MEMORANDUM

TO: Michael Zimmerman – Economic Development Director
Misty Dodge – Finance Director

FROM: Keith Dahl & Greg Johnson - Ehlers
DATE: February 26, 2025
SUBJECT: Economic Development Analysis for the proposed Uptown Hills Development

The City received an application for financial assistance from Northpointe Development (the "Developer") seeking tax increment financing (TIF) assistance in the principal amount of $418,000 from Tax Increment District #14 over 17 years to construct 24 units of affordable rental housing disbursed between 6 three-story townhomes and a two-story townhome style apartment building with underground parking (the "Project"). The Project is proposed to commence construction by end of this year with an anticipated total development cost of approximately $10.25 million.

This memo has been prepared by Ehlers, at the request of the City, to conduct a review of the Project, specifically the budget and pro forma based on industry standards under current market conditions and trends for 1) development costs, 2) available funding sources, 3) financial structure, 4) underwritten financial assumptions, 5) Developer contributions, 6) affordable housing rental rates, 7) utility allowance, 8) operating expenses, 9) phasing and timing of construction, and 10) projected cash flows. Our approach to this review was to ensure all development costs, revenues, and expenditures have been appropriately accounted for and considered, and to independently verify private funding sources are being maximized.

Based on our review, the Project generally meets our expectations of a low-income housing tax credit (LIHTC) development utilizing federal 4% credits. The financial structure is consistent with industry standards under current market conditions and complies with the Wisconsin Housing and Economic Development Authority's (WHEDA) underwriting standards. However, based on our analysis, the requested amount of financial assistance is more than what is necessary for the Project to be "financially feasible". **We've concluded that assistance in form of a deferred loan from the City's Affordable Housing Extension Funds in the principal amount of $330,000 is supported for this development.**

SOURCES	Amount	Pct.	Per Unit
First Mortgage	2,748,000	27%	114,500
Subordinate Debt	130,882	1%	5,453
City Deferred Loan	330,000	3%	13,750
Tax Credits	3,142,969	31%	130,957
Deferred Developer Fee (62% of Total Fee)	739,611	7%	30,817
Other Public Sources	1,160,000	11%	48,333
Private Sources	2,000,000	20%	83,333
TOTAL SOURCES	**10,251,462**	**100%**	**427,144**

USES	Amount	Pct.	Per Unit
Acquisition Costs	500,000	5%	20,833
Construction Costs	7,368,052	72%	307,002
Professional Services	311,400	3%	12,975
Financing Costs	642,010	6%	26,750
Developer Fee	1,200,000	12%	50,000
Cash Accounts/Escrows/Reserves	230,000	2%	9,583
TOTAL USES	**10,251,462**	**100%**	**427,144**

Pro Forma Analysis:

Overall, the Project generally meets our expectations of a low-income housing tax credit (LIHTC) development with regards to the financial structure, projected revenues, and on-going operational costs. The overview of our analysis is as follows:

1. Tax Credits – The project anticipates receiving tax credit pricing of $0.86 for every $1.00 of available federal tax credits, which generates about $3.14 million of proceeds for the Project. Federal tax credit pricing on many current projects range between $0.835 to $0.87.

2. First Mortgage – The Developer has secured a term sheet commitment letter from WHEDA to provide the construction and permanent mortgage financing for the Project. The permanent mortgage includes long-term bonds in the amount of $2,748,000, underwritten to an interest rate of 6.30% with a 35-year term / amortization. In addition, WHEDA is also providing subordinate debt in the amount of $130,882, underwritten to an interest rate of 3.00% with a 17-year term / 35-year amortization. Based on WHEDA's underwriting, the Project appears to be maximizing its permanent mortgage.

3. Developer Fee and Deferred Developer Fee – The proposed developer fee is approximately 11.7% of the TDC, or $50,000 per unit. In addition, the Developer will defer approximately 62% of its fee to help close the financial gap. Instead of the Developer being compensated up-front for their time, energy and resources spent on the Project, they will be paid out from available cash flow on the back end of the Project after its constructed and stabilized. Currently, the deferred developer fee is projected to be repaid within 12 years after stabilization.

4. Acquisition Costs – The land acquisition cost is $500,000, or $20,833 per unit. Similar projects typically range between $7,500 to $18,000 per unit. While the cost for land acquisition is on the higher end of the range, the subject property has an estimated fair market value of $520,923. The land acquisition cost is reasonable, and the Developer does not appear to be overpaying for the land.

5. Total Development Costs (TDC) – The TDC is approximately $10.25 million or $427,000 per unit. Under current market conditions, townhome style projects have ranged between $350,000 – $450,000 per unit. Given the lower density, style of development, and the incorporation of underground parking due to lot limitations, costs appear to be reasonable under current market conditions.

6. Rents – The Project will have units reserved for households at or below 30%, 50%, and 80% of the area median income (AMI) disbursed amounts the 24 three-bedroom units. Incomes and rents are derived by the United States Department of Housing and Urban Development (HUD) on an annual basis and include a utility allowance. Below are the rent maximums for Dane County.

Maximum Gross Rents by Bedroom Size (2024)

	Studio	1	2	3	4	5	6
30%	661	708	850	982	1,095	1,209	1,321
50%	1,102	1,181	1,417	1,636	1,826	2,015	2,203
80%	1,764	1,890	2,268	2,619	2,922	3,224	3,525

In addition, WHEDA limits the maximum allowable rent at and above 60% AMI to the lesser of 95% of the maximum gross rent or 90% of estimated achievable market rent noted in a market study. Based on the market study, it appears the rents are maximized.

7. Operating Expenses – The operating expenses on a per unit basis for the Project are $4,080, which is within the typical range of $3,500 to $4,500 per unit per year on other LIHTC projects. Please note that this per unit expense is before management fees, property taxes, and replacement reserves.

8. Reserves – The annual deposit to replacement reserves is set at $300 per unit per year. Typical deposits to the replacement reserve range between $250 - $450 but lenders vary on this requirement.

Recommendation:

Based on our review of the Developer's proforma and under current market conditions, the requested assistance in the principal amount of $418,000 is more than what is necessary for the Project to become "financially feasible". However, there is a financial gap present in the Project, and it may not reasonably be expected to occur solely through private investment within the near future. The affordability and cost associated with development of this project is only feasible, in part, through public financial assistance from the City. We conclude assistance in the principal amount of $330,000 is warranted for the Project.

Given the amount of the financial gap in the Project and the availability of Affordable Housing Extension Funds at the City, we would also recommend providing an up-front deferred loan in the principal amount of $330,000 instead of providing a Municipal Revenue Obligation Note on a pay-as-you-go basis. This would allow the City to recapture the $330,000 of assistance at 2% interest the earlier of 15 years, re-syndication, or sale of the Project.

Please contact Keith Dahl or Greg Johnson with any questions.