115 Crestview and ground lease land to LP(developer/owner of improvements) to ensure project is exempt from ad valorem taxes.

Background

- Existing facility consisting of 40 units is approximately 25 years old and has reached end of its useful life.
- Project qualifies as a transit oriented development, a north Dallas mixed income property , a special needs development and recently was included in a Qualified Census Tract
- Deaf Action Center (DAC) obtained support of key constituents in Inwood /Cedar Springs Neighborhood
- Public hearings completed and zoning obtained for a 4 story structure
- On February 25, 2015 - City Council approved a resolution to support THDCA's award of 4% Low Income Housing Tax Credits to DAC, or its successors or assigns, for new construction of Martha's Vineyard Place, 100 units of mixed income housing with 15% market rate units and 85% affordable units

Background (CON'T)

- On March 3, 2015 Dallas Housing Finance Corp (DHFC) approved a tax-exempt bond inducement in amount not to exceed \$10M; also approved: (1) Formation of subsidiary single purpose entity to be GP of LP to develop/own improvement; and (2) GP ownership of ground/dirt.
- DHFC has a previous history of Council-approved partnerships involving land ownership and a general partnership interest to facilitate ad valorem tax exemption for four properties:
 - Jubilee Seniors at Gurley Place – 24 Units for Seniors
 - Providence at Mockingbird – 251 Units (155 Seniors/96 Family)
 - Bruton Apartments – 264 Units (Family) currently under construction
 - Park at Cliff Creek – 280 (Existing Family Units) current rehabilitation
- On March 25, 2015 Council approved a public hearing to be held on 4/22.

Developer

Deaf Action Center

- A 501(C)(3) operating since 1975, DAC serves unique needs of people with all levels of hearing loss
- DAC implements tenant service programs, including, but not limited to health, education and nutrition with enrichment in accordance with multifamily social services requirement
- Second floor of four story building will be a service center for the hearing impaired
- DAC submitted NOFA to City's Housing Department on December 1, 2014 and its full application to DHFC on January 28, 2015.

Developer

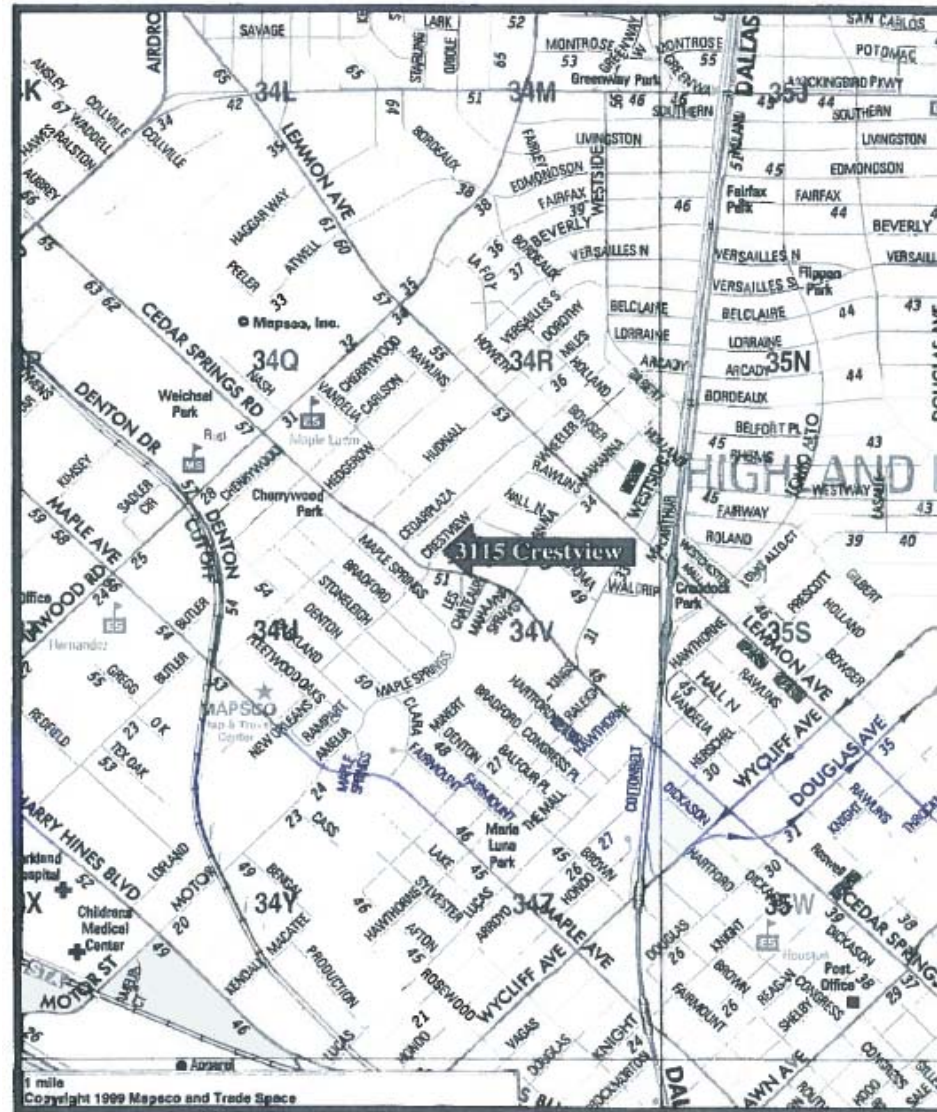
Carleton Residential

- Carleton Residential is a builder and developer of affordable housing units utilizing HUD's Section 108 financing and both 4% tax credits with tax exempt bonds and 9% tax credits.
- Recent Projects in the City of Dallas include:
 - Carpenters Point Seniors – 140 units for Seniors
 - Serenity Place – 45 units of Permanent Supportive Housing for Seniors
 - Treymore at City Place – 180 units for families

