

# ***Downtown Connection TIF District Plan Amendment***

Economic Development Committee  
November 19, 2007



Office of Economic Development  
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# Purpose of Downtown Connection TIF District Briefing

- Outline Affordable Housing Program:
  - To provide background on existing affordable housing provisions in the Downtown Connection TIF District TIF Plan
  - To explain overarching affordable housing requirements
  - To recommend and implement an affordable housing program
  - To recommend uses of bond proceeds and release fees
  - To propose a one year program for additional developer assistance
- Reprogram \$2,500,000 in bond proceeds
- Expand use of TIF funds for grants
- Adjust principal amount of bonds sold
- Provide updates reflecting 2007 property values

# Background – Affordable Housing

- On August 29, 2005, the Downtown Connection TIF District was created and the District Plan was approved.
- The TIF District relies on increment created from City of Dallas and Dallas County property taxes.
- Dallas County's participation in the District is contingent on a) \$3,000,000 of affordable housing funds being included in the Downtown Dallas Development Authority (DDDA) bond offering and b) a commitment that all TIF funded residential projects provide a portion of the units as affordable.

# Background – Affordable Housing

- The current Downtown Connection TIF District Plan budget includes funding in the amount of \$3,000,000 for Affordable Housing, to be used within the central business district/inside the loop.
- The current plan does not specify how the \$3,000,000 for affordable housing is to be used nor does it specify the requirements and options for providing affordable housing within the District.
- Staff has reviewed best practices from other cities and proforma feasibility analysis provided by downtown developers as a basis for the affordable housing recommendations.

# Proposed Downtown Connection TIF District Affordable Housing Program

- “Affordable Housing” are those residential housing units that are occupied by a household whose income at the time of initial occupancy does not exceed 80% of the median annual household income for the Dallas Metropolitan Statistical Area (MSA) as determined annually by the U.S. Department of Housing and Urban Development, with adjustments for family size.

# Proposed Program

- **Rental Housing** - Owners/developers of projects assisted with TIF funds and developed in the Downtown Connection TIF District as rental housing must:
  - (1) set aside 10% of the residential units within the project as Affordable Housing for a period of **15 years**.
- **Owner-Occupied Housing** - Owners/developers of projects assisted with TIF funds in the Downtown Connection TIF District developed for owner-occupancy (e.g. condominium or townhouse projects) have three options:
  - (1) Set aside 10% of the units within the project as affordable for a term of **40 years**
  - (2) Pay a release fee (buy-out)
  - (3) Transfer affordable units to another property

# Option 1. Provide Affordable Housing Units within Project

## Applies to Rental or Owner-Occupied Developments:

- Rental projects must and owner-occupied projects may opt to provide the affordable housing units within the project assisted with Downtown Connection TIF District funds.
- The rent of an affordable rental unit may not exceed 30% of the household income for the unit.
- The net purchase price of an owner-occupied unit may not exceed \$140,000. However, the required affordable units may be priced up to \$190,000 if homeownership loans and HOME Investment Partnership Program and Community Development Block Grants are available (see page 13 and 14). Sale and Resale is restricted to qualifying affordable housing households.

## Option 2. Pay Release Fee

### Applies to Owner-Occupied Developments:

- Owners/developers of owner-occupied projects pay a Release Fee in an amount equal to fifty percent of the property's median sales price for the market units in the project multiplied by the number of set-aside units required for the property.
- Example: An owner of a project that has 150 units and a median market-rate unit sales price of \$350,000 would pay a Release Fee equal to:  $50\% \times \$350,000 \times 15$  set aside units, or \$2,625,000.
- This calculation encourages Option One because the Release Fee slightly exceeds the cost of providing the units within the property (see Appendix A).



## Option 2. Pay Release Fee

- Release Fees will be deposited into the Downtown Connection TIF District fund and earmarked for Affordable Housing within the freeway loop along with the \$3,000,000 previously set aside for this program.

## Option 3. Transfer Affordable Housing Units

### Applies to Owner-Occupied Developments:

- Owners/developers of owner-occupied projects transfer the affordable housing units to another property within the CBD.
- The owner/developer shall provide the same number of units required in the TIF-assisted project to be designated for Affordable Housing in an alternative downtown project within the CBD, subject to the approval of the Director of the Office of Economic Development and Dallas County.

