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**To:** Patrick Brama, Economic Development Manager, Assistant City Administrator

**From:** Stacie Kvilvang and Jason Aarsvold, Ehlers

**Date:** May 27, 2015

**Subject:** Housing Assistance Policy Measures

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The City of Ramsey intends to update its Housing Assistance Policy to establish some parameters for financial participation. You requested that we provide some measures to consider for inclusion in the policy based on our observations from other city-assisted housing projects. Included in this memorandum is a summary of the possible measures that could be included in such a policy and **assumes that all projects are built on greenfield sites** (does not consider higher costs of redevelopment).

Since your policy distinguishes between affordable and market rate housing, the lists below are broken out that way. Some of the measures for these product types differ, while other may be the similar.

## Market Rate Housing

- **Cash-on-Cash Return (COC):** The most discernable way to determine need for assistance is through an analysis of the developer's proforma to ascertain if all the project costs and sources of funds are within industry standard. Once those are determined to be in line, the benchmark for all rental projects is for the developer to receive a maximum **10% COC** rate of return (return on equity invested). This measure provides some flexibility in that each project might require a different level of assistance (e.g. per unit) to achieve this level of return. On the other hand it does provide for a quantifiable cap as desired.
- **Internal Rate of Return (IRR):** The second test under this format is setting an IRR. This is the value of the annual cash received plus the value of the property when it is sold (net of closing costs and fees). The TIF and/or Development agreement will usually state that it is determined based upon the earlier of the actual sale and/or refinance date of 10 years. The typical range for an IRR is 15% to 20%. For purposes of your policy we would recommend an **IRR range of 16% to 18%**.
- **Per Unit Dollar Subsidy:** For most suburban markets, the average subsidy ranges from \$15,000 to \$25,000 per unit. This is what is required to build high quality, market rate multifamily housing that includes "country club" amenities such as a pool (indoor and outdoor), fitness facility, club house, etc. Funding can come from sources other than the City. We would recommend a cap of City funds at **\$10,000**

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**per unit if other public funding sources are being utilized** (policy should state that developer will maximize use of grants and other funding sources to the extent available). We recommend a cap of City funds at **\$15,000 to \$20,000 per unit if no other public funding sources are available**, knowing that it does not provide as much flexibility.

- **Maximum City participation:** Another way of capping assistance can be through a maximum percent of total development costs (TDC). We would recommend a cap of **5% of TDC, with other public participation** (This may work well for larger projects, but could be problematic for smaller projects). We recommend a cap of City funds at **10% of TDC if no other public funding sources are available**.

### **Affordable Housing Measures**

Most affordable housing is being built using either 4% or 9% tax credits. This model generates tax credit equity, but generally includes very little (if any) developer equity. For this reason, rate of return is not a useful measure. Other options include:

- **Limit TIF assistance:** Limit TIF to 15 years, rather than the full 26 allowed by law. Since most city involvement in these types of projects includes TIF, this can be useful. Rationale for this approach is:
  - Affordable housing projects within the Metropolitan Area are being constructed with this term of TIF
  - The duration of assistance is generally commensurate with the required affordability period for tax credit projects
  - There is clarity up front with the developer about what the city will do
  - The developer can structure other financing/grants around this
  - Exceptions can be made for extraordinary circumstances
- **Waiver of Fees:** Tax Credit projects typically request that a city waive certain fees such as park dedication, building permit and any city WAC fees and city SAC Fees (above what the Met Council charges. We recommend that the City include in its policy what fees it is willing to waive. Typically most cities' **WILL NOT** waive building permit fees. City's **MAY** waive park dedication fees if they view the development will not have an impact on parks (i.e. senior independent or senior assisted living). Also, some Cities have been willing to waive WAC fees and City SAC fees (dependent upon the liquidity of these enterprise funds).
- **Equity Requirement:** As noted, for the majority of the Tax Credit projects, the developer does not have any of their own cash in the deal (equity). The City may want to consider requiring that the developer have a minimum amount of equity so they have something at risk. We would recommend a **minimum of \$50,000 to \$100,000**.

- **Per Unit Dollar Subsidy:** Same as Market Rate
- **Maximum City participation:** Same as Market Rate

Overall, for any public assistance received (cash, TIF or tax abatement), we recommend that a lookback be completed when the project is stabilized (typically by year 3). This way we can review the actual costs of the project and actual revenues and to the extent they exceed the thresholds set for COC or IRR returns, then a portion of the assistance can be repaid (typically a 50/50 split between the developer and the City).

We will be happy to put together a matrix of projects within the Metropolitan Area that have been provided assistance for your review. Please contact Stacie at 6651-697-8506 with any questions.