



# CDFA-TEDC Webinar: Creative Approaches for Financing Industry & Redevelopment

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TEXAS ECONOMIC DEVELOPMENT COUNCIL

# Welcome

The webinar will begin at 10:30 AM (Central)



# CDFA-TEDC Webinar: Creative Approaches for Financing Industry & Redevelopment

## Moderator

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TEXAS ECONOMIC DEVELOPMENT COUNCIL



## Brendan Barry, DFCP

Coordinator, Research & Technical Assistance  
Council of Development Finance Agencies  
Columbus, OH



# CDFA-TEDC Webinar: Creative Approaches for Financing Industry & Redevelopment

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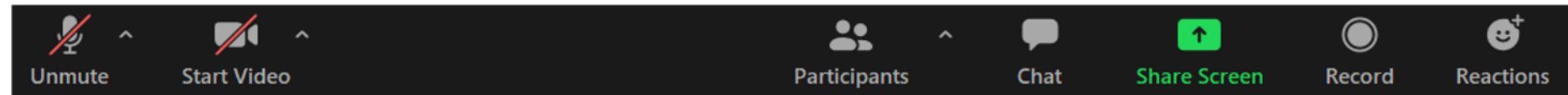


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# CDFA-TEDC Webinar: Creative Approaches for Financing Industry & Redevelopment

## Join the Conversation



**Submit your questions by  
using the chat function!**

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The logo for the Texas Economic Development Council (TEDC) consists of the letters "T", "E", "D", and "C" in white, each inside a colored square (blue, red, orange, blue). Below the squares is the text "TEXAS ECONOMIC DEVELOPMENT COUNCIL" in a small, red, sans-serif font.

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# CDFA-TEDC Webinar: Creative Approaches for Financing Industry & Redevelopment

## Speakers



**Sue Hounsel**  
Economic Development  
District Manager  
City of Dallas



**Colin Nickells**  
Associate  
Advantage Capital



**Art Wells**  
Branch Chief  
U.S. Department of Housing and  
Urban Development

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# CDFA-TEDC Webinar: Creative Approaches for Financing Industry & Redevelopment

## Panelist

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**Art Wells**

**Branch Chief**

**U.S. Department of Housing and Urban Development  
Fort Worth, TX**

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OFFICE OF HOUSING

# Office of Multifamily Housing Programs

## *Multifamily Southwest Region*

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT



OFFICE OF HOUSING

**CDFA-TEDC Webinar: Creative Approaches for Financing Industry & Redevelopment**

***4% Texas LIHTC Bond Financing with FHA***

October 25, 2023

OFFICE OF MULTIFAMILY HOUSING PROGRAMS



# Overview: 4% Texas LIHTC Bond Financing with FHA



What are 4%  
*LIHTC's?*

Advantages of  
Financing with  
FHA

Accelerated  
Timeline with  
Streamlined  
Processing

*FY 2023  
Production  
Numbers*

# "What are 4% LIHTC's"

- **A Federal Tax Credit** that **State agencies** in Texas (e.g., *Texas Department of Housing and Community Affairs* or *TDHCA*) may **award to for-profit housing developers** for **projects meeting LIHTC affordability criteria**:
    - ***Rent and Income Restrictions*** must be imposed, monitored, and enforced, by a governmental agency (i.e., *TDHCA*) for at least 15 years after *Final Endorsement*, requiring the project to meet either of the following *LIHTC* restrictions:
      - ✓ **20% of units at 50% of Area Median Income (AMI)**
- Or...
- ✓ **40% of units at 60% of Area Median Income (AMI)**



# *“What are 4% LIHTC’s?”:*

## *LIHTC Bond Financing Characteristics*

- **4% Texas LIHTCs are worth 40% of recognized development costs**
  - This is commonly known as the **“eligible basis”**
- **4% LIHTC Bond loans must close within 180 days**
  - Once developer accepts the *Private Activity Bond (PAB)* allocation required to receive 4% LIHTCs, they **must close the loan within 180 days, or** the PAB allocation, and **4% LIHTC eligibility, will be lost...**
- **4% LIHTC is awarded to the developer in the amount of 4% annually, for a period of 10 years**
  - However, **almost all developers sell these tax credits to an investor, or syndicator,** who pays them a fraction of their total value ranging from 80 cents/\$1 to \$1 per \$1
  - **Buyers** of these tax credits **use them to offset Federal taxes**

# Advantages of 4% Texas LIHTC Bond Financing with FHA: 221(d)(4) NC & SR LIHTC Program

- Insures mortgage loans, facilitating the *New Construction (NC)* or *Substantial Rehabilitation (SR)* of multifamily rental or cooperative housing projects, with five or more units, that create affordable housing for communities
  - **40-year amortization loan**, including construction financing
  - **Fixed Interest Rate**
  - **Non-recourse**
  - **Direct-to-Firm submission**, however, if two-stage processing is chosen: **no Pre-application fees are charged**
  - **Delayed submission of plans & specs** (Due 30 days prior to initial closing)
  - **Developer Fees** may be **treated as mortgageable costs**
  - **Lender's loan origination and placement fees are mortgageable** up to 5.5%
  - **Streamlined processing and expedited approval for projects involving 4% Texas Bond Financing!**



# *Advantages of 4% Texas LIHTC Bond Financing with FHA: 223(f) LIHTC Program*

- **Insures mortgage loans facilitating the purchase, or refinance, of existing multifamily properties, with five or more units, that provides or preserves affordable housing for communities**
  - ***35-year amortization loan***
  - ***Fixed Interest Rate***
  - ***Non-recourse***
  - ***Up to \$45,000 in repairs per unit with no Davis-Bacon requirement***
  - ***Construction period may exceed 12 months***
  - ***Developer Fees may be treated as mortgageable costs***
  - ***Lender's loan origination and placement fees are mortgageable up to 5.5%***
  - ***Streamlined processing and expedited approval for projects involving 4% Texas Bond Financing!***



# 4% Texas Bond Financing with FHA: *Accelerated Timeline with Streamlined Processing*

## 10-Step Summary

After the developer works with *LIHTC* consultant to prepare the *LIHTC* application, and receives a favorable number in the *PAB* allocation lottery...