## Option 3. Transfer Affordable Housing Units

**Transfer Provision Criteria** The required number of affordable housing units provided in an alternative downtown project must:

1. Be located within the CBD (stronger consideration will be given to projects within or adjacent to the Main Street core area);
2. Contain a minimum of 25 residential units;
3. Have no more than 30% of the building's residential units as affordable units;
4. Have a minimum of 550 square feet of rentable, livable area;
5. Be disbursed among the building floors and have comparable views as the market rate units;
6. Be commensurate in quality to the building's market-rate units;
7. Remain affordable for fifteen (15) years;
8. Obtain a certificate of occupancy on the building, including all affordable units prior to the disbursement of any TIF funds related to the TIF assisted project.

# Use of Bond Proceeds/Release Fees

The \$3,000,000, available in Downtown Dallas Development Authority bond proceeds, as well future release fees, will be used for the following types of programs and incentives within the CBD/inside the freeway loop:

1. Homeownership Loans
2. Developer Loans/Grants
3. Subsidies for Lower Income Households

# Use of Affordable Housing Funds:

## 1. Homeownership Loans

The City will provide interest-free, soft-second mortgage assistance loans to qualified homebuyers to purchase downtown condominiums or townhouses.

- Households earning 51% to 80% of the Area Median Family Income (AMFI) may receive Homeownership Loans of up to \$40,000 toward purchase depending upon the income level of the eligible homebuyer;
- The amount of the loan, income qualifications and needs assessment will be determined and evaluated by the Housing Department of the City of Dallas;

# Use of Affordable Housing Funds:

## 1. Homeownership Loans

- The Homeownership Loan will remain with the unit, making the unit affordable for forty years. In the case of resale of the condominium or townhouse unit, the seller must ensure that the buyer is a qualified individual/household and shall sell the unit for no more than the adjusted affordable sales price. The unit will be deed restricted to ensure resale to a qualified individual/household; and
- In addition to the Homeownership Loan, the City may use available federal funds pursuant to its HOME Investment Partnership Program and Community Development Block Grant Program to augment homebuyer assistance based on overall need/financial gaps.

## Use of Affordable Housing Funds: 2. Developer Loans/Grants

- Developer assistance for affordable housing/mixed-income development projects.
  - On a case-by-case basis, owners/developers committing to more than the minimum required number of affordable housing units may qualify for affordable housing assistance.
  - These funds are available and payable upon project completion and verification of funding requirements, thus providing a direct incentive to developers for providing additional affordable units.

## Use of Affordable Housing Funds: 3. Public Subsidy Option

- **Public Subsidy Option for expanding affordable housing opportunities to lower income households.**
  - On a case-by-case basis, the City may provide incentives to owners/developers who provide all or a portion of the required affordable housing units to those earning 50 percent or below the area median family income.
  - The City shall calculate the assistance by considering the term of the lower income set-aside and the difference between the unit at 80 percent of median income compared to the unit price for the lower income household (ie. 30% of 50% household income).



## Additional Developer Assistance for Affordable Housing (2008)

- While the growth of a mixed-income downtown residential population is important, there is a concern that because the downtown projects are more challenging (high land prices, adaptive reuse of buildings with environmental contamination and unusual floor-plates, and lower rental and sales rates as compared with adjacent neighborhoods), that the increased price of providing affordable housing may lead to a slow down of development within the freeway loop.
- Because it is critical to continue the momentum of increasing the downtown residential population and because there is a tangible cost to providing affordable housing, it is recommended that TIF funds (future TIF increment) be used to further assist in promoting mixed-income residential downtown developments.

## Additional Developer Assistance for Affordable Housing (2008)

- The assistance will be limited to projects approved by City Council in 2008 (consideration may be given for an extension of the policy based on the findings of a twelve month review).
- A formula calculating the “cost” of providing the affordable units will be used to determine the additional assistance and such assistance will be in the form of Downtown Connection TIF District increment.
- The funds are only to be used for owners/developers providing the units within their projects (Option One).
- Such additional funding will be evaluated as part of the overall project and initial TIF funding request.

# Reprogramming of Bond Proceeds

- The second portion of the Plan Amendment reprograms \$2,500,000 in bond proceeds, as described in the Official Statement, initially anticipated to be used for the condemnation costs associated with the ground lease on the Mercantile Block.
- In the Forest City Development Agreement for the development/redevelopment of the Mercantile Block, among other projects, the City allocated \$2,500,000 to the possible City payment of acquisition costs including condemnation, if necessary, in excess of the first \$3,500,000 of acquisition costs to be paid by FC Merc.

