

# Memorandum



DATE November 2, 2018

CITY OF DALLAS

TO Members of the Economic Development & Housing Committee: Tennell Atkins, Chair, Rickey D. Callahan, Vice-Chair, Lee M. Kleinman, Scott Griggs, Casey Thomas, II, B. Adam McGough, Mark Clayton, Kevin Felder, Omar Narvaez

SUBJECT **Proposed Amendments to the Comprehensive Housing Policy**

On Monday, November 5, 2018, the Economic Development and Housing Committee will consider several proposed amendments to the Comprehensive Housing Policy, previously approved on May 9, 2018, by Resolution No. 18-0704.

## Summary

The Housing and Neighborhood Revitalization (H&NR) Department is proposing several amendments to the Comprehensive Housing Policy (Policy), previously approved on May 9, 2018, by Resolution No. 18-0704. The proposed amendments will: resolve inconsistencies in program requirements, correct items that were inadvertently included in or omitted from the Policy and modify requirements that have created programmatic constraints.

## Background

On May 9, 2018, the Dallas City Council adopted a Comprehensive Housing Policy by Resolution No. 18-0704 that set citywide production goals for homeownership and rental units for the next three (3) years along with respective income bands that will be prioritized within the production goals. The Policy also set forth various programs, tools and strategies to be used to meet the production goals while also overcoming concentrations of poverty and racial segregation. Additionally, based on the data provided in the Market Value Analysis, a tool used to assess the residential real estate market, the Policy prioritizes the allocation of funding for new construction and substantial rehabilitation of housing development projects and strategically focuses certain programs, tools and strategies within three (3) types of Reinvestment Strategy Areas: (1) Redevelopment Areas are Midtown, High Speed Rail, Wynnewood, and Red Bird; (2) Stabilization Areas are LBJ Skillman, Vickery Meadow, Casa View, Forest Heights/Cornerstone Heights, East Downtown, The Bottom, West Dallas, and Red Bird North; and (3) Emerging Market Areas are Southern Gateway, Pleasant Grove, and University Hills.

The Policy also created or amended program statements for the Dallas Homebuyer Assistance Program, the Home Improvement and Preservation Program and the New Development and Substantial Rehabilitation Program and set forth underwriting standards for reviewing both homeowner and rental housing development project proposals. These program statements contain detailed information related to applicant

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eligibility, terms of assistance, and credit standards, among other items. Likewise, the underwriting standards address an even wider range of topics including eligible costs, cost reasonableness, sales/rental price, environmental reviews, and other federal requirements applicable to housing developments that receive City of Dallas funding or support.

On August 30, 2018, the Department of Housing and Neighborhood Revitalization released a Notice of Funding Availability (NOFA) pursuant to the New Construction and Substantial Rehabilitation Program soliciting proposals from applicants seeking gap financing for housing development projects and/or for developers requiring Resolutions of Support or No Objection for multi-family rental housing development projects seeking Housing Tax Credits (HTC) through the Texas Department of Housing and Community Affairs (TDHCA).

### **Issue**

Over the past six months, staff have begun working with families, housing developers, and other stakeholder to implement the programs, tool and strategies outlined in the Policy and received feedback regarding the Policy during pre-proposal conferences for the NOFA and at Housing Policy Taskforce meetings. During this half-year implementation period, H&NR developed a list of proposed amendments that, if adopted, will help staff better work to achieve the overarching goals of the Policy. The following proposed amendments will: resolve inconsistencies in program requirements, correct items that were inadvertently included in or omitted from the Policy and modify requirements that have created programmatic constraints.

#### *Inconsistencies in Program Requirements:*

- The Policy contains inconsistencies regarding whether the Dallas Homebuyer Assistance Program (DHAP) will serve households earning as low as 40% of Area Median Income or 60% of Area Median Income. The proposed change resolves the inconsistency by stating that the lowest qualifying income is 60% AMI.
- The section of the current program statement for the DHAP related to assumption of the loan by income-qualified heirs states that if the heir(s) do not meet the income requirements of the program, the remaining balance of the loan is due immediately and payable in full if the loan is still within the period of affordability. Because the DHAP provides a deferred, zero percent interest (0%) loan, the "remaining balance" on the loan will always be the full loan amount. The requested change clarifies the terms of the program.

#### *Inadvertent Additions and Omissions:*

- The program statement for the Home Improvement and Preservation Program (HIPP) states that applicants who received a Major Systems Repair Loan in the last ten (10) years will be ineligible to participate in the HIPP. However, the HIPP program statement does not set a time period in which a homeowner who receives home repair/reconstruction assistance under newly-created City

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programs or received assistance under the old Home Reconstruction program is prohibited from applying for additional assistance. The proposed change resolves this omission by stating that, if an applicant's property was previously assisted with City funds and the project is still within the period of affordability, per the written agreement with the applicant, the applicant will not be eligible to receive funding for the same property.

