



To: Finance Committee
CC: Mayor McFarland
From: Mason Becker, Strategic Initiatives and Development Coordinator
Date: April 15, 2024
Re: Southwest Neighborhood financial aspects

Dear Finance Committee Members,

I am writing to give a general overview of the financial terms being discussed for the planned Southwest Neighborhood development, which will be presented at this meeting by representatives from Vandewalle & Associates and the Greater Watertown Community Health Foundation.

In anticipation of a formal Development Agreement (DA) being worked on between the City and the Foundation, Vandewalle has assisted with the drafting of the attached term sheets (included in this packet). The term sheets set the basic parameters of what will be included in the DA and outline the expectations of the type of housing product that will be created. As currently planned, the rental apartment complexes in the northern (Horizon) part of the development will be supported by a TIF deal, as part of a newly created TID. The for-sale single-family and twin homes in the southern (Foundation Development) area will be supported by infrastructure paid for by the City.

Horizon Project:

- The Horizon Project outlines basic parameters such as unit count and acreage, with construction slated to begin in spring 2025 and completion within a year.
- Horizon aims to secure a low-interest loan from the Thrive Live Local Development Fund, requiring a percentage of units to be at or below market rates.
- Lease rates for all units are intended to meet Thrive affordability criteria, but assistance is needed to offset high construction costs.
- The requested loan amount is \$2.433 million, approximately 12% of the total project cost., Typically, the City prefers to keep the participation to less than 15%.
- Without PAYGO TIF assistance, projected returns fall below market rates, making the project financially unviable.
- The City proposes funding on a pay-as-you-go (PAYGO) basis by refunding a portion of annual incremental property taxes over an estimated 15-year period. As a reminder, the property is currently tax-exempt.
- Creation of a mixed-use TIF, including Horizon and surrounding properties, aims to revitalize certain vacant buildings on Church St.

Foundation Development:

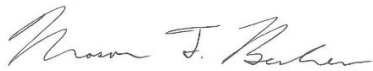
- The Foundation plans a residential subdivision comprising 80 single-family homes and 18 twin homes, with construction to commence in spring 2025.
- Infrastructure costs are estimated at \$5.8 million, with the Foundation contributing over \$1.3 million.
- The City's share would be approximately \$4.5 million, with various funding sources identified over a five-year period.

- To mitigate increased home prices due to infrastructure costs, the Foundation seeks City assistance, ensuring base prices remain affordable.
- Infrastructure construction will occur in three phases over three years, with reimbursement tied to completion milestones and availability of City funds.
- All infrastructure will be dedicated to the City upon completion.

As a reminder, this planned development represents opportunities for economic growth and community enhancement by addressing a well-known shortage of both owner-occupied and rental housing in Watertown, and also ties in with the upcoming construction of the brand-new YMCA facility. The proposed terms aim to strike a balance between developer needs and city interests.

Approval of these term sheets will enable further progress towards formal development agreements. If the finance committee generally consents to these agreements as outlined, the DA with the Foundation will come forward in the next few weeks, and a TIF agreement and DA for the Horizon project will be brought forward in July/August of this year.

Sincerely,



Mason T. Becker
Strategic Initiatives and Development Coordinator