

MEMORANDUM

TO: Bradley Chapulis – City Manager, City of Baxter
 Jeremy Vacinek – Finance Director, City of Baxter

FROM: Schane Rudlang - Ehlers

DATE: March 31, 2026

SUBJECT: Financial Review – Trident “Timber Ridge” Apartment Development

The City of Baxter (“City”) received a request for \$3,000,000 in Tax Increment Financing (“TIF”) from Trident Development (“Developer”) to construct an 80-unit, mixed-income development with assisted-living and memory care components (“Project”). This memorandum summarizes the financial review, developer negotiations, and recommendations regarding public assistance.

Project Background

The proposed Project includes 80 residential units, 20% of which will be affordable at 50% of Area Median Income (“AMI”), consistent with the requirements for the Project to qualify for a Housing TIF District. The Project is part of a larger development area that will include street and utility extensions around the site and the immediate area. Draft site and architectural plans were provided for review. The 80 units include studios, one-bedroom units, and two-bedroom units, as well as a mix of assisted living (“AL”), elderly waiver (“EW”), and memory care (“MC”) units, as shown in the table below.

Unit Type	Unit Count	Size Sq. Ft.
Studios AL	4	573
1BR AL	28	703
1BR AL EW	13	703
1 BR + Den AL	10	934
2BR 1BA AL	5	1042
2BR 2BA AL	4	918
Studio MC	9	409
Studio MC EW	7	409
	80	

Financial Analysis

The Developer submitted financial information (the “Proforma”) for the Project to Ehlers to review on behalf of the City. Ehlers entered that information into an Ehlers Proforma model and reviewed the financials in the context of similar projects and relevant market information. Ehlers then adjusts the Proforma to *stress test* whether the requested assistance is warranted or whether a lower amount of assistance is appropriate. Projects should perform well enough to obtain bank financing and generate a normal market return on invested equity, but public assistance should not result in above-market profits. Ehlers also calculates the amount of TIF that would be generated by the Project using information from the county assessor.

Total Development Cost - The cost per unit is \$332,750. For projects like this one, total development costs range between \$300,000 and \$350,000 per unit. The projected total development cost for this Project is within an acceptable range. The land acquisition cost includes amounts that the current landowner will expend to bring street and utility infrastructure to serve the site. The sources and uses for the project are shown in the following table.

SOURCES			
	Amount	Pct.	Per Unit
First Mortgage	18,634,000	70%	232,925
Equity	7,986,000	30%	99,825
TOTAL SOURCES	26,620,000	100%	332,750

USES			
	Amount	Pct.	Per Unit
Acquisition Costs	2,200,000	8%	27,500
Construction Costs	17,843,452	67%	223,043
Environmental Abatement/Soil Correction	13,501	0%	169
Professional Services	1,807,410	7%	22,593
Financing Costs	955,637	4%	11,945
Developer Fee	1,500,000	6%	18,750
Cash Accounts/Escrows/Reserves	2,300,000	9%	28,750
TOTAL USES	26,620,000	100%	332,750

Debt and Equity – Equity is the consideration (usually cash) that a Developer or investor provides as a *down payment* on the total development cost. For this Project, the Developer is providing 30% equity and financing the remainder with a traditional permanent loan and TIF (TIF is imbedded within the First Mortgage amount). Equity contributions for similar projects range from 20-45%.

Rent, Revenue, and Operating Expenses – Project revenue for an assisted-living and memory care project such as this is comprised of rent and the services provided. The rental component is approximately one-third of the total amount paid by tenants, with services making up the remaining two-thirds. Together, these revenues yield \$7.77 per square foot per month of rentable space. Operating expenses are approximately \$36,000 per unit per year. These values are in line with other similar projects. However, revenue and expenses for this type of project are highly variable, largely due to changing health care reimbursements. As such, Ehlers recommends a lookback on profitability to potentially adjust the TIF commitment, as detailed below. To meet Housing TIF District requirements, 20% of the units will be income-verified at or below 50% of AMI.

Inflation - During the proforma analysis process, Ehlers adjusted the inflation factor used to escalate revenues and expenses from the Developer’s initial projection of 2% to the more typical 3%. Doing so increases projected profitability to within market ranges.

Developer Fee - The development fee is 5.6%, which is above the typical rate of 3-5% for a project of this type. Ehlers adjusted this to 4.6% when stress-testing the proforma and sizing the recommended TIF.

Property Taxes and TIF – The developer requested TIF in the amount of \$3,000,000 over 20 years. They estimated TIF based on a valuation that turned out to be much higher than the valuation Ehlers received from the Crow Wing County Assessor. This lowers the estimated property taxes and TIF generated. Ehlers estimates that the TIF generated over 20 years will be \$1,100,000.

Financial Performance

Ehlers reviews multiple financial performance metrics, including Internal Rate of Return (“IRR”). With the Ehlers adjustments to the Proforma and with \$1,100,000 of TIF assistance, the IRR for this Project is 14.3%, which is within the typical range for a project such as this.

Lookback

Lookback provisions in a development agreement allow the TIF amount to be adjusted if certain financial performance thresholds are exceeded. Because revenues and expenses are more variable than in a typical apartment project, a lookback upon stabilization is recommended. Once the Project is completed and actual revenues and expenses are known, a lookback calculation will be performed. If the Project exceeds a projected IRR of 16%, then the TIF amount will be adjusted downward accordingly - with the potential to be reduced to zero if the Project substantially overperforms.

Recommendation

Based on the review, the Project would not reasonably be expected to proceed without \$1,100,000 of TIF assistance. Ehlers further recommends including a lookback provision in the development agreement. The Developer has indicated agreement with these terms in concept, subject to final documentation and City approval. Additional details regarding the recommended TIF assistance are as follows:

- **TIF Note Principal:** \$1,100,000 in present value, financed at 6.0%.
- **TIF Annual Share:** 90% of TIF annually generated by the Project above the base value.
- **TIF Note Term:** Final possible payment year of 2047 (20-year term).
- **Pay-As-You-Go:** The City would agree to remit TIF generated by the Project to the Developer but would not borrow funds or obligate other taxes or tax base.
- **Land Use:** Developer restricted from seeking 4d(1) property tax classification for affordable housing.
- **Lookback:** Internal rate of return lookback at stabilization with 16% threshold.

Next Steps - TIF Plan Schedule and Development Agreement

Consideration of the recommendation by the City is expected to occur on April 7. If the City decides to proceed, the next steps include drafting a development agreement to memorialize the terms and, separately, creating a TIF District. The process to create a TIF District takes approximately 45–60 days. Based on that timeline, the public hearing on the TIF Plan would be June 2. Consideration of approval of the development agreement is typically at the same meeting as the TIF Plan hearing.