- The Rental Development Underwriting standards include a maximum monetary limit for developer fees. The inclusion of this maximum monetary limit was an oversight. The standards already caps the developer fee at 15% of development costs, which provides a sufficient standard to ensure that the developer is not earning an excessive fee and is consistent with TDHCA underwriting standards. By removing the maximum monetary limit and requiring that the fee be "reasonable," staff believe they will have the necessary flexibility to evaluate and recommend funding for projects.

*Programmatic Constraints:*

- Both the DHAP and HIPP program statements contain credit standards stating that qualifying debt to income ratios for program participants are 30% on the front end and 43% on the back end. Over the course of the past six months, staff have screened and denied assistance to applicants whose debt to income ratios were slightly outside of the limits set forth in the Policy but who did not actually pose a greater credit risk due to the nature of their existing debt (i.e. a loan with a low-interest rate). Staff are requesting to be able to exercise a small amount of discretion when evaluating the nature of the debt carried by applicants and be allowed to qualify applicants who vary from the existing debt to income ratios so long as the variation is within 5 percentage points and where compensating factors exist. Staff will use this discretion on a limited basis to allow applicants who do not pose a greater credit risk to access the program.
- The DHAP program statement does not currently require an applicant to demonstrate that he or she has any cash reserves. Staff are proposing an amendment to the program statement that will require an applicant to demonstrate that she or he has at least two months of cash available and equal to applicant's projected monthly mortgage payment, including principal, interest, taxes, insurance, and any associated fees. A cash reserve requirement is a standard practice in the lending industry, it helps identify applicants who are most likely to be able to consistently pay their monthly housing payments, and it was standard practice within H&NR prior to the adoption of the Policy.
- The program statement for the New Construction and Substantial Rehabilitation Program contains standards related to the form of financial assistance that can be provided under the program and the repayment terms for the financial assistance. For both the form of financial assistance and the repayment terms, the program statement allows staff to elect to structure the financial assistance and the repayment terms in one of two ways; however, no such discretion is allowed where a project involves housing tax credits. Staff are requesting that the language related to housing tax credits be removed so that the financial underwrite of the

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project can guide staff in structuring the financial assistance and the repayment terms for projects, including those involving housing tax credits.

- The Policy contains several references to the Chief of Economic Development and Neighborhood Services. Staff are requesting to replace all such references with “the City Manager and/or his or her designee” so that administrative approvals authorized by the Policy can occur without being dependent upon the existence of a Chief of Economic Development and Neighborhood Services.

Additionally, a proposed change to the Policy for developers requiring Resolutions of Support or No Objection for multi-family rental housing development projects seeking Housing Tax Credits (HTC) through the Texas Department of Housing and Community Affairs (TDHCA) is proposed in response to feedback from stakeholders. The proposed amendment would allow the City Manager to publish a schedule each year, which may be amended from time to time, for issuing one or more Request for Applications for Resolutions of Support or No Objection and to brief the appropriate City Council Committee on the annual schedule.

### **Fiscal Impact**

No cost consideration to the City.

### **Departments/Committee Coordination**

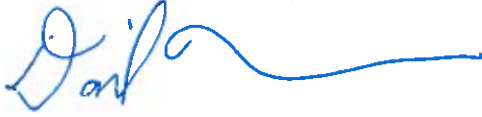
On May 9, 2018, City Council adopted the Comprehensive Housing Policy by Resolution No. 18-0704.

The Economic Development and Housing Committee (Committee) was previously briefed on one of the amendments proposed in this memo. Specifically, on September 4, 2018 the Committee was briefed on a proposed amendment to the Policy to allow for an accelerated issuance of a Request for Applications (RFA) for Resolutions of No Objection for rehabilitation of multifamily rental housing projects seeking Housing Tax Credits. The Committee voted to hold the item under advisement and take it up at the September 17, 2018 meeting of the Committee but also voted to schedule a special-called meeting on October 22, 2018 to consider the proposed amendment. On October 22, 2018 the Committee was briefed on the proposed amendment and did not take action on the item. On October 24, 2018 the City Council voted not to approve the proposed amendment.

### **Staff Recommendation**

Staff recommends that the Economic Development and Housing Committee vote to forward all proposed amendments to the City Council with a recommendation that the City Council approve all proposed amendments.

