

Memorandum



CITY OF DALLAS

DATE August 26, 2016

TO Housing Committee Members: Scott Griggs, Chair, Carolyn King Arnold, Vice-Chair, Mayor Pro-Tem Monica R. Alonzo, Tiffinni A. Young, Mark Clayton, and Casey Thomas, II

SUBJECT Affordable Housing Policy: TIF Districts and Public Private Partnership Program

On Monday, August 29, 2016, you will be considering revisions to the current Tax Increment Financing Districts policies. Please see the attached memo provided to the full City Council on August 19, 2016 from the Office of Economic Development.

Please let me know if you have any questions.

A handwritten signature in blue ink, appearing to read 'Alan E. Sims'.

Alan E. Sims
Chief of Neighborhood Plus

c: The Honorable Mayor and Members of the City Council
A. C. Gonzalez, City Manager
Rosa A. Rios, City Secretary
Christopher D. Bowers, Interim City Attorney
Craig Kinton, City Auditor
Daniel F. Solis, Administrative Judge
Ryan S. Evans, First Assistant City Manager
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
Elsa Cantu, Assistant to the City Manager – Mayor and Council

Memorandum



DATE August 19, 2016

TO The Honorable Mayor and Members of the City Council

SUBJECT **Response to Housing Committee Questions Regarding the Impact of Affordable Housing Requirements on Residential Project Feasibility**

On August 15, 2016, the Housing Committee was briefed on the affordable housing policy as it relates to TIF districts and the Public Private Partnership Program (PPP). Current mixed income policy guidelines require that all residential developments receiving TIF and/or PPP program subsidies must set aside 20% (10% in the Downtown Connection and City Center TIF Districts) of the units for families earning less than 80% of area median family income (AMFI) for a period of fifteen (15) years. Affordable units must be distributed geographically and unit size. Maximum rents are set each year at 30% of AMFI requirements and all units share access to project amenities.

BACKGROUND

When a development project incorporates affordable units, revenue decreases, but costs remain the same. This typically lowers the yield below what investors are willing to accept. This funding gap varies widely based upon the type of development, the level of household income (AMFI) targeted and the percentage of units rented at those targeted rates.

In order to effectively implement the affordable component of the mixed income housing guidelines, gap funding incentives or compensatory payments are required. These might take the form of TIF subsidies, tax abatements, housing vouchers, reduced parking requirements, fee waivers, public land write-downs or direct subsidies from a housing trust fund or other dedicated revenue source.

Predictability and the perception that all parties are treated equally is important to the development community. Of equal importance is the flexible use of a variety of tools to achieve mixed income housing goals. By incorporating policies that are consistent with these elements, the City will improve the probability of proactive developer engagement in the production of an increased number of affordable units and also increases its ability to achieve other policy objectives such as strong urban design, M/WBE contracting goals, infrastructure improvements and development of strong urban neighborhoods.

DIRECT IMPACT OF PROPOSED POLICY CHANGES ON TIF PROGRAM

In general, the proposed impact of Affordable Housing Policy changes related to existing TIF Districts will be limited. The changes apply only to “high opportunity” areas. This means that, the policy, if adopted:

Will bring about **no change in operations** for the following TIF Districts (requirements to remain for 20% of units to be affordable at the 80% AMFI rate):

**Cedars
Oak Cliff Gateway
Farmers Market
Sports Arena
Southwestern Medical
Grand Park South
Vickery Meadow
Design District
Deep Ellum
Fort Worth Avenue
Maple Mockingbird**

And have **limited impact** on the following Districts (requirements to remain for 20% of units to be affordable at the 80% AMFI rate for all projects not located in the portion of the TIF District that is classified as a high opportunity area):

Davis Garden (a small portion of the TIF District located along Ft Worth Avenue east of Hampton Road is included – no projects are planned)

TOD (much of the Mockingbird and Lovers Lane station areas are included in the high impact areas – but no residential projects requiring TIF assistance are being planned);