# Reprogramming of Bond Proceeds

- Forest City (FC Merc) was able to purchase the ground lease parcel without the City condemning the site.
- The First Amendment to the Development Agreement states that the City shall direct the DDDA to reprogram \$2,500,000 of proceeds of the “Initial Bonds” for the enhancement of the “Main Street Corridor” in such manner as the DDDA in its sole discretion shall deem appropriate.

# Reprogramming of Bond Proceeds

- On September 13, 2007, the DDDA approved redirecting the \$2,500,000 for
  - 1) retail under the City of Dallas Main Street District Initiative Loan and Grant Program and
  - 2) streetscape improvements up to \$270,000.
- The streetscape improvements will enhance the pedestrian and retail environment by fencing surface parking lots within the Downtown Connection TIF District.

# TIF Grants

- The current Downtown Connection TIF District Plan allows for TIF increment to be used in the form of a grant specifically for the catalyst project.
- This amendment would allow TIF grants for vacant/underutilized buildings if TIF subsidies are needed, are supported by the TIF District evaluation system, and exceed TIF eligible costs.
- Project evaluations will be based on the Downtown Connection TIF District Grant Program and Criteria established by the Downtown Connection TIF District Board of Directors.
- Should there be justification to provide TIF funds in excess of TIF eligible expenditures, TIF grants will be considered to make the project feasible.

# TIF Grants

- This funding would not exceed the amount of TIF funds provided to a project but instead would allow flexibility in the use of funds.
- The Downtown Connection TIF District Grant Criteria provides an objective evaluation of TIF applications based on the City's and the TIF Board's values (see Appendix B).

# Adjustment of the Principal Amount of Bonds Sold

- This amendment corrects the principal dollar figure stated in the Plan from an estimated \$65 million to \$66 million, the exact principal amount of DDDA bonds sold on March 28, 2006 and October 10, 2007.
- Bond proceeds are being used in the following manner:

\$58,000,000	Mercantile Complex
\$2,500,000	Continental Building
\$2,500,000	Ground Lease Funds to be Reprogrammed to Retail/Streetscapes
\$3,000,000	Affordable Housing
\$66,000,000	Total Needs/Obligations



# Updates Reflecting 2007 Property Values

- The Downtown Connection TIF District Amendment will also update the budget, assumptions, projections, and tax rolls to reflect 2007 DCAD values.
- The adjusted base year value (2005) of the District is \$561,696,137 and the current value (2007) is \$1,022,349,022, an increase of 82%.
- The value within the TIF District increased 34.7% between 2006 and 2007.

# Summary and Recommendations

- The Downtown Connection TIF District has performed well since its inception, 2005.
- A mixture of housing types and pricing is important for the downtown neighborhood as is maintaining the momentum of residential development to meet the City's critical mass goal of 10,000 units within the central business district.
- Staff asks that the Economic Development Committee endorse:
  - the affordable housing requirements and options
  - the use of DDDA bond proceeds/release fees
  - the use of TIF funds for additional affordable housing assistance

# Summary and Recommendations

- The Plan Amendments will allow for the continuation of the District's success and provide updated information within the document.
- Staff further asks that the Economic Development Committee endorse the additional TIF District Plan Amendments:
  - reprogramming \$2,500,000 in bond proceeds
  - expanding the use of TIF funds for Grants
  - adjusting the principal amount of Bonds Sold
  - providing updates to reflect 2007 Property Values

# Appendix A: Affordable Housing Cost to Developers

- The example below shows the cost of providing 15 affordable housing units in a for-sale project that has a median market rate unit price of \$350,000.
- The cost of providing the affordable units is \$2,400,000.

	100% Market Rate Units	90% Market Rate; 10% Affordable
Total units	150	150
% of units with City Affordable Requirement		10%
# of Affordable Units		15
City Affordable Price per Unit		\$ 190,000
Market Units		135
Market Price per unit	\$ 350,000	350,000
<b>Total Sell out</b>	<b>\$ 52,500,000</b>	<b>\$ 50,100,000</b>

**Cost of providing affordable units in project**

**\$ 2,400,000**

# Appendix A: Affordable Housing Cost to Developers

- The cost of paying the release fee on the same project is as follows:

Release Fee Option Calculation	
Market Price per unit	350,000
50% of Median Market Price	\$175,000
# of Affordable Units	15
<b>Cost of Release Fee Option</b>	<b>\$ 2,625,000</b>

- In this case, it would cost the owner/developer \$250,000 more to “buy out” of the affordable housing requirement rather than to provide the units within the property.

