MEMORANDUM

TO: Colette Baumgardner – Community Development Director
FROM: Nick Anhut – Ehlers
DATE: January 31, 2024
SUBJECT: Vista Prairie Development – Analysis of Financial Request

The City of St. Francis received a public financial assistance request from Vista Prairie (the "Developer") seeking public financial assistance for the proposed development of a 17-acre site at 23465 St. Francis Blvd NW. The Developer proposes to construct a 134-unit senior living community facility. Construction would commence in 2024 and is anticipated to cost approximately $47.8 million. The Developer cited a financial gap in their financial projections for the project ("proforma") and requested consideration of a City tax abatement to fill the anticipated gap.

Financial Analysis

Ehlers undertook a review of the project to determine how much assistance would be warranted. The review included comparison to industry standards for construction, land, overall project costs, market rents, operating expenses, developer fees, underwriting and financing criteria, and market returns on investment. The anticipated project sources and uses are as follows:

SOURCES	Amount	Pct.	Per Unit
First Mortgage	31,000,000	65%	231,343
CPACE	7,585,000	16%	56,604
Equity	9,227,110	19%	68,859
TOTAL SOURCES	**47,812,110**	**100%**	**356,807**

USES	Amount	Pct.	Per Unit
Acquisition Costs	807,110	2%	6,023
Construction Costs (Including Permits/Fees)	33,550,000	70%	250,373
Professional Services	4,180,000	9%	31,194
Financing Costs	4,586,000	10%	34,224
Developer Fee	1,500,000	3%	11,194
Cash Accounts/Escrows/Reserves	3,189,000	7%	23,799
TOTAL USES	**47,812,110**	**100%**	**356,807**

Developers use different metrics based on the requirements of the type of debt underwriting and equity investment obtained for each project. This Developer is primarily relying on demonstrating that the project's initial operating income will be sufficient to provide coverage for the primary and secondary debt needed for the project. We additionally evaluated the anticipated return on investment measures common in the industry. Debt coverage is calculated by dividing the project's annual net operating income (annual rent and fee revenues less the expenses incurred to operate the facility) by the anticipated annual debt service expense of the project. The underwriting for the Developer's two forms of financing require a minimum debt service coverages of 115% and 130%, which is consistent with the standard range of underwriting criteria established for most projects being completed in the market today.

Ehlers Restated Pro Forma Analysis		
Year 3 - 2028		Notes
Stabilized Revenue:	8,961,589	*Assumes 5% vacancy*
Operating Expenses:	5,394,094	*Includes Property Tax Estimate*
Net Operating Income:	3,567,495	
less: Mortgage	(2,284,405)	*5.50% Interest; 25 yr term*
less: CPACE	(809,102)	*8.23% interest; 20 yr term*
Remaining Cashflow:	473,987	*Annual Return on Equity: 5.1%*
Debt Coverage:	115.3%	
City Abatement:	$213,872	
Adjusted Coverage:	**122.2%**	

On its own after stabilization, the project is only expected to provide 115% coverage by year 3, which creates a shortfall (or "gap") in the financing necessary to fund the expected project costs.

As a means to provide sufficient coverage to finance the full project costs, we analyzed the potential property taxes associated with the completed project. Minnesota Statutes, Sections 469.1812 to 469.1816 (the "Abatement Act"), authorizes a city, county or school district to adopt a tax abatement for up to 20 years in order to create certain public benefits that, in the long-run, outweigh the costs. New housing and access to services, new employment and expanding the tax base are all qualifying benefits.

Upon completion of construction, occupancy and stabilization, the assessor's estimated market value for the property is $35 million. This equates to potentially $213,872 in new City of St. Francis annual property taxes using the current local tax rate imposed by the City's levy. Under the terms of an abatement agreement, the City could remit abated tax receipts from the project to help with the financing. Based on a review of the current budget, proforma, and investment returns (focusing on debt coverage), as well as our analysis of the potential tax abatement, using the full abatement amount helps the project to become financeable.

Lookback Provisions

Lookbacks are financial reviews after the project is built to ensure the public assistance was set at an appropriate level. They require the amount or term of assistance to be adjusted if the lookback determines that more assistance was provided than necessary. Lookback provisions discussed with the Developer are as follows:

(1) Review of total development costs and financing upon certificate of occupancy - reduction in the annual tax abatement amount if the actual project debt service coverage exceeds the minimum underwriting threshold,
(2) Ability to terminate the abatement upon the event of a sale to a third party at any point during the 10-year abatement term, and
(3) Ability to terminate or adjust the annual abatement amount upon a refinancing if the project's operating revenues have stabilized to provide 125% debt service coverage.

Recommendation

Based on our review of the Developer's proforma and under current market conditions, the proposed development may not reasonably be expected to occur solely through private investment within the near future. We conclude that no more than 10 years of Tax Abatement assistance, equivalent to up to $1.9 million in new future city tax receipts created by the project, is warranted. The assistance amount should be verified with the lookback provisions adopted within the financing agreement with the Developer as described above.

These recommendations are included in the draft agreement for consideration by the City Council on February 5, 2024.

Please contact me at 651-697-8507 with any questions.