Project

- Martha's Vineyard Place, located at 3115 Crestview – Council District 2 - demolition of 40 units and the new construction of
 - 100 mixed income units with 15% market rate units
 - 21 units at 50% AMFI, 64 units at 60% AMFI and 15 Market Rate Units
 - 16 Efficiencies, 47 One Bedrooms, 33 Two Bedrooms and 4 Three Bedrooms
 - Net Monthly Rents:
 - Efficiencies \$557 for both 50% and 60% , including Market Rate (MR)
 - One Bedroom \$637 and \$715 - \$800 for all units, including MR
 - Two Bedrooms \$913 and \$992 for all units, including MR
 - Three Bedrooms \$1,068 for all units, including MR

Map



MAPSCO 34-V

Site Plan and Renderings



Applicant Ownership Chart

*w/ HFC a GP for
100% tax
exemption*

Unicom Crest Development, LP
(EIN#)

TBD, LLC, General
Partner, .01%
(EIN#)

Investor Limited
Partnership
99.98%

Special Limited Partner
Unicom Crest Development
LLC,
.01%
(EIN#)

Sole Member
City of Dallas Housing
Finance Corporation
100% 501(c)3
(EIN# 75-2007624)

Deaf Action Center,
100% 501(c)3

Proposed Ownership, Developer and Management Company

- Owner, a to be formed Limited Partnership , Unicom Crest Development, LP
 - Limited Partner equity provider with 99.98% - owner to be Equity Investor
 - .01% ownership : General Partner , an entity created by the City of Dallas Housing Finance Corporation (DHFC) with the DHFC as the Sole Member (100%)
 - .01% ownership: Special Ltd. Partner/Co/Developer , Unicom Crest Development, LLC, with Deaf Action Center as the Sole Member (100%)
 - (“SLP”/Guarantor , proposes to receive a percentage of the developer fee)
- Management Company, Lincoln Property Company

DHFC Risk & Tax Implications of GP Ownership Position

- Creation of single purpose LLC reduces liability of DHFC
- A DHFC Created LLC can elect to be taxable by executing a document making the 168 (h) election with the IRS
 - When DHFC's LLC becomes taxable, it allows the Partnership to take a 20 year depreciation instead of a 40 year depreciation
 - Allows for profit LP to take depreciation at a higher rate to reduce taxable income to the partnership and DHFC's LLC will pay income taxes based upon net income (revenue minus expenses)
 - Arrangement also allows LP to get better pricing on tax credit equity
 - Management Agreement between the DHFC and LLC reduces tax liability of LLC

Social Services

- Owners will be required to provide \$200 per unit per year (a minimum of \$40,000 per year), whichever is greater, estimated to be \$40,000 for 100 units of which 100% can be in form of in-kind contribution; or
 - Owner can choose from list of 20 types of services provided at no cost to tenants
 - The second floor of the building will be offices and service center for the hearing impaired

Sources and Uses of Funds

<u>Sources</u>	<u>\$M</u>	<u>Uses</u>	
Bonds/Construction Loan ((\$10M Paid down to \$6.7M at Permanent Closing)	6.7	Construction/SiteWork	9.3
Tax Credit/Third Party Equity ⁽¹⁾	4.286	Soft Costs	0.916
		Financing Costs (2)	1.381
Hillcrest Foundation	0.100	Developer Fee (3)	1.640
City of Dallas Grant	<u>2.641</u>	Reserves	<u>0.490</u>
	<u>13,727</u>		<u>13,727</u>

(1) Tax Credit Equity (HTCs) pays down

Bond financing at permanent loan closing to \$6.7M

(2) Construction Loan: \$1,009,500; Permanent Loan, \$372,450

(3) Developer fee amortized equally over 10 year period

Budget

BUDGET

Total Construction Contract/Site Work	9,300,000
Total Soft Costs	915,700
Financing Costs	1,381,950 (1)
Developer Fee	1,640,000 (2)
Reserves	489,530
Total Housing Development Costs	\$13,727,180

(1) Construction Loan: \$1,009,500 Permanent Loan; \$372,450

(2) Developer Fee amortized equally over a ten year period

Total Cost Per Unit and Per Unit Construction Costs

- Total cost per unit is \$137,271

- Total construction costs (excluding soft costs) per unit is \$93,000
 - Structure is a 4 story building with an elevator which adds to the construction costs
 - TDHCA uses Marshall & Swift to do cost certifications on all construction costs