- **STEP 1 - Concept Meeting**: Approximately 1 month prior to submitting *LIHTC application* to *TDHCA*, lender and developer team meet with HUD team to resolve any conflicting or unknown items:
  - **Within 5 days of Concept Meeting**, HUD Underwriter will encourage or discourage the project
    - ***Encouragement letter*** includes a ***milestone timeline sheet*** outlining when developer team needs to meet specific targets – i.e.:
      - ✓ **Early deliverable items deadlines**
      - ✓ **Firm application submission**
      - ✓ **Firm issuance**
      - ✓ **Closing, etc.**



# 4% Texas Bond Financing with FHA: *Accelerated Timeline with Streamlined Processing*

- **STEP 2 - LIHTC Application Submission to the TDHCA:** Approximately 1 month after receiving an *encouragement letter with milestone timeline sheet* for the project from HUD, developer team submits *LIHTC application* to the TDHCA.
  
- **STEP 3 - Early Deliverables Submission:** If possible and applicable, we request that the following *key items be submitted at least 2 weeks prior to Firm Submission:*
  - ✓ HEROS submission
  - ✓ Affirmative Fair Housing Marketing Plan (*AFHMP*)
  - ✓ 2530/APPS
  - ✓ Relocation Plan
  - ✓ [*Draft*] Lender Narrative and Market Study
  - ✓ [*Draft*] 92013 and 2328



# 4% Texas Bond Financing with FHA: *Accelerated Timeline with Streamlined Processing*

- **STEP 4 - Firm Application Submission**: Approximately 2 months after submitting *LIHTC application* to TDHCA, lender submits the *Firm Application* to HUD.
  - ***Streamlined processing*** also means ***less than 100% complete plans and specifications (construction documents) may be submitted with the Firm Application***
  
- **STEP 5 - TDHCA Awards 4% LIHTCs to the Project**: Within approximately 2 months after submitting the *Firm Application* to HUD, TDHCA awards 4% LIHTCs to the project.
  
- **STEP 6 - Firm Commitment Issued**: Approximately 2 weeks after TDHCA awards 4% LIHTCs to the project, the ***Firm Commitment is issued***.





# 4% Texas Bond Financing with FHA: *Accelerated Timeline with Streamlined Processing*

- **STEP 7 – Rate Lock:** Within approximately 2 days of receiving a *Firm Commitment*, a ***loan rate is locked in for the project.***
- **STEP 8 - Amendment Request(s), Final Plans, Construction Budget, and Equity Status Updates:** Within approximately 2 weeks of *rate lock*, lender submits *amendment request(s)* with *final plans including construction budget*, and reports any status changes to *equity investor*, or *terms of equity/secondary financing*.
- **STEP 9 - Amendment Request(s) Approved and Closing Scheduled:** Within approximately 1 week of submitting *amendment request(s), final plans, construction budget, and equity status updates*, *amendment request(s)* are approved, and *closing* is scheduled.



# 4% Texas Bond Financing with FHA: *Accelerated Timeline with Streamlined Processing*

- **STEP 10 – Initial Endorsement**: Approximately 1 month after *amendment request(s)* approval, *final plans, construction budget, and equity status updates* submittal, **project receives Initial Endorsement**.



# 4% Texas LIHTC Bond Financing: FY 2023 PRODUCTION NUMBERS

FY 2023 PRODUCTION NUMBERS: 4% Texas LIHTC Bond Financing				
Texas	FIRMS ISSUED			
	SOA	Number of Firms Issued	Mortgage Amount	Number of Units
	221(d)(4) Substantial Rehabilitation	1	\$22.3 M	240
	221(d)(4) New Construction	2	\$82.7 M	536
	223(f) Refinance	1	\$28.6 M	248
	<b>Firms Issued Total:</b>	<b>4</b>	<b>\$133.6 M</b>	<b>1,024</b>
	INITIAL ENDORSEMENTS ( <i>Initial Closings</i> )			
	SOA	Number of Initial Endorsements	Mortgage Amount	Number of Units
	221(d)(4) Substantial Rehabilitation	6	\$119.2 M	1,296
	221(d)(4) New Construction	2	\$51.3 M	439
	<b>Initial Endorsements Total:</b>	<b>8</b>	<b>\$170.5 M</b>	<b>1,735</b>
	<b>GRAND TOTAL:</b>			<b>2,759</b>



# *4% Texas LIHTC Bond Financing Success Stories: Mill Stream Apartments*

**221(d)(4) New Construction**



# 4% Texas LIHTC Bond Financing Success Stories: **Mill Stream Apartments**

## **221(d)(4) New Construction**

- **Located in McKinney, TX**
- **Mortgage Loan amount: \$34,425,000**
- **240 Broadly Affordable units with:**
  - *100% of units set aside for tenants earning 60%, or less, of Area Median Income (AMI)*
- **Project Amenities include:**
  - On-site office, security gate, clubhouse, community room, business center/ computer lab, swimming pool, fitness center, playground, gazebo, barbecue and picnic area, splash pad, and dog park

# 4% Texas LIHTC Bond Financing Success Stories: **Culebra Road Apartments**

## **221(d)(4) New Construction**



# 4% Texas LIHTC Bond Financing Success Stories: **Culebra Road Apartments**

## **221(d)(4) New Construction**

- **Located in San Antonio, TX**
- **Mortgage Loan amount: \$16,875,000**
- **199 Broadly Affordable units with:**
  - *100% of units set aside for tenants earning 60%, or less, of Area Median Income (AMI)*
- **Project Amenities include:**
  - Leasing office, controlled entries, clubhouse, community room, business center, swimming pool, fitness center, playground, walking trail, garden, barbecue and picnic area



