Memorandum

CITY OF DALLAS

DATE February 3, 2012

TO Housing Committee Members: Carolyn R. Davis, Chair, Scott Griggs, Vice-Chair, Dwaine Caraway, Linda Koop, and Pauline Medrano

SUBJECT Providence at Mockingbird

On Monday, February 6, 2012, you will be briefed on Providence at Mockingbird. A copy of the briefing is attached.

Briefing material is attached.

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

Ryan S. Evans
Assistant City Manager

c: The Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Rosa A. Rios, Acting City Secretary
Tom P. Perkins, Jr., City Attorney
Craig Kinton, City Auditor
C. Victor Lander, Administrative Judge, Municipal Court
A.C. Gonzalez, First Assistant City Manager
Forest Turner, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Joey Zapata, Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Jerry Killingsworth, Housing/Community Services Director
Karl Zavitkovsky, Director, Office of Economic Development
J. Hammond Perot, Assistant Director, Office of Economic Development
Jiroko Rosales, Assistant Director, Office of Economic Development
Stephanie Pegues-Cooper, Assistant to the City Manager

Providence at Mockingbird

Briefing for the

Housing Committee

February 6, 2012

PURPOSE

- To seek Committee Approval for Council Consideration of:
  - The Dallas Housing Finance Corporation (DHFC) purchase of a General Partnership interest (through a single purpose Limited Liability Corporation) in a project named Providence at Mockingbird, a 251 unit senior and family project
  - A grant by the City to the DHFC in the amount of $625,000 to capitalize the single purpose LLC's entrance to the partnership

Background

- Providence at Mockingbird

  Located at 1893/1853 W. Mockingbird Lane:

  - 251 Units
  - 155 senior and 96 family units
  - Received 4% tax credits in 2005
  - Project came online August 2006

Background

- Hines 68, L.P. is the owner of the Mockingbird Project:
  - General Partner is the Hines 68, GP, LLC, Leon Backes 100% shareholder/Owner
  - Limited Partner is LBJ Holdings, Ltd.
  - Owner's Representatives:
    - Primary contact Doug Backes, Provident Realty Advisors
    - Matt Harris, V.P., Provident Realty Advisors

Background

- Project has been a cash drain on developer due to the following:
  - Size of tax exempt bond debt
  - Rate on tax exempt bonds
  - Ad valorem tax burden
  - Maintaining occupancy above 90%
- If DHFC purchases the GP interest:
  - Bonds reduced by $3.36M
  - Pay rate reduced from 6.4% to 5.4%
  - Accrual rate remains at 6.4% with unpaid accrual forgiven annually
  - Property becomes tax exempt
  - CitySquare Continuum Of Care vouchers reduce vacancy loss
- Property generates positive net operating income
- After 1st lien debt bond payment made, DHFC receives a fee

Background

- Due diligence provided to DHFC Board:
  - Capital Needs Assessment was performed by Property Condition Assessment Company October 2010 indicating $27,500 in non-critical repairs and 0 in critical repairs
  - The Law firm, Shackelford, Melton, & McKinley LLP prepared an opinion for the DHFC on transaction that was presented to the DHFC Board

Key Deal Points

- Bond Debt Reduced from $14.6M to approx $11M through sponsorship contributions
- Bond rate reduced from 6.4% to 5.4% pay rate and 6.4% accrual rate with accrual not collected forgiven annually
- Property becomes tax exempt through DHFC ownership
- DHFC will receive a set fee starting at $160K per year on a first in line payment after bond debt service
- Central Dallas CDC will receive $50K annually as Asset Management Fee paid from the DHFC fee collected
- DHFC will split any remaining net operating income, after bond accrual paid,

  50/50 with Central Dallas CDC
- CitySquare will furnish up to 28 Continuum of Care vouchers for homeless tenants as vacancies occur
- Central Dallas CDC will serve as the Asset Manager

Key Deal Points

- ✓ City grants $625K to the DHFC
  - DHFC establishes single asset LLC
  - LLC becomes GP in the existing tax credit partnership through transfer of ownership from existing GP
  - DHFC loans $625K to LLC for the LLC equity entry into the partnership
  - The Grant of $625K is used to establish Debt Service Reserve (11+ months debt service) (Property Level Reserve)
  - Funding Provided by $625K TIF Grant and requires City Center TIF Board Approval