Stabilized Proforma

Revenue	\$1,185,959
Vacancy Loss	(90,134)
Other Income	\$15,833
Total Revenue	\$1,111,658
Operating Expenses	(556,995)
Replacement Reserves	(43,378)
Net Operating Income	\$511,585
Debt Service	\$372,344
Net Cash Flow	\$139,241

- Net Rents
- \$557 Efficiencies and
 - \$637 and \$715 -\$800 for one bedrooms
 - \$913 and \$992 for two bedrooms
 - \$1,068 for three bedrooms

Debt Coverage Ratio 1.20
 4 Months Oper. Exp. and Debt Serv. \$294,778

Ad Valorem Tax Exemption for City's portion valued at \$50,000 per year
 Deferred Developer Fee paid over 15 year compliance period including DHFC's portion

Proposed Developer Fee and Cash Flow Split To be Negotiated

- DHFC Application Fee: \$2,000
 - Processing Fee: \$10,000
 - Closing/ Origination Fee: 50 Basis Points on Outstanding Principal Balance (OPB) = \$50,000
 - Annual Issuer Fee 10 Basis points on Outstanding Principal Balance = \$10,000 per year ⁽¹⁾
 - Ground Lease Fee \$100,000 (at closing)
 - Cash flow split 20% to DHFC and 80% to DAC
- ⁽¹⁾DAC anticipates paying down bond balance to \$6.7M at permanent loan closing which would reduce annual DHFC issuer fee to \$6,700 for remainder of 15 year term.

Benefits to the City

- 100 New Construction Units in a four story elevator building substantially upgraded and managed by a nationally recognized property management company, Lincoln Property Company
- Tenant Services Programs will be provided at no cost to tenants
- A service center for tenants with all levels of hearing loss will be located on the 2nd floor next to offices for the DAC.

Martha's Vineyard Place meets DHFC Guidelines for land ownership and General Partnership Interest

- **Contributes to promotion of healthy and sustainable neighborhoods**
 - New construction in conformance with planned development for area (new constructions)
 - Connectivity with surrounding neighborhood
 - Transit-oriented/mixed income development
 - Special needs housing set aside (18% per TDHCA requirements)
- **DHFC receives payments greater than City's current ad valorem tax assessment**
 - Property currently tax exempt
 - DHFC earns \$162K in fees plus annual issuers fee and 20% cash flow split
- **Community impact benefits compensate for ad valorem tax exemption from other taxing authorities (DISD, County, Hospital, etc.)**
 - Property is currently tax exempt
 - (See appendix B)
- **DHFC is Bond Issuer:**
 - Yes

Next Steps

- April 14, 2015 Tax Equity and Fiscal Responsibility Hearing (TEFRA)
- April 22, 2015 Public Hearing and Council consideration
- April 25, 2015 - DAC submits its Bond Application to Texas Bond Review Board and receives a Bond Reservation
- Mid June – Mid July 2015 TDHCA considers 4% tax credit application
- Closing on or before Sept. 25, 2015

Recommendations:

- Housing Committee recommendation for Council consideration of the following on 4/22/15
 - Dallas Housing Finance Corp (DHFC) issuance of tax exempt bonds in an amount not to exceed \$10M to finance new construction of Deaf Action Center's 100 unit Martha's Vineyard Project (3155 Crest View)
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Appendices

Appendix A

H.B. 3361 – 4% Tax Credits/Tax-Exempt Bonds

- To allow applicant to apply for a resolution as required by State of Texas H.B. 3361, effective September 1, 2013 that can certify the following facts to be considered by Dallas City Council in January/February 2014 in a Resolution:
- (i) Notice has been provided to the Governing Body in accordance with Texas Government Code, §2306.67071(a) and 10 TAC §10.204(4)(A);
- (ii) Governing Body has had sufficient opportunity to obtain a response from the Applicant regarding any questions or concerns about proposed Development;
- (iii) Governing Body has held a hearing at which public comment may be made on the proposed Development in accordance with Texas Government Code, §2306.67071(b) and 10 TAC §10.204(4)(B); and
- (iv) After due consideration of information provided by Applicant and public comment, Governing Body does not object to proposed Application.

Appendix B

Community Impact Benefits

Martha's Vineyard Place				
100 Units multi-family				
Location	3155 Crest View Northwest Dallas		Distressed Community	
			No. 25.6% poverty, median income of \$41,370 AMI	
Proposed Uses	Job Training	TOD	Mixed Income Special Needs Housing	
	Yes	Yes	21 units at 50% of AMFI 64 units at 60% AMFI 15 units will be leased at market rates 18% set aside for special needs	
Demonstrated need for DHFC Ownership interest:	Yes, if DAC structure is not approved by the Dallas Central Appraisal District			
Likely community impact:	Job creation for special needs	Increased wages LM/MWBE/ special needs		
	Yes	Yes		
	Community service business?	Facilitates wealth creation for special needs tenants?	Provides services to persons with all levels of hearing loss	Environmentally sustainable?
	Yes	Yes	Yes	Yes