# 4% Texas LIHTC Bond Financing Success Stories: *Hughes House*

**221(d)(4) New Construction**





# 4% Texas LIHTC Bond Financing Success Stories: **Hughes House**

## **221(d)(4) New Construction**

- **Located in Fort Worth, TX**
- **Mortgage Loan amount: \$16,111,000**
- **162 Broadly Affordable and Market Rate units with:**
  - *45% of units set aside for tenants earning 60% or less, 36% of units set aside at 50% or less, and 9% of units set aside at 30% or less, of Area Median Income (AMI); 10% of units unrestricted at Market Rate*
- **Project Amenities include:**
  - On-site office, perimeter fencing, clubhouse, community porch, community room, business center/computer lab, mail kiosk, elevators (in select buildings), swimming pool, fitness center, playground, 11,000+ sf of commercial space, splash pad, and dog park



# 4% Texas LIHTC Bond Financing Success Stories: **Rosemont at Ash Creek**

## **221(d)(4) Substantial Rehabilitation**



# 4% Texas LIHTC Bond Financing Success Stories: **Rosemont at Ash Creek**

## **221(d)(4) Substantial Rehabilitation**

- **Located in Dallas, TX**
- **Mortgage Loan amount: \$26,250,000**
- **280 Broadly Affordable units with:**
  - *100% of units set aside for tenants earning 50%, or less, of Area Median Income (AMI)*
- **Project Amenities include:**
  - On-site office, security gate, clubhouse, community room, laundry facility, business center/computer room, swimming pool, fitness center, playground, and picnic area



# 4% Texas LIHTC Bond Financing Success Stories: **Canterbury Crossing**

**221(d)(4) Substantial Rehabilitation**



# 4% Texas LIHTC Bond Financing Success Stories: **Canterbury Crossing**

## **221(d)(4) Substantial Rehabilitation**

- **Located in Abilene, TX**
- **Mortgage Loan amount: \$21,125,500**
- **304 Broadly Affordable units with:**
  - *100% of units set aside for tenants earning 60%, or less, of Area Median Income (AMI)*
- **Project Amenities include:**
  - On-site office, clubhouse, community room, laundry facility, computer lab/business center, swimming pool, fitness center, basketball/sports court, playground, barbecue and picnic area

# *4% Texas LIHTC Bond Financing Success Stories:* **Columbia Apartments**

**221(d)(4) Substantial Rehabilitation**



# 4% Texas LIHTC Bond Financing Success Stories: **Columbia Apartments**

## **221(d)(4) Substantial Rehabilitation**

- **Located in El Paso, TX**
- **Mortgage Loan amount: \$22,250,000**
- **200 Broadly Affordable units with:**
  - *85% of units set aside for tenants earning 60% or less, and 15% of units set aside at 30% or less, of Area Median Income (AMI)*
- **Project Amenities include:**
  - Onsite office, community room, community dining room, laundry facility, business center, mail kiosk, basketball court, playground, community garden, horseshoe pit, gazebo and barbecue area



# 4% Texas LIHTC Bond Financing Success Stories: **The Life at Forest View**

## **223(f) Acquisition**





# 4% Texas LIHTC Bond Financing Success Stories: **The Life at Forest View**

## **223(f) Acquisition**

- **Located in Clute, TX**
- **Mortgage Loan amount: \$47,824,200**
- **Repairs: \$38,590 *per unit***
- **520 Broadly Affordable units with:**
  - *100% of units set aside for tenants earning 60%, or less, of Area Median Income (AMI)*
- **Project Amenities include:**
  - Clubhouse, perimeter fencing, community room, laundry facility, fitness center, swimming pools, playground, barbecue/picnic areas, and dog park



# *Southwest Region Contact Email*

- For more information, or questions about 4% *Texas LIHTC Bond Financing with the FHA*, please email:

*SWproduction@hud.gov*



*4% Texas LIHTC Bond Financing with FHA*  
**In Closing...**

*PAGE*

**Thank you!**







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## Panelist

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**Sue Hounsel**

**Economic Development District Manager  
City of Dallas  
Dallas, TX**

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# *City of Dallas TIF Overview & Affordable Housing Case Studies*

**CDFA – Financing Industry & Redevelopment through Creative Approaches**  
**October 25, 2023**

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**Sue Hounsel, Manager**  
**Office of Economic Development**  
**City of Dallas**



# Presentation Overview

- An overview of Texas procedures for TIF Districts
- City of Dallas TIF program and creation of proactive policy
- Case studies using TIF funding to facilitate affordable housing



# Texas procedures for TIF Districts

- State enabling legislation varies across the country in terms of TIF criteria and legal requirements.
- Chapter 311 of the Texas Tax Code (“the Act”) is the governing statute for tax increment reinvestment zones (TIRZ) or more commonly known as TIF districts in Texas.
- The Act has evolved in terms of more streamlined procedures and flexibility for taxing jurisdiction participation. The Texas legislature meets every odd year and often amends the Act each session.
- Similar to other states, there needs to be a finding that the area of a proposed TIF district substantially arrests or impairs the sound growth of the City, retards the provision of housing, or constitutes an economic or social liability.





