MEMORANDUM - DRAFT

TO:	John Weidl – City Manager, City of Whitewater Mason Becker, Economic Development Director, City of Whitewater
FROM:	Schane Rudlang - Ehlers
DATE:	January 8, 2026
SUBJECT:	Financial Review – Pre3 Multifamily Development

The City of Whitewater ("City") received a request of public assistance for $1,800,000 of Tax Increment Financing ("TIF") from Pre3 Development ("Developer") for the construction of a 60-unit market rate multifamily development that would be located at APN/A444200001 ("Project"). This memo summarizes the review of the financial request and makes recommendations for the assistance to be provided to the Project.

Project Background

Draft site and architectural plans were provided. The Project is five, two-story, 12-unit multifamily buildings with attached garages. All units would be market rate and would not be restricted by income or rent limits. The units are similar in size and rent, as shown on the table below.

Unit Type	Monthly Rent	Unit Count	Size Sq. Ft.
2BR (Upper)	$1,650	20	1,144
2BR (Upper Split)	$1,650	20	1,075
2BR (Lower)	$1,650	20	1,067

The Project would be financed by a standard equity and debt model as outlined below.

SOURCES	Amount	Pct.	Per Unit
First Mortgage	8,958,950	75%	149,316
Equity	2,986,317	25%	49,772
TOTAL SOURCES	**11,945,266**	**100%**	**199,088**

USES	Amount	Pct.	Per Unit
Acquisition Costs	182,000	2%	3,033
Construction Costs	10,869,406	91%	181,157
Financing Costs	337,499	3%	5,625
Developer Fee	556,361	5%	9,273
TOTAL USES	**11,945,266**	**100%**	**199,088**

Financial Review

The Developer submitted financial information ("Proforma") for the Project to the City. Ehlers entered that information into an Ehlers Proforma model and reviewed the financials in the context of similar projects and relevant market information. Ehlers then makes adjustments to the Proforma to 'stress test' whether the requested TIF is warranted. Ehlers also calculates the amount of TIF that would be generated by the Project using information from the assessor for the jurisdiction. Projects should perform well enough to receive bank financing and make a normal market profit on the equity invested, but the public assistance should not result in above-market profits.

Total Development Cost - The cost per unit is $199,088 and $181 per rentable square foot. These prices are typical for the market.

Rent, Revenue, and Operating Expenses – Market rents average $1.51 per square foot, which is within the market for this area and supported by Ehlers' review of rents in the market using CoStar, a real estate data analytics aggregator. The development fee is 4.7%, which is within the normal range of 3-5%. The operating cost per unit before taxes, management and reserves is $3,915 per year, and the operating cost ratio is 39%; both are within normal market ranges.

Debt and Equity – Equity is the consideration (usually cash) that a Developer or investor provides as a 'down payment' on the total development cost. For this Project, the Developer is providing 25% equity and financing the remainder with a traditional mortgage. Equity contributions for similar projects range from 20-45%.

Financial Performance – Three financial performance metrics are reviewed, which are typical in the industry. A summary of how they are calculated and how this Project performs (with the recommended TIF) is as follows.

Metric	Calculation	Project Performance	Notes
Yield on Cost	Net Operating Income ("NOI") divided by the total development costs (less any grants)	7.0% at stabilization	6.5 - 7.0% is typical, banks want to see 7.0%
Cash on Cash	NOI less debt service divided by equity	11.7% average annual Cash on Cash when TIF ends	Ehlers prefers to see this metric at ~10% when TIF ends
Internal Rate of Return ("IRR")	Annualized return on equity from annual cashflow and sale value, calculated in year 10	13.9% at year 10	12-15% is typical, currently

Overall, the Project performs within normal market ranges with the TIF recommended below.

Developer TIF Request and Ehlers TIF Calculations

The Developer requested TIF in the gross amount (no present value or interest payments) of $1,800,000 paid over 15 years and from 80% of gross increment created annually via a pay-as-you-go ("PayGo") municipal revenue obligation ("MRO"). PayGo MROs have little to no risk for the City.

Ehlers, using data from the assessor, calculates the gross TIF generated by the Project over 15 years using 80% annually to be $1,687,000, which is equal to $979,000 expressed as a present value. This is 7.9% of the total development cost. This amount is warranted to support market rate levels of financial returns.

Further details on the recommended structure of the MRO is as follows:
- **Amount:** $979,000 (Principal TIF amount, financed at 6.25% or the developers first mortgage rate, whichever is less)
- **Annual Share:** Paid out from 80% of TIF annually generated by the Project above the base value, City will retain 20% annually
- **Term:** Last possible payment year is 2042, no payments will be made after 2042
- **Pay as you go:** City would agree to pay TIF generated by the Project to the Developer as outlined above, but is not borrowing or obligating other taxes or tax base to the Project

Lookback on Construction Cost

Ehlers recommends, and the Developer has agreed to in concept, a lookback on Total Development Costs. Once the Project is completed, the Developer will submit all their costs and invoices to the City. If the Actual Total Development Cost is less than 95% of the Estimated Total Development Cost, then the MRO principal will be reduced by 50% of the amount of the difference if the MRO is a present value MRO; if the MRO obligation is a gross pledge then the reduction will be dollar for dollar (which has the effect of a ~50% reduction in today's dollars). The 50% reduction is a method for the City and the Developer to share in the cost underruns.

Development Agreement

The recommendations contained in this memo are based on the most current information available. However, new information can become available during the drafting and final negotiations of a TIF/development agreement. As such, some details can change during that process.

Summary

Based on the review, the Development would not reasonably be expected to proceed without TIF assistance in the principal amount of $979,000. The assistance should be provided via a PayGo MRO with a lookback as detailed above.