DEPARTMENT OF COMMUNITY AFFAIRS
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MEMORANDUM

DATE: **May 1, 2017**

TO: **Todd Hileman, City Manager**

FROM: **John Cabrales, Director of Community Affairs**

SUBJECT: **Information on Denton Housing Authority – Ojala Tax Credit Development**

Below is information in response to questions asked by council regarding the partnership between the Denton Housing Authority (DHA) and Ojala Holdings on two, 4% tax credit developments. All the information was provided by DHA and Ojala. Both DHA and Ojala plan to be present at tomorrow's Work Session discussion to answer any further questions.

What are the differences between a 9% Housing Tax Credit development and a 4% Housing Tax Credit development?

The Texas Department of Housing and Community Affairs (TDHCA) administers two different housing tax credit programs in the State of Texas; a 9% and 4% program. Housing tax credits are used to help finance the construction, acquisition and/or renovation of affordable housing units.

- 9% housing tax credit program:
    - VERY competitive program -- In 2017, 85 applications were submitted in the DFW region, of which eight may be funded (less than 10% success rate).
    - Applications are funded based on detailed scoring criteria established by TDHCA -- all developers 'compete' against one-another.
    - Local units of government can affect the points of an applicant from their jurisdiction by approving a resolution of "Opposition", "Non-Opposition", or "Support."
    - Typically, a 9% award will provide an equity contribution to the development equal to approximately 70% of the total development costs.
- 4% housing tax credit program:
    - Non-competitive program that favors good site selection over an opaque set of application rules.
    - Applications are funded based on hitting detailed criteria established by TDHCA.
    - Local units of government must approve a resolution of "Non-Opposition" for an application to be considered.

    - Typically, a 4% award will provide an equity contribution to the development equal to approximately 30% of the total development costs -- significantly lower than a 9% deal, thus additional financial creativity is required (tax exemptions, soft loans, forgivable grants, etc.).

What are the deal points in the partnership agreement between DHA and Ojala?

- DHA and Ojala will serve as co-developers
    - Ojala will manage the pre-development, development and construction process
    - DHA has consent/approval rights on all major decisions
- Developer Fee split 65/35 between Ojala/DHA - **<u>$1,925,000 to DHA</u>**
- Cash Flow split of 50/50 - **<u>$2,977,423 to DHA</u>**
- DHA to retain the Right of First Refusal (ROFR) purchase option in year 15 (can purchase the property from the partnership)

What are the financials for DHA in the agreement?

- **<u>$4,902,423</u>** in total income = **<u>$1,925,000</u>** (developer fee) + **<u>$2,977,423</u>** (cash flow), over a 15 year period.

What does DHA plan to do with the revenue gain from this agreement?

- DHA plans to further its core mission to provide quality affordable housing and promote programs to assist families toward self- sufficiency. DHA's waiting list has 3,000 families currently, but it is closed, and they will not be able to reissue any vouchers for the next year.
- Reserve some funding for the purchase option on the development after the 15 year period.
- Use some funds towards their voucher program, due to reduced funding from the Department of Housing and Urban Development HUD. They estimate they will lose approximately 170 vouchers for next fiscal year.
- They plan to use some funds for pre-development costs towards the replacement of their remaining senior housing property.
- Fund Community Partnership with United Way and its partner agencies to address Community Impact issues relating to DHA's mission and goals, (i.e. Security Deposit, Homelessness & veteran housing issues, and programs for families to better enhance their lives).
- Backfill federal budget cuts, allowing DHA to provide housing options for about 170 individuals and families that would otherwise be homeless
- Help funding on-site services and programs for the MedPark residents – such services include:
    - Social events (potluck dinners, game night, movie nights, birthday parties)
    - After school childcare services and programs
    - Health screenings and nutritional courses
    - GED preparation classes
    - Annual income tax preparation (offered by an income tax prep service)
    - Quarterly financial planning courses (homebuyer education, credit counseling, investing advice, retirement plans)
    - Arts, crafts, and other recreational activities
    - Guest lectures
    - Food pantry/common household items

What specifically is in it for the community as a whole?

- **Residents** – Both seniors and families will gain access to quality housing that is in extremely high-demand.
  - Denton has a large supply/demand imbalance of quality, affordable rental housing - a market study conducted last year (surveying 53 apartment communities) indicated that the Denton rental market was 98.9% occupied
  - Denton has not had additional affordable units added to its inventory in several years and is projected to create a demand for 3,937 new rental units over the next five years
- **Community** – The development will provide revenue to DHA (backfilling the reduction in HUD funding) and allow DHA to provide housing options for 100 plus individuals and families that would otherwise be homeless
- **City of Denton –** The City will receive fees related to construction of the development, i.e. Permit fees, inspection fees, and impact fees
- **Local businesses** – Gain access to consumers that can spend more of their incomes on goods and services vs. rent
  - 6,807 income qualified families and 2,531 income qualified seniors currently live in Denton -- families and seniors that qualify already live in the proposed development -- currently, they are just paying a very high % of their income on rent (reducing their discretionary spending allowances)

What is the loss of the property taxes of a period of time (15 years)?

