Memorandum

CITY OF DALLAS

DATE April 22, 2022

TO Honorable Mayor and Members of the City Council

SUBJECT **Dallas Public Facility Corporation – Background & Purpose**

The purpose of this memorandum is to provide you with information on the background and purpose of the City of Dallas Public Facility Corporation (DPFC). The creation of the DHFC was authorized by the City Council on June 24, 2020 by Resolution No. 20-1035, pursuant to Chapter 303 of the Texas Local Government Code - the Texas Public Facility Corporation Act (Act). The DPFC is governed by a 15-member Board of Directors (DPFC Board) appointed by the City Council and was created to finance the acquisition of obligations issued or incurred in accordance with existing law, to provide for the acquisition, construction, rehabilitation, renovation, repair, equipping, furnishing, and placement in service of "public facilities" as defined by the Act (Public Facility). Per the DPFC Corporation Bylaws, all DPFC projects must be approved by the City Council.

While the Act includes a broad definition of Public Facility, the DPFC is primarily focused on the development of mixed-income rental housing. The target resident population is the "missing middle" of the workforce: residents earning between 60% to 80% of the Area Median Income (AMI) that are not served by the LIHTC program or market rate development.

The Act authorizes a property tax exemption for any Public Facility owned by a Public Facility Corporation (PFC) throughout the State of Texas. For a multifamily rental property to qualify as a Public Facility pursuant to the Act, at least 50% of the units must be reserved for residents earning at or below 80% AMI. The remaining units may be at market rent. The DPFC Board requires that the resident incomes be adjusted for family size and that the income restricted units are disbursed evenly through the unit mix.

The DPFC partners with private developers that will fund and manage the entire acquisition, construction, and operation of the mixed-income housing development. At the time of the financial close, the land is transferred to the DPFC and the developer and DPFC enter into a 75-year lease. The DPFC is not required to fund the acquisition of the land – the development partner funds the land acquisition and subsequent construction. At present, the 75-year lease is the shortest lease accepted by developers and investors of PFCs.

Staff, DPFC Corporation Counsel, and DPFC Financial Advisors typically review and underwrite the mixed-income developments to confirm that "but for the DPFC participation the project would not be economically feasible." The DPFC team also ensures that DPFC developments are financially feasible and will attract responsible debt and equity providers based on market returns. In addition to providing workforce housing throughout the City, the DPFC receives compensation for its participation in the development and the provision of a property tax exemption. The DPFC receives a structuring fee, an annual lease payment targeted at 25% of the estimated property taxes that increases each year by CPI (capped at 3%), a 15% sales commission after repayment of debt, equity, and preferred equity returns upon first sale/refinancing of the development, and a 2% sales commission of gross proceeds on all future sales. At the end of the 75-year lease term, the DPFC will own the property free and clear. The revenues received by the DPFC will fund DPFC operations as well as support the development of additional affordable and workforce housing that is in concert with the Comprehensive Housing Policy.

To ensure compliance and performance of the developers and property managers, regulatory agreements are recorded on DPFC-owned properties outlining the income restrictions, family size adjustments, equitable unit mix of workforce units, workforce tenants' equal enjoyment of the facility, requirements to accept vouchers, and design/unit standards. The regulatory agreement also outlines the method by which property managers must calculate resident income and recertify tenants on an annual basis. The lease agreement between the DPFC and the developer also requires that the property be maintained throughout the life of the lease and that a capital needs assessment be conducted every seven years or upon sale of the leasehold interest in the property. The lease agreement requires that all identified maintenance issues be resolved unless such costs would result in a default of the senior debt on the property. Failure of the developer to adhere to all of the above is a default under the definitive documents. If any of the conditions above are not met after a commercially reasonable cure period, the DPFC can terminate the lease with the developer.

The DPFC approved project pipeline is attached for your review.

Should you have any questions or require any additional information, please contact me or David Noguera, Director, Department of Housing & Neighborhood Revitalization at David.Noguera@DallasCityHall.com or 214-670-3619.

Majed A. Al-Ghafry, P.E.
Assistant City Manager

c:
T.C. Broadnax, City Manager
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M. Elizabeth (Liz) Cedillo-Pereira, Assistant City Manager
Robert Perez, Interim Assistant City Manager
Carl Simpson, Interim Assistant City Manager
M. Elizabeth Reich, Chief Financial Officer
Genesis D. Gavino, Chief of Staff to the City Manager
Directors and Assistant Directors

Phase	Project	Council District	Developer	Property Address	Development Cost	30%AMI	50% AMI	60%AMI	80% AMI	Market	Total # of Units
Council Approved	Oakhouse at Colorado	1	Mintwood Real Estate	900 E. Colorado Blvd.	$ 48,230,230	0	0	0	113	102	215
					$ 48,230,230	**0**	**0**	**0**	**113**	**102**	**215**
Prelim Approval	Mountain Creek Apartments	3	NRP Group	NWC of I-20 & TX-480	$ 59,246,341	0	0	0	162	162	324
	Standard at Royal	6	LDG Development	2737 Royal Lane	$ 69,245,305	0	0	30	120	150	300
	Standard West Commerce	6	Ojala Partners	1400 West Commerce	$ 64,763,980	0	0	0	153	147	300
					$ 193,255,626	**0**	**0**	**30**	**435**	**459**	**924**
				Totals	**$ 241,485,856**	**0**	**0**	**30**	**548**	**561**	**1139**