- ✓ City will require a contractual commitment between DHFC and City ensuring DHFC Project Fees (Net of Asset Management Fee and Replacement Reserve set asides) must be committed directly to providing additional affordable housing

Key Deal Points

- Central Dallas CDC will have right of first refusal to purchase the DHFC LLC GP interest and replace DHFC LLC as the GP for the original investment of $625K

- The DHFC LLC will then repay the $625K loan to the DHFC and then most likely be liquidated

Financial Effect of Restructure

- 28 Continuum of Care (C of C) vouchers available to help maintain occupancy at 93% effective rents projected in pro forma

  - 231 units occupied at 01/31/2012 – need occupancy of 233 units to meet 93% occupancy in pro forma
  - 148 eligible 1 bedroom units in senior's section
  - 12 vacant eligible units at 01/31/2012
  - As more eligible units become vacant, they will be filled with eligible C of C voucher eligible tenants

- Ad Valorum tax exemption decrease expenses $105K

- Bond restructure reduces debt service by $325K

- Net impact converts property from a net loss to a net income producing project

Financial Summary

- Hard Debt Service (5.4%) is fixed at $672K/year
- Pro-forma Cash Flow after Hard Debt Service D/S = $327K (2012) to $437 K (2022) (Debt Coverage Ratio Ranges from 1.5 to 1.65 dcr)
- Annual Fee to DHFC escalates from $160K to $200K over 5 years and continues at $200K
  - Central Dallas CDC receives $50K Annual Asset Management Fee from this amount
- Cash Flow before Soft Debt Service = $167K (2012) to $237K (2022)
- Soft Debt Service (forgivable annually) = $92K/year (forgiven annually if no cash flow is available)
- Remaining pro forma Cash Flow to DHFC (split 50/50 with Central Dallas CDC)

  = $75K (2012) to $145K (2022)
- Property Level Reserve (Debt Service Reserve) $625K (Housing Grant to DHFC)
- DHFC loans $625k to LLC
- LLC Deposits as Reserve
- Central Dallas CDC has the first option to purchase at $625K (subject to approval by TDHCA and conformity to structure necessary for the DHFC to compel title and retain the ad valorem tax exemption)

DHFC Incentive Fee

- Fee to DHFC
  - $160K (year-1), $170K (year-2), $180K (year-3), $190K (year-4), $200K(year-5), $200K (each year thereafter) ($40K/yr set aside deducted from annual project fee until a minimum supplemental replacement reserve is established)
  - Central Dallas CDC receives $50K annual Asset Management Fee in return for furnishing up to 28 Continuum of Care Vouchers for Seniors valued at $671 including utilities per voucher per month ($625 net approximately)
  - DHFC pays Asset Management Fee from the annual project fee
  - DHFC and Central Dallas CDC split 50/50 any net income after annual accrued interest paid

Replacement Reserve

- The Replacement Reserve on the project pro forma allocates $60,000 ($239/per unit) annually.

- An additional set aside of $40,000/year will be deducted from annual DHFC Project Fee until a minimum $100,000 Supplemental Replacement Reserve is established.

Value of Continuum of Care Grants

- Continuum of Care Grants issued by HUD
  - Supportive Housing for Homeless
  - Administered in Dallas by Metro Dallas Homeless Alliance
  - Central Dallas CDC has 28 C of C vouchers
  - Gross rent value per year net of utilities is $210,000 ($625 X 28 X 12 months)

Asset Management Fee Structure

- The annual Asset Management fee of $50,000 per year will be paid in full provided that all 28 PSH vouchers are available for use by tenants residing at the Mockingbird property, and will not to be contingent on all the 28 vouchers actually being utilized at the Mockingbird property during each particular year.

- Should available voucher allocation be reduced, there would be a pro rata fee reduction, but minimum annual Asset Management Fee to Central Dallas CDC is $10,000

Next Steps

- Obtain City Center TIF Board Approval of $625K Grant to the DHFC (February 2012)
- Seek Council Approval (February 22, 2012)
- Close (March/April 2012)