

MEMORANDUM

TO: Aaron Chirpich – Community Development Director
 FROM: Keith Dahl & Stacie Kvilvang – Ehlers
 DATE: December 2, 2021
 SUBJECT: Reuter Walton Development – Analysis of Financial Request

In May 2021, the EDA received an application for financial assistance from Reuter Walton requesting a total of \$1.8 million of public assistance to construct a 62-unit workforce housing apartment. They specifically requested Tax Increment Financing (TIF) in the amount of \$1,498,000 and a local grant of \$300,000. The project is proposed to start in 2022 with an anticipated project cost of approximately \$20.15 million.

This memo has been prepared by Ehlers to conduct a review of the proposed project, specifically the budget and pro forma based on industry standards for construction, land acquisition, and project costs; as well as to ensure that all development costs, revenues, and expenditures have been appropriately accounted for and considered.

Based on our review, the requested financial assistance is more than what is necessary for the project to be “financially feasible”. We’ve concluded that this project would require no more than \$680,000 of public assistance. The tables below provide a summary of the sources and uses based upon the reduced public assistance amount.

SOURCES			
	Amount	Pct.	Per Unit
First Mortgage	9,749,000	48%	157,242
TIF Mortgage	680,000	3%	10,968
Tax Credits	8,392,675	42%	135,366
Deferred Developer Fee (55% of Total Fee)	1,330,792	7%	21,464
TOTAL SOURCES	20,152,467	100%	325,040

USES			
	Amount	Pct.	Per Unit
Acquisition Costs	450,000	2%	7,258
Construction Costs	14,755,270	73%	237,988
Professional Services	840,000	4%	13,548
Financing Costs	1,252,940	6%	20,209
Developer Fee	2,419,669	12%	39,027
Cash Accounts/Escrows/Reserves	434,588	2%	7,009
TOTAL USES	20,152,467	100%	325,040

Pro Forma Analysis:

Overall, the information contained in the development pro forma generally meets the expectations of a rental housing project utilizing 4% low-income housing tax credits (LIHTC) and other sources of public financial assistance.

1. **Acquisition Costs** – The proposed land acquisition cost is proposed to be \$450,000, or \$7,258 per unit. Similar projects typically range between \$7,500 to \$15,000 per unit. The cost for land acquisition is slightly below the typical range.
2. **Total Development Costs (TDC)** – The TDC is approximately \$20.15 million or \$325,000 per unit. Under current market conditions, similar projects have generally ranged between \$250,000 and \$340,000 per unit so the costs are in line with what we'd expect (the TDC includes the cost to construct an underground stormwater system for the neighboring assisted living facility).
3. **Developer Fee** – The proposed developer fee is approximately 12% of the TDC, which is within the allowable range for LIHTC projects, 8 - 15%. In addition, Reuter Walton is deferring approximately 55% of its fee to close the financial gap. Instead of Reuter Walton being compensated up-front for their time and resources, they will be paid out of available cash flow on the back end of the project.
4. **Rents** – The proposed project will have all 62 units affordable to households at or below 60% Area Median Income (AMI). Rent and income limits are derived by the United States Department of Housing and Urban Development (HUD) on an annual basis and are gross rents, meaning utilities are included in the maximum rent a developer may charge to a qualifying tenant. The incomes and rents noted in the following tables are for 2021. It should also be noted that typically developers may charge for underground parking. This generally ranges from \$40 - \$60 a month. However, as a condition of City Council approval to sell the land, underground parking is required to be provided free of charge.

Income Limits by Household Size (2021)

	1	2	3	4	5	6	7	8
60%	44,100	50,400	56,700	62,940	67,980	73,020	78,060	83,100

Maximum Gross Rents by Bedroom Size (2021)

	Studio	1	2	3	4	5	6
60%	1,102	1,181	1,471	1,636	1,825	2,014	2,202

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5. **Operating Expenses** – The operating expenses on a per unit basis for the project are \$3,650, which is within the typical market range of \$3,500 to \$4,500 per unit per year. Please note that this per unit expense is before management fees, property taxes, and replacement reserves.
6. **Management Fee** – The proposed management fee is 5.0% of the effective gross income of the project. This is on the higher end of the typical range of 3% to 5% but is an acceptable percentage.
7. **Reserves** – The annual deposit to replacement reserves is set at \$250 per unit per year. Typical deposits to the replacement reserve range between \$250 - \$450.
8. **Low-income Housing Tax Credits (LIHTC)** – The project anticipated tax credit pricing of \$0.86 for every \$1.00 of available tax credits, which generated about \$8 million of proceeds for the project. We reviewed the project with a tax credit price of \$0.89 based on other comparable projects we've reviewed lately. This increases the proceeds for the project to slightly under \$8.4 million.
9. **TIF Assistance** – In total, the requested \$1,800,000 of public assistance is more than what is necessary for the project to become “financially feasible”. We’ve concluded that this project would require up to \$680,000 of TIF assistance which represents approximately 3.4% of the TDC. Generally, public assistance for LIHTC projects is within a range of 4-10% of total development costs.

Recommendation:

Based on our review of Reuter Walton’s pro forma and under current market conditions, the project may not reasonably be expected to occur solely through private investment within the near future. The cost associated with development of this project is only feasible, in part, through public financial assistance from the EDA. We conclude approving a resolution of financial support in an amount not to exceed \$680,000 is warranted for this project.

Please contact Keith Dahl or Stacie Kvilvang at 651-697-8500 with any questions.