

PSD LLC Project: Request for City Assistance
STAFF NOTES

(1) Can PSD LLC justify a financing gap actually exists?

PSD LLC completed a “subsidy application” via the City’s financial advisor Ehlers. This process was a \$7,000 cost for PSD LLC. The purpose of this application, and subsequently underwriting process is to get a third party professional’s opinion ([Ehlers website](#)). Attached to this case is a MEMO from Ehlers (executive summary of their review). In summary, Ehlers feels the requested \$500,000 is reasonable and justifiable.

(2) Is this request reasonable in comparison to other projects in the TC Metro?

Ehlers provided the City of Ramsey with an analysis of 16 other large scale, quality, apartment complexes recently completed in the Twin Cities area. In summary, City assistance ranged from 3%-12% or \$7,000-\$20,000 per unit. The requested PSD LLC assistance is \$500,000. At \$500,000, this breaks down to about \$4,100 per unit; or about 2.5% of project costs (assuming the estimated \$20M project cost provided by PSD LLC is accurate).

(3) Financially, does this request make sense for the City of Ramsey?

In comparison to other projects, Staff believes the proposed project (and request for assistance) results in a favorable pay-back period for the City. It is estimated \$500,000 could be paid back within four years in present value terms (4.0% discount rate); or about three and a half years in future value terms *with* tax increment financing (TIF). It is estimated, the proposed project would generate about \$224,000 in total property taxes annually; and about \$156,000 in NET TIF annually. The proposed project would result in about \$3.5M in NET TIF over the course of TIF District #14. This project will pay about \$1.3M in city development fees (including over \$300,000 to parks and trails).

(4) Does the City have reasonable funding source available for the requested assistance?

Several funding sources exist. The two that Staff believes are most reasonable include: tax increment financing (TIF) and the Anoka County Housing & Redevelopment Authority (ACHRA) account. TIF could be drawn from the City’s TIF District #14 (The COR TIF district). The ACHRA account has a balance of about \$1M.

(5) How does this compare to the City's Housing Assistance Policy?

This question has two answers:

QUALITATIVE POLICY

Attached to this case is a Staff MEMO, which outlines our review of the PSD LLC application. In summary, Staff believes the proposed project complies with the City’s housing assistance policy. Although the proposed project does not score highly, it’s score is competitive and reasonable considering the level of assistance requested.

FINANCIAL POLICY

From a financial perspective, the Council recently directed Staff to utilize a MEMO produced from Ehler's to evaluate housing assistance requests. In summary, the Ehler's MEMO suggested the City consider about a \$10,000 per unit, or about 10% of total development costs, as maximum thresholds. From this perspective, the proposed request appears to comply.

(6) Outside of question #3, how does this project help the City of Ramsey?

--This project establishes 122 new rooftops in The COR.

--This project complies with the City's current zoning standards; which are fairly high within The COR. This results in a quality project/ construction/ architecture.

--122 new roof tops will support several other City priorities including but not limited to: Northstar Rail usage, The Draw Park usage, traffic to existing local businesses, increased demand for new retail development, use of existing infrastructure, TIF District #14 increment that can be used to pay off City obligations, and an increased demand for the sale of City owned land.

--The City's real estate broker, CBRE, has indicated noticeable positive momentum is building in Ramsey, in terms of development (within the real estate market). This proposed PSD LLC development helps build/ sustain that momentum.

--As mentioned in question #3, this project results in the creation of significant tax base, and the payment of significant development fees.

(7) What happens if this project doesn't move forward now?

Only speculative answers exist. Examples include: the land sits vacant for X number of years until the market can justify a development, PSD LLC sells the land to another developer and they potentially ask for City assistance, PSD LLC decides to move forward with their proposed project now potentially with modifications (depending on the change, may require City approval), a different apartment complex is proposed on a different property within Ramsey by a different developer.

(8) Why wouldn't the City consider the assistance request?

Providing City assistance is an elective practice. Timing of the PSD LLC request is not normal (based on past City practice). Typically, the City would consider a request before land is secured, and entitlements are provided (i.e. before site plan and development agreement).

From a land use perspective, this project has been discussed in detail by the City's Planning Commission (and City Council). As the Council knows, the COR-1 Zoning District was amended from .75 to .65; which, subsequently allowed this development to proceed without complete first floor parking or structured parking. To be clear, the proposed development is legal and does meet current zoning standards. From a high level, land use in The COR is being further addressed through City's current process to re-evaluate The COR (vision and master plan).

If the Council moves forward with project assistance, Staff would strongly recommend performance requirements be included in the appropriate agreement; and be considered on a "pay-go" perspective only (e.g. require certain amenities/ architecture, timing and completion of construction, etc. before assistance is provided). This specific situation may also warrant the need to re-evaluate the City's policy for the sale of City owned land—to potentially require performance items in all purchase agreements (regardless if assistance is requested up front or not).

(9) What amenities does this project include?

The proposed apartment complex will feature tuck-under heated and secured parking on half of the first floor, quality entrance area (fire place, couches, chandeliers), high quality detached garages, a small park (including a playground), a community garden, a mix of 1-2-3 bedroom apartments, a full size workout facility, quality community grills/ patios/ seating, community room/ game room, and quality interior design (granite counter tops, granite window sills, wood blinds, vinyl plank wood floors, stainless steel appliances, quality solid-wood cabinetry design, full-size in-unit washer/ dryers, triple pane high energy efficiency windows, garbage chutes). The proposed project will front The Draw Park along Ramsey Parkway, and will comply with the City's zoning regulations (i.e. architecture).

PSD LLC has indicated a strong desire to not move away from the quality-design proposed for this project in order to save money upfront; and has communicated to Staff their desire to make this building a long-term quality project.

(10) Why not tell PSD LLC to simply add more equity to the project to fill the gap?

This alternative does exist. The City could tell PSD, no we will not participate, and you will need to add equity to the project to move forward. However, based on attached analysis from Ehlers, by not providing the requested assistance, this project will make a very low rate of return, in comparison to other projects (5.9% or less). It is very unlikely PSD LLC (or any developer) would invest in a project with said rate of return.

(11) How does the timing of this request work with construction/government regulations?

Due to the approaching winter, PSD LLC would like to move forward with this project as quickly as possible. Their goal is to get the foundation and footings in this fall; and continue working on the project through the winter.

Based on preliminary input from Ehlers, this project (like F&C) is classified as a housing project and is exempt from State Statute related to the required public hearing process for business subsidies (which can take 2-3 months). Therefore, Staff would fall back on the City's meeting schedule, and "housing assistance policy," to develop a timeline.

Remaining process (assuming the project went forward):

- ~~1. PSD LLC complete and submit a "housing assistance policy" application (09/07)~~
- ~~2. Ehlers underwrite project and develop recommendation, send to staff (09/11)~~
3. Ehlers present report/recommendation to EDA, special meeting—EDA provide feedback (09/17)
4. Ehlers present report/recommendation to CC—CC provide feedback (09/22)
5. PSD LLC begins construction (09/23) with a non-formal commitment from City; or waits for the formal commitment from the City (i.e. step 6 below)
6. If the Council decides to move forward, a formal "housing assistance" subsidy agreement would need to be negotiated, drafted, approved, and executed by the EDA (10/01 or 10/08) and by the City Council (10/13)

NOTE: this timeline is preliminary. Changes may occur; details need to be confirmed by various parties. PSD LLC will need to attain all needed permits before construction (i.e. building permit); which may delay the above timeline. By PSD moving forward with construction before step #6 is completed, they are taking on additional risk.