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David Noguera, Director  
Housing and Neighborhood Revitalization

cc: Chris Caso, City Attorney (I)  
Carol A. Smith, City Auditor (I)  
Biliera Johnson, City Secretary  
Preston Robinson, Administrative Judge  
Kimberly Bizer Tolbert, Chief of Staff to the City Manager  
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Jon Fortune, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Nadia Chandler Hardy, Assistant City Manager and Chief Resilience Officer  
M. Elizabeth Reich, Chief Financial Officer  
Directors and Assistant Directors

# **Proposed Amendments to the Comprehensive Housing Policy**

**Economic Development and Housing Committee  
November 5, 2018**

**Maureen Milligan, Interim Assistant Director  
Housing & Neighborhood Revitalization  
City of Dallas**



# Presentation Overview

- Summary
- Background
- Issues
- Recommendation



# Summary

- **May 9, 2018:** City Council adopted the Comprehensive Housing Policy (Policy), **Resolution No. 18-0704.**
- Policy includes:
  - Background on development of the policy
  - Production bands and incomes to be served
  - Designation of Reinvestment Strategy Areas (RSAs)
  - Program statements for the Dallas Homebuyer Assistance Program, the Home Improvement and Preservation Program and the New Development and Substantial Rehabilitation Program
  - Underwriting standards for reviewing both homeowner and rental housing development projects
  - Policy for developers requiring Resolutions of Support or No Objection for multi-family rental housing development projects seeking Housing Tax Credits (HTC) through the Texas Department of Housing and Community Affairs (TDHCA).

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# Background

- Staff have been implementing the Policy for six months.
- Received internal and external feedback.
- The following proposed amendments will:
  - resolve inconsistencies in program requirements,
  - correct items that were inadvertently included in or omitted from the Policy, and
  - modify requirements that have created programmatic constraints.

# Issues

## Inconsistencies in Program Requirements:

- Dallas Homebuyer Assistance Program (DHAP)—lowest income for eligible borrowers = 40% of Area Median Income vs. 60% of Area Median Income.
  - ✓ The proposed change resolves the inconsistency and elects 60% AMI.
- DHAP heirs policy—states that the “remaining balance” of the loan is due immediately and payable in full if the loan is still within the period affordability.
  - ✓ The proposed change removes "remaining balance" so that the section references only the “full loan amount.”

# Issues

## Inadvertent Additions and Omissions:

- Home Improvement and Preservation Program (HIPP)—doesn't set a time period *in all circumstances* under which a homeowner who received assistance is prohibited from applying for additional assistance.
  - ✓ The proposed change adopts a consistent policy that a homeowner is not eligible for additional assistance if the previous project is still within the period of affordability.
- The Rental Development Underwriting policy includes a maximum monetary limit for developer fees.
  - ✓ The proposed change removes the maximum monetary limit, retains the developer fee cap of 15% of development costs, and requires that the fee be "reasonable."

# Issues

## Programmatic Constraints:

- DHAP and HIPP credit standards—states that qualifying debt to income ratios for program participants are 30% on the front end and 43% on the back end.
  - ✓ Proposed change will allow staff to evaluate the nature of the debt carried by applicants and qualify applicants who vary from the existing debt to income ratios so long as the variation is within 5 percentage points and where compensating factors exist.
- DHAP—does not require an applicant to demonstrate that he or she has any cash reserves.
  - ✓ Proposed amendment will require an applicant to demonstrate that she or he has at least two months of cash available and equal to applicant's projected monthly mortgage payment, including principal, interest, taxes, insurance, and any associated fees.

# Issues

## Programmatic Constraints (cont.):

- New Construction and Substantial Rehabilitation Program—contains standards related to the form of financial assistance that can be provided under the program and the repayment terms for the financial assistance; requires a specific form of financial assistance and repayment terms if project involves housing tax credits.
  - ✓ Proposed change will remove reference to housing tax credits so that the financial assistance and repayments terms for all projects is guided by the underwrite.
- Policy contains several references to the Chief of Economic Development and Neighborhood Services.
  - ✓ Proposed change replaces all such references with “the City Manager and/or his or her designee.”

# Issues

## Additional Change:

- Policy contains a timeframe for developers to request a Resolution of Support or No Objection from the City Council for multifamily rental developments seeking Housing Tax Credits (HTCs) through Texas Department of Housing and Community Affairs (TDHCA).
- Timeline:
  - ✓ Each December City issues a Request for Applications (RFA)
  - ✓ Each February staff provide recommendations to Economic Development and Housing Committee and City Council.
- Proposed change would allow the City Manager to publish a schedule each year, which may be amended from time to time, for accepting proposals and to brief the appropriate City Council committee on the annual schedule.

# Recommendation

Staff recommends that the Economic Development and Housing Committee vote to forward all proposed amendments to the Comprehensive Housing Policy to the City Council with a recommendation that the City Council approve all proposed amendments.

# **Proposed Amendments to the Comprehensive Housing Policy**

**Economic Development and Housing Committee  
November 5, 2018**

**Maureen Milligan, Interim Assistant Director  
Housing & Neighborhood Revitalization  
City of Dallas**

