

PNW Economics

Evidenced-Based Real Estate, Land Use, & Economic Development Due Diligence

MEMORANDUM

To: Cate Schneider
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CITY OF BEND, OREGON

From: Bill Reid, Principal
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Subject: Revised MUPTTE Return on Investment Findings: Jackstraw Project

Date: November 21, 2023

This memorandum summarized revised return on investment calculations for the Jackstraw project in Bend, Oregon for the purposes of Mixed-Use Property Tax Exemption (MUPTTE) benefit consideration by the City of Bend and its partners.

On October 7, 2023, PNW Economics submitted to the City of Bend a review of Jackstraw development MUPTTE application financial pro formas required by City ordinance for the MUPTTE incentive program. On November 20, 2023 City of Bend staff identified two math errors in the findings of that October 2023 review. The identified errors in Table 9 of the October 2023 review were as follows:

- MUPTTE on the taxable assessed value of land upon which the Jackstraw project would be built: A tax exemption of \$28,127 starting in 2023 was erroneously credited to the Jackstraw project as part of return on investment calculations. MUPTTE should not apply to the value of land, only improvements put into place. The error has been corrected in Table 1 of this memorandum.
- MUPTTE on the taxable assessed value of commercial retail development in the Jackstraw project: A tax exemption of \$42,625 for the taxable assessed value of the retail commercial component was erroneously credited to the Jackstraw project as part of return on investment calculations. The MUPTTE, per State statute, does apply to the retail commercial portion of the project. The error has been corrected in Table 1 of this memorandum.

Table 1 on the following page provides revised calculations of Return on Investment (Return on Cost) that should replace Table 9 in the October 2023 MUPTTE review of the Jackstraw. In combined total, correction of the errors above reduce the value of the MUPTTE for the Jackstraw project by \$70,752. This has the following effects upon ROI calculations:

- Revised MUPTTE of \$1,149,487 awarded to the Jackstraw (and increasing by Measure 50-allowed 3% annually thereafter);
- Total Operating Expenses increased to \$1,742,978;
- Net Operating Income (NOI) decreased to \$8,720,002;
- Return on Investment (Cost) with a MUPTTE of 5.1%.

In what may seem surprising, the ROI with a MUPTTE did not change from the previous rounded calculation of 5.1%. This is so because despite a reduction in the MUPTTE of \$70,752, the Jackstraw project is both so

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expensive to develop (\$171.2 million) and annual Net Operating Income is so large (\$8.72 million), that the downward correction of the MUPTE award is basically rounding error on the ROI calculation. In fact, not rounding ROI to one decimal place would display the following:

- ROI before error correction: 5.135%
- ROI after error correction: **5.09%**

Table 1 – Revised Return on Investment (Return on Cost) Calculation for the Jackstraw: Yes for a MUPTE

| | Residential | Retail | Total |
|--|----------------------|--------------------|----------------------|
| Income | | | |
| Lease Income | \$9,159,010 | \$614,250 | \$9,773,260 |
| Other Income | \$1,002,453 | \$237,950 | \$1,240,403 |
| Less: Vacancy Loss | <u>(\$508,073)</u> | <u>(\$42,610)</u> | <u>(\$550,683)</u> |
| Gross Income | \$9,653,390 | \$809,590 | \$10,462,980 |
| Expenses | | | |
| Pre-Tax Operating Expenses | <u>(\$1,534,570)</u> | <u>(\$75,056)</u> | <u>(\$1,609,626)</u> |
| Property Taxes | <u>(\$1,177,614)</u> | <u>(\$42,625)</u> | <u>(\$1,220,239)</u> |
| MUPTE Awarded | \$1,149,487 | \$0 | \$1,149,487 |
| Capital Reserves | <u>(\$62,600)</u> | <u>\$0</u> | <u>(\$62,600)</u> |
| Total Operating Expenses | <u>(\$1,625,297)</u> | <u>(\$117,681)</u> | <u>(\$1,742,978)</u> |
| YES MUPTE | Residential | Retail | Total |
| Net Operating Income (NOI) | \$8,028,093 | \$691,909 | \$8,720,002 |
| Total Development Cost | | | \$171,197,197 |
| Return on Investment (Cost) - MUPTE | | | 5.1% |

We hopes this clarifies the issue for the City of Bend and its partners, and we apologize for the math error.