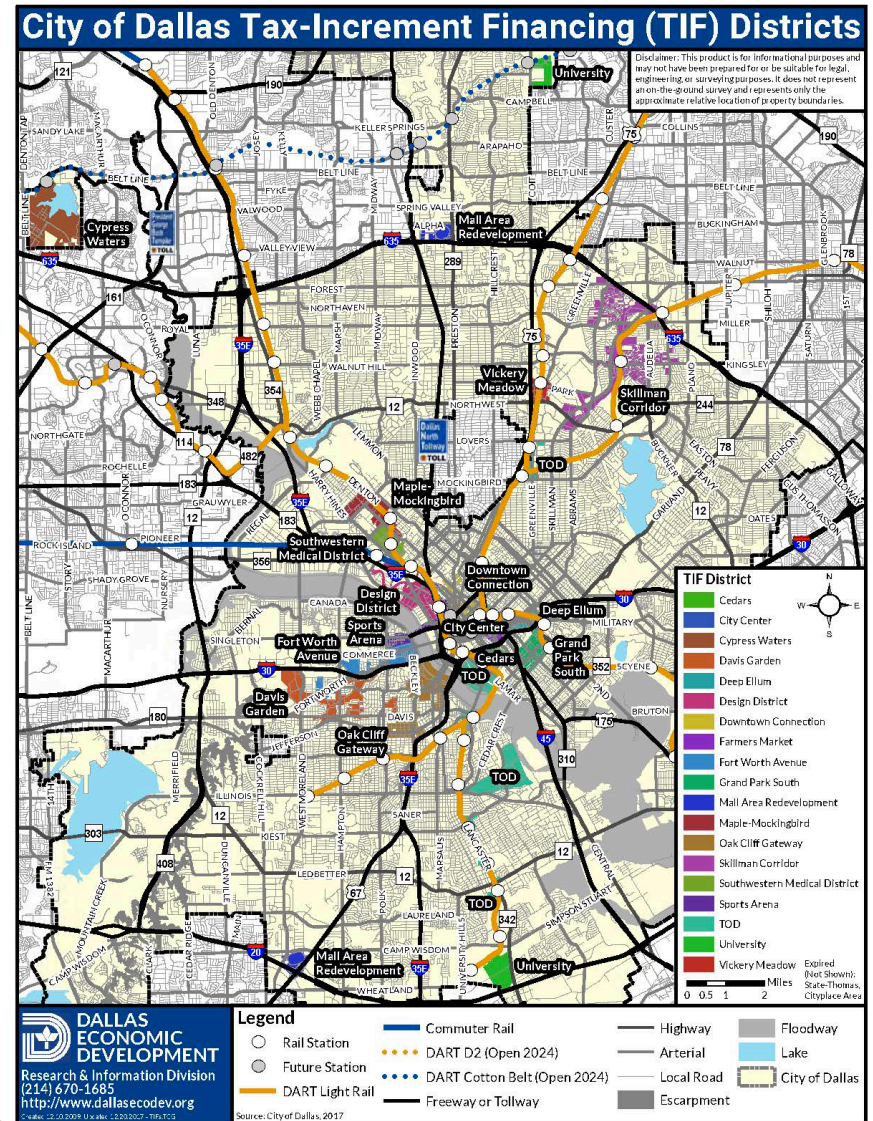
# Texas procedures for TIF Districts con't

- The Act outlines basic criteria for:
  - ✓ Creation of a TIF district including a preliminary plan and public hearing/notice requirements.
  - ✓ Provisions for taxing entity financial participation in the TIF are detailed and participation levels are now completely negotiable.
  - ✓ TIF Board of Directors composition which is now limited to appointees from the City that designated the TIF and taxing jurisdictions that commit to contributing some portion of tax increment to the district.
  - ✓ Procedures for the final TIF Plan and increment collection.
  - ✓ Annual financial reporting to the other taxing entities and the state comptroller.



# Dallas - TIF Districts

- The City of Dallas has been in the Tax Increment Financing (TIF) business since 1988.
- As of 2023, there are 18 active TIF Districts (the first three districts State-Thomas, Cityplace, and Cedars have sunset).
- As of 2023, overall property values have grown 630% (\$23.4 billion) cumulatively over the total of the base values for all the districts.



# Dallas - TIF Districts continued

- Most Dallas TIF Districts are ‘pay as you go.’ Developers fund projects and are reimbursed out of a portion of incremental property taxes collected
- Only two TIF Districts have sold TIF bonds – Cityplace Area (after a healthy income stream was established) and Downtown Connection (at inception – enhanced by City General Fund)
- Sales tax revenue is not included in Dallas TIFs
- In order to make projects feasible and further neighborhood revitalization, more creative structuring and layering of other sources is often needed.



# How is TIF Policy Shaped?

- Along with the evolution of the Texas TIF Act over time, the City has initiated additional policies and guidelines:
  - Formal broad policy – adopted by City Council in February 2005 and amended in 2009, 2015, and 2023. The latest amendment includes a greater focus on providing equity to underserved areas.
  - Additional working policies/guidelines - staff level and/or TIF Board adopted focused on implementation such as guidelines for leasing/compliance reporting for mixed-income housing requirements.



# Gateway Oak Cliff Mixed-Income Housing Project

- The Gateway Oak Cliff Project is located at 400 South Beckley Avenue in the Oak Cliff Gateway TIF District
- The site was previously occupied by the Dallas County Government Center in aging facilities (*photos on right*). Dallas County opted to build a new facility a short distance away along Jefferson Boulevard.
- Rather than sell the property to the highest bidder, the County saw the need for affordable housing in an area experiencing gentrification and sought to partner with a non-profit to build new mixed-income housing on the site.



# Gateway Oak Cliff Mixed-Income Housing Project

- Developer: Gateway Oak Cliff, LP, a Texas limited partnership, with equity investment in the form of 4% Low Income Housing Tax Credits (LIHTC) from National Equity Fund
- Project Summary:
  - 230 apartments, of which 184 apartments (80%) rent restricted for households earning a maximum of 60% AMI
  - Total Project cost estimated at \$45.9 million
- TIF funding authorized up to \$4,245,432 payable upon completion of the Project and satisfaction of all terms and conditions in the development agreement.