## Appendix A: Affordable Housing Cost to Developers

- An example of the effect of providing 15 affordable units in a rental property, with an average rental rate of \$1.60 per square foot, is shown on the following page.
- The fifteen year cost in this example is \$711,720.

# Appendix A: Affordable Housing Cost to Developers

Number of Rental Units:	150
Affordable Units (10%):	15
Average Market Rate Uni	\$1.60

Affordable Rates:	
Efficiency	\$824
1 Bedroom	\$855
2 Bedroom	\$1,004

		<u>Market Rate</u>	<u>Affordable Rate</u>	<u>1 Year Cost</u>	<u>15 Year Cost</u>
Efficiencies (sf):					
1	600	\$960	\$824	\$1,632	\$24,480
2	600	\$960	\$824	\$1,632	\$24,480
3	625	\$1,000	\$824	\$2,112	\$31,680
4	625	\$1,000	\$824	\$2,112	\$31,680
5	650	\$1,040	\$824	\$2,592	\$38,880
6	650	\$1,040	\$824	\$2,592	\$38,880
One Bedroom Units (sf):					
7	700	\$1,120	\$855	\$3,180	\$47,700
8	700	\$1,120	\$855	\$3,180	\$47,700
9	725	\$1,160	\$855	\$3,660	\$54,900
10	725	\$1,160	\$855	\$3,660	\$54,900
11	750	\$1,200	\$855	\$4,140	\$62,100
12	750	\$1,200	\$855	\$4,140	\$62,100
2 Bedroom Units (sf)					
13	850	\$1,360	\$1,004	\$4,272	\$64,080
14	850	\$1,360	\$1,004	\$4,272	\$64,080
15	850	\$1,360	\$1,004	\$4,272	\$64,080
Overall "Loss" of Income				\$47,448	\$711,720

Assumes that both market rate and affordable rates remain constant over 15 year period (or that both grow at same rate).

# Appendix B: TIF Grant Criteria

VALUES	15pts	10pts	8pts	4pts	0pts
Reaching Critical Mass - Residential	200 + Units	199 - 150 Units	149 - 100 Units	99 - 1 Unit(s)	0 Units
Reaching Critical Mass - Retail	10,000 + sq. feet	9,999 - 5,000 sq. feet	4,999 - 2,500 sq. feet	< 2,500 sq. feet	0 sq. feet
Proximity to Main Street Core or Catalyst Project / Park	Within Main Street Core or Directly Adjacent to Catalyst Project / Park	Adjacent to Main Street Core	Within one block of catalyst project / park	Inside Downtown Freeway Loop	Outside Downtown Freeway Loop
Public vs. Private Investment (Benefit Analysis)	Benefit = 2x > Cost	Benefit = 1.9x - 1.5x > Cost	Benefit = 1.4x - 1.1 > Cost	Benefit = 1x > Cost	Benefit = 0.9x > Cost
Historic Restoration	Yes				No
New Construction		Yes			No
Reuse of Existing Structure		Yes			No
Buildings with 3 stories or less (existing/historic buildings)		Yes			No
Years to Recover Public Investment		< 5 Years	6 - 8 Years	9 -10 Years	11 + Years
Affordable Housing > 10 %				Yes	No
Permanent Jobs Created > 20				Yes	No
Commitment to Minority / Women Bus.(all funding sources) > 25 %				Yes	No
Offering Public Parking > 50 Spaces				Yes	No
Land Use - Hotel and/or Office				Yes	No
Impact Project - Bonus Points = 15 Points	Yes				No

High Ranking = 15 point maximum  
 Medium Ranking = 10 point maximum  
 Low Ranking = 4 point maximum  
 Special Impact Project = Bonus 15 points

**Tier Levels**  
 Tier 1 = 100 - 81 Points  
 Tier 2 = 80 - 66 Points  
 Tier 3 = 65 - 51 Points  
 Tier 4 = 50 - 0 Points

**Funding Levels**  
 25 % cap  
 20 % cap  
 15 % cap  
 0 % cap