- Current land value
  - The land has an agricultural tax exemption and is valued at $247,672
  - $115,030 in tax payments over a 15-year period
- As developed into a workforce housing property
  - $4,514,413 over a 15-year period, or $300,960 per year
  - This assumes that the property is assessed at a similar value to Providence Place, the nearby tax credit property. https://www.dentoncad.com/home/details?search=306721
  - Providence Place is assessed at $27,945 per unit, less than 1/4 of the value ascribed to market rate properties in Denton
    - Arch at Denton - 2010 Construction – 210 units – Assessed at $185,000 per unit https://www.dentoncad.com/home/details?search=209329&year=2017
    - Lodge at Pecan Shores – 2011 Construction – 192 units – Assessed at $130,000 per unit https://www.dentoncad.com/home/results?owner_id=780461&searchby=1
- See attached Property Tax Analysis for more information.

What is a clear definition of work force (or affordable) housing? What does it looks like for Denton?

- Workforce housing = Housing that is restricted to residents (families and seniors) that earn at or below a certain % of Area Median Income (AMI).
- AMI in Denton County = $71,700.
- Restrictions at MedPark are set at <u>60% of AMI</u>, thus residency will be restricted to tenants earning at/below <u>$43,020 per year</u>.

- Rents are restricted at $776 - $1,057 for 1, 2, and 3 bedroom units. The goal of workforce housing is to provide quality housing options at restricted rental rates, so that residents do NOT pay more than ~30% of their income on rent.

How much work force housing is currently available in Denton?
Current rental market in Denton consists of 82 total rental properties, of which 7 are workforce (8.5% of total). Currently, the workforce properties are 99% occupied.

How much work force housing is needed?
The current occupancies sit at about 99%, and there have been no workforce units added since 2007, and the projected growth in Denton over the next 5-years will likely create a demand for an additional 3,937 rental units. Therefore, the demand for new rental units is extremely high.

Standard / Hudson at MedPark Station

Property Tax Analysis

Current Value

Assumes 2.0% Annual Increase

Property current has an Agricultural Tax Exemption

		Value			Rate	
	Year	**Land**	**Improvements**	**Total**	**Per $100**	**Tax Pmt**
0	2016	$ 92,737	$ 154,935	$ 247,672	2.49%	$ 6,171
1	2017	94,592	158,034	252,625	2.49%	6,295
2	2018	96,484	161,194	257,678	2.49%	6,421
3	2019	98,413	164,418	262,832	2.49%	6,549
4	2020	100,382	167,707	268,088	2.49%	6,680
5	2021	102,389	171,061	273,450	2.49%	6,814
6	2022	104,437	174,482	278,919	2.49%	6,950
7	2023	106,526	177,972	284,497	2.49%	7,089
8	2024	108,656	181,531	290,187	2.49%	7,231
9	2025	110,829	185,162	295,991	2.49%	7,375
10	2026	113,046	188,865	301,911	2.49%	7,523
11	2027	115,307	192,642	307,949	2.49%	7,673
12	2028	117,613	196,495	314,108	2.49%	7,827
13	2029	119,965	200,425	320,390	2.49%	7,983
14	2030	122,365	204,433	326,798	2.49%	8,143
15	2031	124,812	208,522	333,334	2.49%	8,306
					Total Payments	**$ 115,030**

Developed Value, as Tax Credit Property

Assumes 2.0% Annual Increase

	Value			Rate		
Year	**Land (a)**	**Improvements (b)**	**Total**	**Per $100**	**Tax Pmt**	**Notes**
2016	$ 92,737	-	$ 92,737	2.49%	$ 2,311	*Under Construction*
2017	94,592	-	94,592	2.49%	2,357	*Under Construction*
2018	96,484	5,910,472	6,006,955	2.49%	149,678	*Lease-Up*
2019	98,413	11,820,944	11,919,357	2.49%	297,001	*Stabilized*
2020	100,382	12,057,362	12,157,744	2.49%	302,941	
2021	102,389	12,298,510	12,400,899	2.49%	308,999	
2022	104,437	12,544,480	12,648,917	2.49%	315,179	
2023	106,526	12,795,369	12,901,895	2.49%	321,483	
2024	108,656	13,051,277	13,159,933	2.49%	327,913	
2025	110,829	13,312,302	13,423,132	2.49%	334,471	
2026	113,046	13,578,548	13,691,594	2.49%	341,160	
2027	115,307	13,850,119	13,965,426	2.49%	347,984	
2028	117,613	14,127,122	14,244,735	2.49%	354,943	
2029	119,965	14,409,664	14,529,629	2.49%	362,042	
2030	122,365	14,697,858	14,820,222	2.49%	369,283	
2031	124,812	14,991,815	15,116,626	2.49%	376,669	
				Total Payments	**$ 4,514,413**	

(a) Land = Current Land Valuation

(b) Improvements = Per Unit Value of adjacent property (Providence Place)
$27,945 per unit x 423 units = $11,820,944

Providence Place

Improvement Value	$	8,104,193
Units		290
Value/Unit	$	27,945

Source: Denton CAD: https://www.dentoncad.com/home/details?search=306721

Proposed Structure with DHA

Year	**Developer Fee**	**Cash Flow**	**Total**
2016	962,500	-	962,500
2017	962,500	-	962,500
2018	-	168,435	168,435
2019	-	174,330	174,330
2020	-	180,432	180,432
2021	-	186,747	186,747
2022	-	193,283	193,283
2023	-	200,048	200,048
2024	-	207,050	207,050
2025	-	214,296	214,296
2026	-	221,797	221,797
2027	-	229,560	229,560
2028	-	237,594	237,594
2029	-	245,910	245,910
2030	-	254,517	254,517
2031	-	263,425	263,425
	$ 1,925,000	**$ 2,977,423**	**$ 4,902,423**