

Memorandum



CITY OF DALLAS

DATE September 8, 2023

TO Honorable Mayor and Members of the City Council

SUBJECT **September 13, 2023 Upcoming Agenda Item # 8 – 23-2161 – Authorize a Resolution Approving the Dallas Public Facility Corporation's Acquisition, Development, and Ownership of Coombs Creek Alta Vista, to be located at 3400 W Illinois Avenue**

This memorandum is to inform the Dallas City Council of an upcoming item from the Dallas Public Facility Corporation for the acquisition, development and ownership of the Coombs Creek Alta Vista, a 210-unit mixed-income multifamily development to be located at 3400 W. Illinois Avenue (Project). The Corporation's bylaws require City Council approval of any development that results in a property tax exemption.

Background

Marcer Group (Applicant), a Texas limited liability company, submitted an application to the Dallas Public Facility Corporation for the development of Coombs Creek Alta Vista, a 210-unit mixed income multifamily development to be located at 3400 W. Illinois Avenue (Project). The Corporation will own the site and improvements and lease the Project back to the Applicant or its affiliate. Pursuant to the Texas Public Facility Corporation Act, Chapter 303 of the Texas Local Government Code, as amended (Act), any public facility owned by a Public Facility Corporation is exempt from all ad valorem taxes. To qualify as a public facility, pursuant to the Act, a multifamily property must reserve at least 50% of the units for residents earning at or below 80% of the area median income (AMI). The Project will reserve 40% of the units for residents earning less than 80% AMI, 10% of the units for residents earning less than 60% AMI and 50% of the units will be market rate.

The Applicant will be a limited liability company owned by Marcer Group. Marcer is a Texas-based real estate development and construction company that specializes in residential developments. Their current portfolio does not include any multifamily projects.

The Project will be constructed as a four-story wrap product and will include 210 residential units. The unit mix will consist of 48 studio units, 116 one-bedroom units, 34 two-bedroom units, and 12 three-bedroom units. The units will include energy efficient appliances, granite countertops, in-unit washer/dryers, and other Class-A features. The Market Value Analysis (MVA) market type is uncategorizable as the land is not currently developed with residential uses. The affordable units will be spread throughout the overall unit mix. This development will restore and incorporate one of the four historic power and light buildings into the project.

The Applicant will consult with the Office of Integrated Public Safety Solutions (OIPSS) for security input, community activities and the Crime Prevention Through Environmental Design (CPTED). The Applicant and OIPSS will continue to work together to ensure the community is secure and take proactive measures to ensure the safety of the residents that will include security cameras with Dallas Police Department access, individual entry key fobs, lighting, and security access gates/entry points.

The anticipated unit mix and rental rates are as follows:

Unit Type	AMI	Units	Rent
Studio	60%	5	\$1,108.00
Studio	80%	19	\$1,478.00
Studio	Market	24	\$1,564.00
1BR	60%	12	\$1,188.00
1BR	80%	46	\$1,558.00
1BR	Market	58	\$1,558.00
2BR	60%	3	\$1,425.00
2BR	80%	14	\$1,900.00
2BR	Market	17	\$2,025.00
3BR	60%	3	\$1,647.00
3BR	80%	3	\$2,196.00
3BR	Market	6	\$2,800.00

The rents for individuals and families earning between 60% and 80% AMI are meant to provide housing to the “missing middle” of the market: residents that earn above low-income housing tax credit income restrictions of 60% AMI but would be cost burdened by market rents. These incomes for a family of four range from approximately \$63,360.00 to \$82,500.00 in the City based on family size and represent a wide variety of employment sectors including, but not limited to, teachers, first responders, government employees, health care providers, etc.

Total development costs are anticipated to be approximately \$43,381,971.00 which includes the acquisition price for the land. The development budget less soft/financial costs is anticipated to be approximately \$28,856,400.00 (\$137,411.32 per unit).

Proposed Financing Sources		Amount
Mortgage Loan	\$	28,198,281.00
Developer/Investor Equity	\$	15,183,690.00
Total	\$	43,381,971.00
Proposed Uses		Amount
Development Costs	\$	26,208,000.00
Land Acquisition	\$	2,648,400.00
Soft Costs	\$	14,525,571.00
Total	\$	43,381,971.00

The Project will be owned by the Corporation and leased to the Applicant and other potential owners for a period of 75 years. In consideration for the Corporation’s participation in the Project, the Corporation is estimated to receive \$4,456,256.00 in revenues over the initial 15 years of the lease. Potential proceeds to the DPFC Corporation include (1) a \$300,000.00 structuring fee paid at closing; (2) a general contractor fee of \$431,437.00 paid at closing; (3) lease payments starting at \$218,000.00 and increasing by 3% annually upon stabilization; (4) a 15% sales commission after repayment of debt, equity, and preferred equity returns upon first sale of the Project; and (5) a 2% sales commission on all future sales. In the event of a sale during the life of the Project, the Corporation will continue to receive the annual lease payments. Upon termination of the 75-year lease, the Corporation will own the Project free and clear.

The revenues of the Corporation will be used to fund operations and the provision of additional affordable and workforce housing throughout the City. This proposed development results in foregone tax revenues for the City while the DPFC Corporation owns the asset.

The 2022 City tax bill for this property is \$4,541.00 and the 15-year estimate of foregone taxes is \$84,464.00. However, the workforce housing rental savings of \$5,311,403.00 over 15 years and the estimated \$4,456,256.00 in revenues provides the City with \$9,767,659.00 in benefits that outweigh the foregone revenue.

The estimated revenues were calculated by the Corporation’s partnership counsel and financial advisors. Market rent comps and current construction costs were analyzed to ensure the project costs were reasonable for the market. Corporation financial advisors also confirmed that but for the ad valorem tax exemption, the Project would not be economically feasible and would not attract responsible debt and equity investment in the property. The Corporation’s revenue consideration and affordability levels were also analyzed to confirm that the ad valorem tax exemption does not over subsidize the Project.

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PAGE **4 of 4**

The City is authorized by the Act to create a public facility corporation for the purposes established in the Act, including the financing, acquisition, construction, and leasing of public facilities under the Act. On June 24, 2020, City Council authorized the creation of the Corporation to further the public purposes stated in the Corporation's articles of incorporation and bylaws pursuant to the Act by Resolution No. 20-1035, which were subsequently amended by Resolution 22-1194 (bylaws). Section 6.2 of the Corporation's bylaws requires City Council approval by written resolution prior to entering into any agreement that would result in a property tax exemption. Per Section 7.3 of the bylaws, any Public Facility related to multifamily residential development of the Corporation shall not proceed unless (1) the development of the Public Facility could not be feasible but for the Corporation's participation, and (2) the development of the Public Facility is in furtherance of the City of Dallas's Comprehensive Housing Policy (CHP), as restated in the Dallas Housing Policy 2033 (DHP33).

On June 27, 2023, the Dallas Public Facility Corporation Board of Directors approved the negotiation and execution of a term sheet with the Applicant.

Staff and the Corporation's Counsel and Financial Advisors have confirmed that this Project would not be feasible but for the Corporation's participation and that the Project furthers the goals of the CHP, as restated in the DHP33. Staff recommends City Council approval of this item to allow this mixed-income housing development to move forward.

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



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