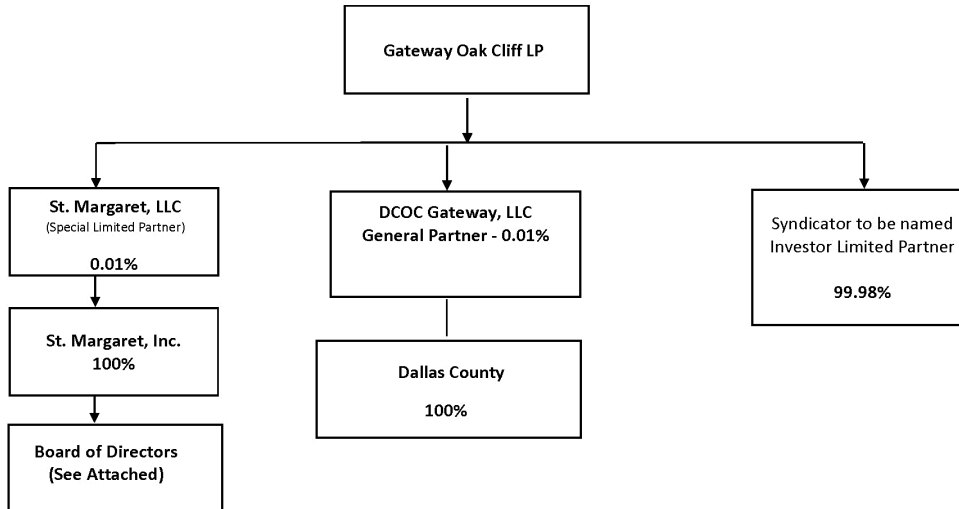
# Gateway Oak Cliff Mixed-Income Housing Project

- Part of the Project's financial gap addressed by the TIF subsidy related to creating a higher standard of urban design and public amenities:
  - Preservation of as many substantial trees as possible on the perimeter of the site and inside the future courtyard.
  - Architectural massing and façade design to better fit the development into the existing neighborhood context
  - Create a more urban experience on 12th Street and a more pedestrian-friendly alley
  - Explore low-impact development techniques as a part of on-site stormwater
  - Provide direct access to ground-level units from public streets (popular with dog owners and provides more “eyes on the street” for public safety).



# Gateway Oak Cliff Mixed-Income Housing Project

Gateway Oak Cliff  
Organizational Chart for  
Owner



- Limited Partners/Owners
  - 0.01% owned by DCOC Gateway, LLC (General Partner or GP)
    - 100% by Dallas County Housing Finance Corp
  - 0.01% owned by St. Margaret, LLC (Special Limited Partner)
    - 100% by St. Margaret, Inc. (non-profit corporation)
  - 99.98% owned by a to be formed investor Limited Partner
    - National Equity Fund is the syndicator

Co-Developers:

65% - Carleton Development, Ltd. (Carleton)

35% - St. Margaret, LLC

Senior Lender: Citi Community Capital  
 Construction Lender: Citi Community Capital  
 LIHTC Syndicator: National Equity Fund





# Gateway Oak Cliff Mixed-Income Housing Project

Staff, in consultation with the City’s outside underwriter, structured the TIF Subsidy to balance the uncertainty created by potential higher construction costs and the increased cost of permanent debt with requiring the Developer to maximize non-City resources in filling the gap

- defers 35% of the developer fee to be used as project financing so that there is capacity to direct the remainder towards construction contingency, if needed



Permanent Sources	Amount	Percent
Permanent Loan (Citi Community Capital)	\$24,300,000	53%
3rd Party Equity as 4% LIHTC (National Equity Fund)	\$15,623,419	34%
Deferred Developer Fee	\$1,800,000	4%
City (Oak Cliff Gateway TIF Funds)	\$4,245,432	9%
<b>Total Uses</b>	<b>\$45,968,851</b>	<b>100%</b>



# Gateway Oak Cliff Mixed-Income Housing Project



Carleton Companies

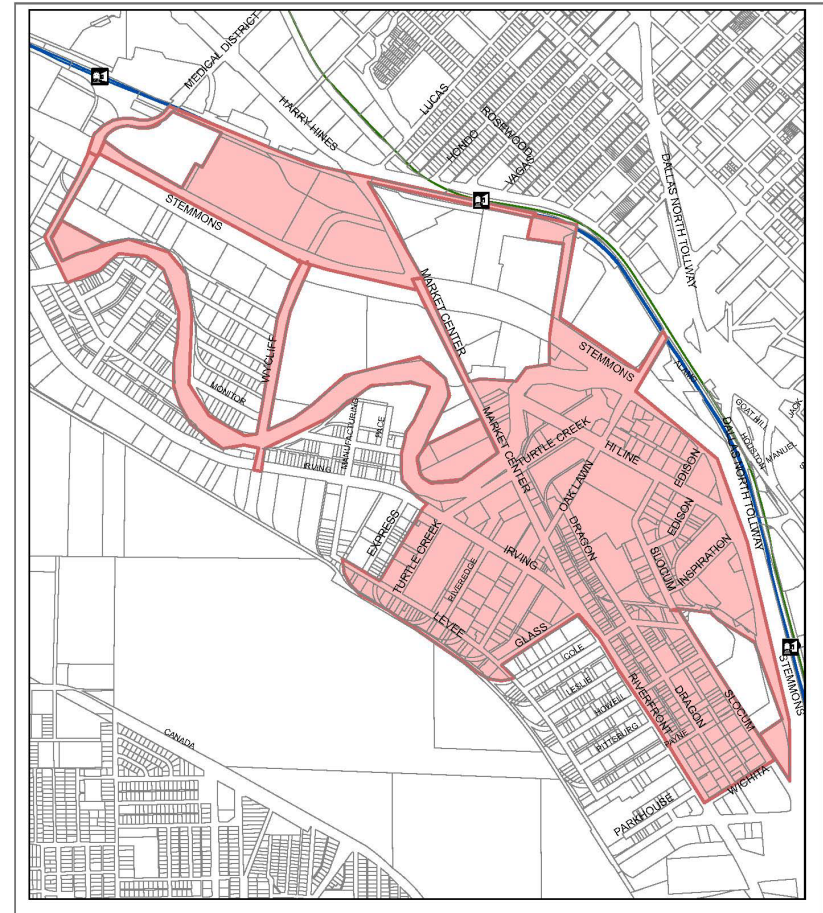
*Gateway Oak Cliff*

Print #230913042  
Date: 09/13/23  
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Order No. 75974



# Design District TIF District

- Established in 2005 to assist with redeveloping an industrial/warehouse district to take advantage of the expanding DART light rail system and improve access to the Trinity River.
- To date, **taxable value of real property has increased by \$1.05 billion** within the TIF District, an increase of 371% from the base value.
- To date, **3,041 residential units** have been completed or are under construction; however, **only 63 units (2%) are income-restricted.**



# Cabana Hotel Property - Location



Redevelopment of the Cabana Hotel property, at 899 N. Stemmons Freeway was anticipated to be a catalyst project for the southern part of the Design District.