Cypress Waters (the entire area is classified as a high impact area – but no additional projects are expected to require TIF subsidies)

Mall Area (the portion of the TIF District located closest to the Galleria is classified as a high opportunity area but the remainder of the Valley View area and Southwest Center Mall area is not)

Greatest impact will be felt in the following TIF Districts (10% of affordable units will be required to be affordable at 50% of AMFI and 10% of affordable units will be required to be affordable at 80 of AMFI):

**Downtown Connection
 City Center**

Skillman Corridor (a large portion of the TIF District south of Royal Lane is classified as a high opportunity area)

TREC's February 16, 2016, presentation to the Housing quantified the cost of providing affordable housing at rates required by the existing TIF Mixed Income Housing Guidelines. This analysis indicated that the subsidy per unit varies greatly. The greater the differential between market rent and subsidized rent, the greater the subsidy required. Land costs vary greatly by location; and construction costs also vary significantly by product type, etc.

OED staff applied the proposed policy changes to a residential project of 250 units. Approximately 50 units would be the required set-aside to meet proposed affordable requirements. Below is a chart that illustrates the amount of subsidy that would be required to fund the gap between market and affordable units for this hypothetical project.

Total Project - 250 Units (200 - 1BR; 50 - 2BR)	Market Rent		Current Affordable Requirement 20% Affordable @ 80% AMFI		Proposed Affordable Requirement			
					10% Affordable Units @ 80% AMFI		10% Affordable Units @ 50% AMFI	
	1 BR	2 BR	1BR (40 units)	2BR (10 Units)	1BR (20 Units)	2BR (5 Units)	1BR (20 Units)	2BR (5 Units)
Rents (1BR - \$900 mo/ft, 2 BR \$200 mo/ft)	\$1,611	\$2,148	\$931	\$1,109	\$931	\$1,109	\$378	\$491
Rent/Sqft	\$1.79	\$1.79	\$1.03	\$0.92	\$1.03	\$0.92	\$0.42	\$0.41
Difference - Market & Affordable Rents	-	-	\$0.76	\$0.87	\$0.76	\$0.87	\$1.37	\$1.38
Funding Gap Per Unit Annually	-	-	\$8,160	\$9,351	\$8,160	\$12,468	\$14,796	\$19,884
Funding Gap Per Unit (15 yrs)	-	-	\$122,400	\$140,265	\$122,400	\$187,020	\$221,940	\$298,260
Subtotals	-	-	\$4,896,000	\$1,402,650.00	\$2,448,000	\$935,100	\$4,438,800	\$1,491,300
Total Affordable Gap for Project Under Each Scenario				\$6,298,650.00	\$9,313,200			

Note: This is for illustrative purposes only. Rents, construction and land costs vary dramatically. The example is based on a downtown Dallas project.

The TIF program maximizes its limited amount of funding available to make projects financially feasible. A disproportionate funding allocation to support affordable housing objectives reduces funding availability for other eligible and equally important items such as infrastructure, environmental abatement and public improvements.

ALTERNATIVE SOLUTIONS

One possible way to increase TIF funding for affordable housing in high opportunity areas is to reconfigure TIF Mixed Income Housing requirements. If the intent of proposed changes to the Affordable Housing Policy is to promote more equity in

housing type by neighborhood, it may be desirable to **decrease** the required amount of affordable housing required in areas with a low proportion of market rate housing and divert savings in the amount of subsidy required in these areas to better fund affordable housing in high opportunity areas (TIF funds can be spent outside the district where the increment is generated for the purpose of supporting affordable housing).

Other sources of funding including tax abatements, housing vouchers, reduced parking requirements, fee waivers, public land write-downs or direct subsidies from a housing trust fund or other dedicated revenue source will also likely be needed to help subsidize affordable housing in high opportunity areas.

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



Ryan S. Evans
First Assistant City Manager

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