# Background: Cabana Property History



- 1962: Property was originally developed as the Cabana Motor Court Hotel by Las Vegas hotelier Jay Sarno, and, in its heyday, was visited by celebrities like The Beatles and Led Zeppelin. A young Raquel Welch worked as a cocktail waitress in the “Bon Vivant Room.”
- Property changed ownership a few times before being sold in 1984 to Dallas County for use as a jail facility but has been vacant since 2013.
- Property is listed on the National Register of Historic Places (SG100003923).
- A prior incentive deal from 2019 to restore back to an upscale hotel did not move forward.



# Background: Existing Conditions



# Cabana Design District: a mixed-income multi-family redevelopment

- Rehabilitation and adaptive reuse (in compliance with Secretary of Interior's Standards) of the 2 vacant historic buildings, partial demolition/retrofitting of the 4-level parking structure, and new ground-up construction of approximately 19,472 square foot addition to deliver **160 multi-family residential units, of which 64 (40%) will be income-restricted for 45 years**
- Approximately 283 total parking spaces, an interior courtyard with a pool, and other amenities
- Total Project cost estimated: \$116.3 million

	RESID UNITS
30% AMI	27
60% AMI	9
70% AMI	14
80% AMI	14
<b>Low Income Total</b>	<b>64</b>
Market Rate	96
<b>Total Units</b>	<b>160</b>

Bedroom Type	RESID UNITS
Efficiency	8
1 Bedroom	40
2 Bedroom	98
3 Bedroom	14
<b>Total Units</b>	<b>160</b>



# Conceptual Site Plan



UDG

THE CABANA HOTEL  
DALLAS, TX



SYCAMORE  
STRATEGIES



SITE PLAN

Scale: NTS

Date: 02.24.2023

FOR PRESENTATION PURPOSES ONLY





# Cabana Design District: Financing

- A Design District TIF funding commitment of up to \$41 million was approved by City Council in September 2023.
- The Texas Department of Housing & Community Affairs (TDHCA) awarded 9% Housing Tax Credits (HTCs) to the Project in July 2023 (the proposed Project was the highest scoring/top ranked application out of 24 total applications in Region 3/Urban).

Permanent Sources	Amount	Percent
Permanent Loan	\$20,970,000	18%
Federal/State Historic Tax Credit Equity	\$31,594,460	27%
3rd Party Equity as 9% LIHTC	\$17,998,200	15%
Deferred Developer Fee	\$4,771,315	4%
City of Dallas	\$41,000,500	35%
<b>Total Uses</b>	<b>\$116,334,475</b>	<b>100%</b>



# Contact Information

**Sue Housel, AICP, HDFP, EDFP**  
**Economic Development District Manager**  
**City of Dallas Office of Economic**  
**Development**  
**[sue.housel@dallas.gov](mailto:sue.housel@dallas.gov)**  
**214/939-2848**

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**For more information on Dallas**  
**economic development programs:**

**[www.dallasecodev.org](http://www.dallasecodev.org)**





# CDFA-TEDC Webinar: Creative Approaches for Financing Industry & Redevelopment

## Panelist

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**Colin Nickells**

Associate  
Advantage Capital  
Austin, TX

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# LIHTCs and Housing Redevelopment in Texas

**CDFA – Financing Industry and Redevelopment through Creative Approaches**

**October 25, 2023**

**Colin Nickells | Associate**

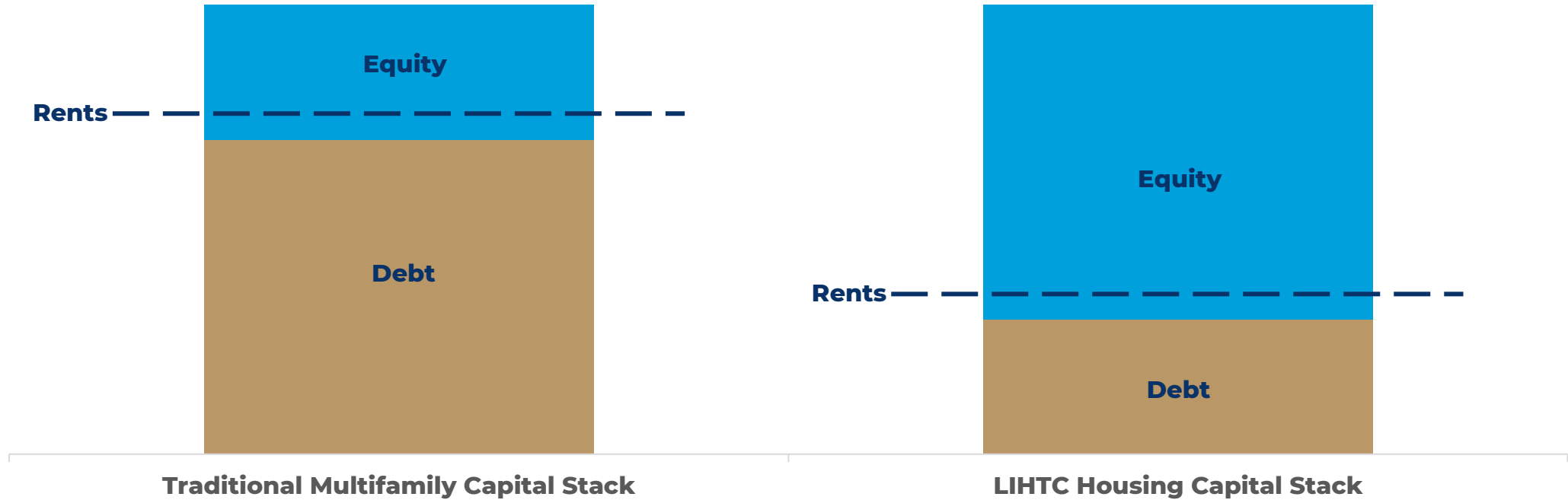
# Contents

- 01 **An overview of Low-Income Housing Tax Credits (LIHTCs)**
- 02 **Economic Conditions and Financing Gaps**
- 03 **State LIHTCs and Housing Rehabilitation**

## What is LIHTC?

- **The Low-Income Housing Tax Credit (LIHTC) is the most important resource for creating and preserving affordable housing in the United States today.**
- **Two types of LIHTC: 9% and 4%**
  - 9% LIHTC is designed to finance 70% of the low-income unit costs in a project.
  - 4% LIHTC is designed to finance 30% of the low-income unit costs in a project.
- Created by the Tax Reform Act of 1986, the LIHTC program gives state and local LIHTC-allocating agencies the equivalent of approximately \$9 billion in annual budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households, which are then syndicated to third-party investors to raise equity to fund construction and help the property maintain affordable rents.
- LIHTC provides investors a dollar-for-dollar reduction in federal or state tax liability in exchange for providing financing to develop affordable housing projects.

# How does LIHTC work to keep housing affordable?



## Program Requirements

- **Income Eligibility and Affordability**

- Three options to satisfy under Section 42, Internal Revenue Code:
  - 40% of units restricted to households earning not more than 60% of AMI
  - 20% of units restricted to households earning not more than 50% of AMI
  - Average income of all households in LIHTC-assisted units not more than 60% of AMI.
- Project must comply with rental restrictions on LIHTC-assisted units for at least 30 years.

- **Eligibility and Threshold Requirements**

- Texas prescribes specific program requirements via state law in Chapter 2306, Texas Government Code and via administrative rule in its Qualified Allocation Plan (QAP). Examples include:
  - Unit sizes
  - Amenities
  - Resident supportive services
  - Neighborhood risk factors (i.e. school ratings, violent crime, etc.)
  - Undesirable site features (i.e. proximity to junkyards, refineries, etc.)

- **Scoring Criteria**

- For 9% LIHTCs, the QAP includes scoring criteria related to site selection, on-site amenities and services, deeper affordability, etc.



## LIHTC for Housing Redevelopment

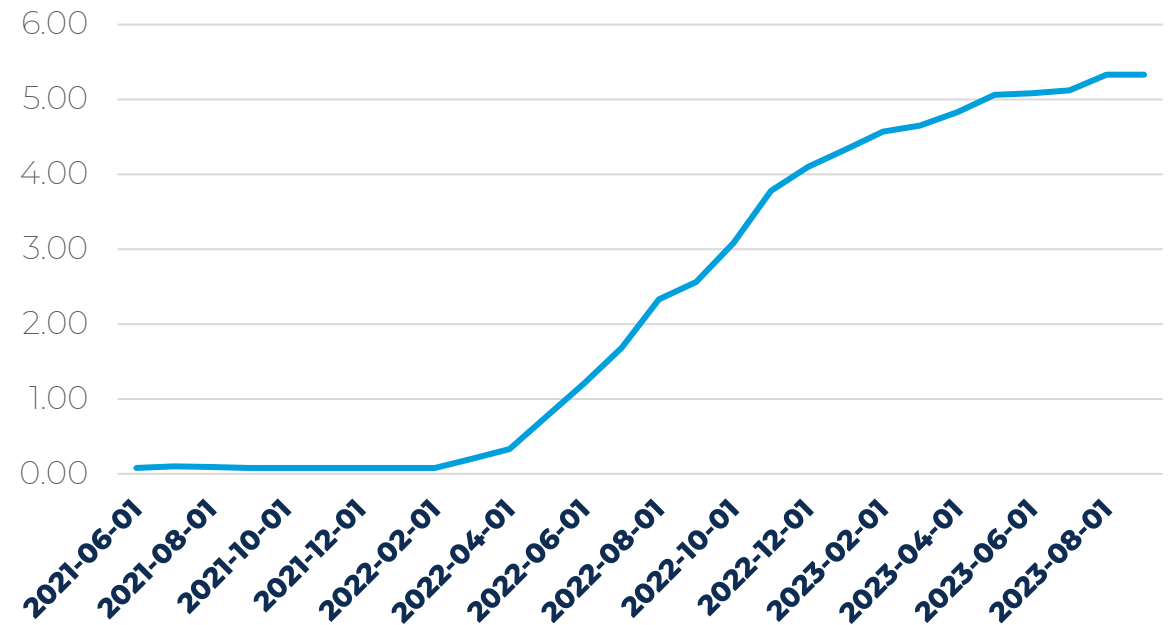
- **LIHTC is an important tool for the redevelopment and preservation of affordable housing.**
- **4% LIHTC Redevelopment**
  - Because 4% LIHTC provides less equity to a development compared to the 9% LIHTC, it is generally used to rehabilitate existing multifamily housing.
  - 50% Test makes 4% LIHTC transactions more highly leveraged compared to 9% LIHTC → Larger developments.
  - Transaction cap: none
- **9% LIHTC Redevelopment**
  - In Texas, 15% of all 9% LIHTC must be set aside for existing developments at risk of losing affordability.
    - From this set-aside, 5% must be reserved for developments financed with loans from the U.S. Department of Agriculture, which are typically older, smaller developments in rural areas in need of rehabilitation.
  - 9% LIHTC is a catalyst for the redevelopment of projects unable to secure significant debt.
  - Transaction cap: \$2,000,000

# Economic Conditions

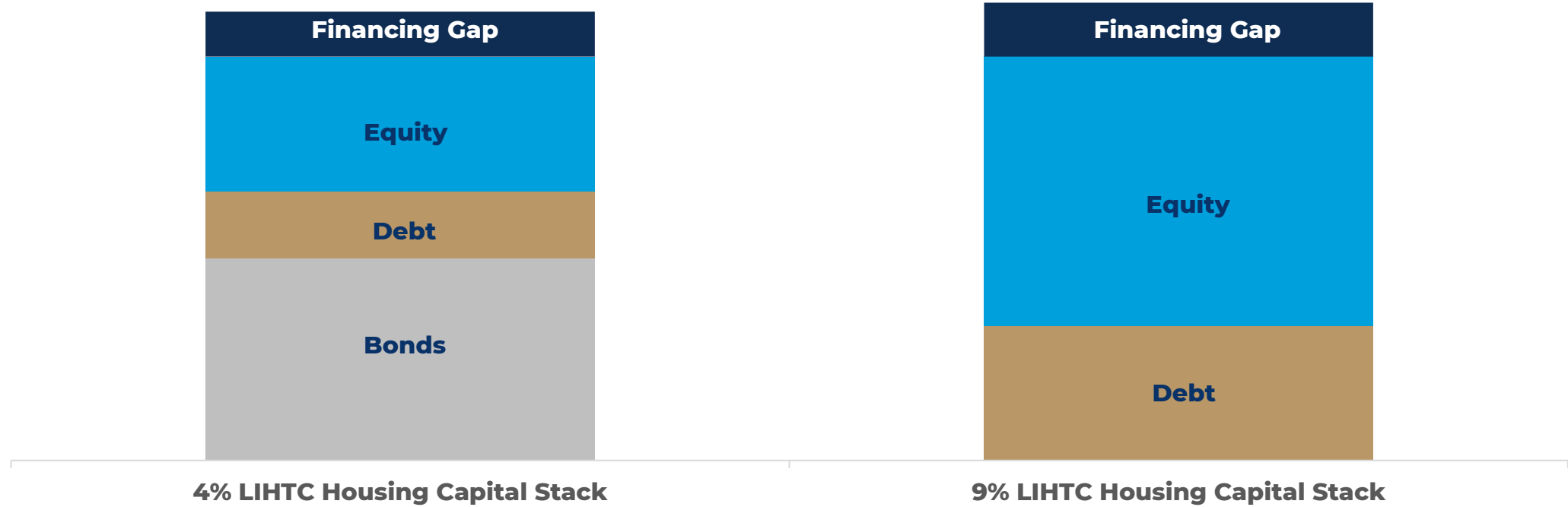
**The development of affordable housing has been significantly impacted by market conditions highlighted by high interest rates, inflation, and increasing construction and operating costs.**

- Since March 2022, the Federal Reserve has increased interest rates by 525 basis points to a 22-year high.
- In July 2022, year-over-year inflation reached 9.1%, the largest increase in 40 years.
- Multifamily property and liability insurance premiums have increased significantly.

Federal Funds Effective Rate



# Filling the Gaps



## Filling the Gaps

- **As developers seek to fill financing gaps, resources and structuring options may be available including, but not limited to:**
  - HOME loan
  - National Housing Trust Fund (NHTF) loan
  - Property tax-abatement
  - Grant funding (when available)
    - i.e. Community Development Block Grant (CDBG), etc.
- **Potential drawbacks:**
  - **Negative impact to financial feasibility**
  - **Cross-cutting requirements and conflicting regulations**
  - **Lack of availability**

## State LIHTC

- **State LIHTCs are an increasingly important tool utilized by state housing finance agencies across the country to direct additional equity to affordable housing projects.**
  - While Texas does not have a state income tax, state LIHTCs can be used to offset franchise taxes and insurance premium taxes in exchange for providing financing for affordable housing projects.
- **Texas House Bill 1058 was signed into law in June 2023 and establishes a state LIHTC program.**
  - State LIHTCs will be allocated by TDHCA and must be paired with allocations of federal LIHTCs.
  - 50% of state LIHTCs must be allocated to 9% LIHTC applications, and the other 50% of state LIHTCs must be allocated to 4% LIHTC applications.
  - The state LIHTC ceiling is \$25 million per year.
  - Eligible developments must comply with federal LIHTC requirements, the Texas QAP, and the Fair Housing Act.

# State LIHTC

- **Selection Criteria**

- 9% federal LIHTC applications proposing the most additional low-income Units for households at or below 30% of AMGI relative to the State Housing Tax Credit Request will be prioritized for an allocation of state LIHTCs.
- State LIHTCs to accompany 4% federal LIHTC applications will be allocated on a first come, first served basis until no more credits are available.

- **Allocation Process**

- For 9% federal LIHTC applications, TDHCA will allocate state LIHTCs in a “lightning round” after making its initial awards in July.
- Key dates:
  - March 1: Submit intent form along with full application.
  - August 31: State LIHTC request form due.
  - September: Allocation certificates are issued.
- Transaction cap: not to exceed federal credit

## State LIHTC for Housing Rehabilitation

- **State LIHTCs provide equity in the capital stack and reduce the amount of debt that needs to be secured for highly levered 4% LIHTC transactions.**
- **In rural areas, state LIHTCs provide key financing where soft funds are very scarce or unavailable and federal LIHTC pricing is lower.**
- **State LIHTCs can help reduce reliance on secured debt for developments serving populations and/or those that have very low rents.**

Questions?

**Colin Nickells | Associate**

**[cnickells@advantagecap.com](mailto:cnickells@advantagecap.com)**



# Thank you.

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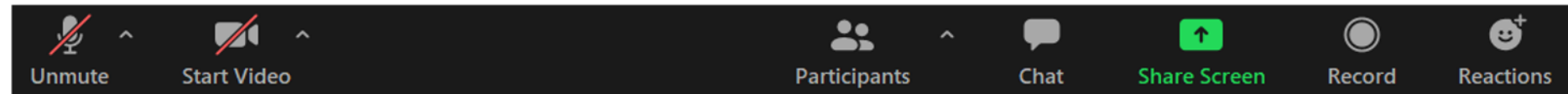
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### **Fundamentals of Economic Development Finance Course**

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**Brendan Barry, DFCP**  
Coordinator, Research &  
Technical Assistance  
614-705-1314  
bbarry@cdfa.net

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