

FACT SHEET

PARKVIEW EAST SALE FROM PSD, LLC TO CURTIS CAPITAL

Several questions have arisen regarding the recent sale of Parkview East Apartments. Staff is been in contact with the new owners, Curtis Capital Group, and is now ready to provide the following updates.

1. With the PayGo plan and the completion of the project and now the sale of the property, what is the legal obligation to move this agreement to the new owner?

Language from the TIF Agreement states that This Note may be assigned only with the consent of the City which consent shall not be unreasonably withheld. In order to assign the Note, the assignee shall surrender the same to the City either in exchange for a new fully registered note or for transfer of this Note on the registration records for the Note maintained by the City. Each permitted assignee shall take this Note subject to the foregoing conditions and subject to all provisions stated or referenced herein.

2. What is the total tax increment income generated on this property?

See attached TIF Run. Payments on the TIF note are made from 85% of the tax increments received for this project. The City is able to keep 15% on new Increment for administration of the district and other costs within TIF District 14. Monies in the TIF district stay in the TIF district and don't go to the General Fund. See #3 for more detail as to the level of Increment that is actually being generated.

3. How much of the monies on this agreement have already been paid and what is the total remaining obligation to the developer?

The total Note is estimated at \$556,061, which includes Principal and Interest. \$65,261.98 has been paid to date, of which \$38,206.42 was applied to Principal. Generally speaking, the Note is anticipated to be paid off in 2022. Any increment received after the note is paid off would go toward eligible costs within TIF 14. The estimated value of the remaining increment after the Note is paid off is \$2.8 Million. TIF District 14 (COR) is estimated to terminate in 2040.

4. What monies thus far have gone into the general funding to benefit Ramsey taxpayers risk?

While no dollars from new taxes generated are directed to the General Fund, dollars do stay within the District that benefit many of the activities within the District. For example, the City is able to use 15% of the increment generated on administrative activities within the District, such as environmental review, infrastructure planning, shovel ready certification, a portion of Staff time to administer the District, land transaction closing fees, and other eligible activities. These dollars are then not needed to be utilized from the General Fund. Additionally, the additional increment not used in the TIF Note can be used for other eligible activities such as infrastructure (roads, utilities, grading, etc.).

5. What changes in services should the residents of this facility expect?

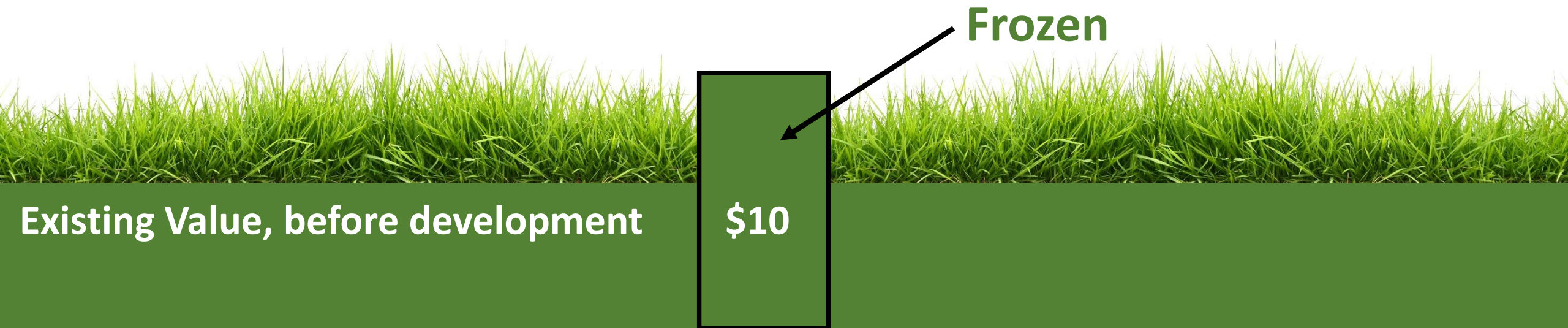
This is partially out of control of the City, but partially regulated. The City does require a Rental License for facilities such as this. Regulations also go on to state that a local management company must be provided within 75 miles of the facility. It is expected that this facility will have on site

management, although the management company may change. Staff has a meeting scheduled with Curtis Capital in February to flush through these details.

6. How can the City ensure that the quality of the building does not deteriorate?

The City does have a Property Maintenance Code in place to ensure that general maintenance is provided both exterior and interior. In addition, the City's Fire Department does regular inspections of these apartment buildings as well. Finally, if the quality of the facility deteriorated to the point of violating City Code, the City could potentially withhold payments on the TIF Note if the issue presented itself during the life of the TIF Note.

TIF?



TIF?

TOTAL TAXABLE VALUE

\$50

New Value, created by development

\$40



TIF

Frozen

Existing Value, before development

\$10



TIF?

TOTAL

\$50

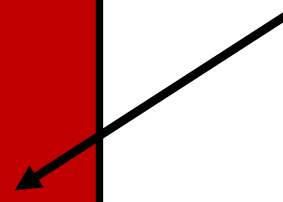
New Value, created by development

\$40



Additional items pulled out from **TIF**:

1. Fiscal disparities (40%)
2. State Taxes



Existing Value, before development

\$10



Development District #1

Exists to allow financing (TIF) for development projects

Existing TIF #14



LAKE ASCA

RAMSEY BLVD NW

SUNFISH LAKE BLVD NW
NORTHEND NW

VALLEY DR NW

7TH AVE NW

7TH AVE

MUNKER LAKE BLVD

MISSISSIPPI WEST
REGIONAL PARK

10

116

57

5

47

7

20

157TH AVE NW

10

169

131



PSD Apartments - No Inflation

City of Ramsey

122 Market Rate Apartments

ASSUMPTIONS AND RATES

DistrictType:	Redevelopment
District Name/Number:	COR 1-14
County District #:	V-7
First Year Construction or Inflation on Value	2016
Existing District - Specify No. Years Remaining	23
Inflation Rate - Every Year:	0.00%
Interest Rate:	4.00%
Present Value Date:	1-Aug-16
First Period Ending	1-Feb-17
Tax Year District was Certified:	Pay 2016
Cashflow Assumes First Tax Increment For Development:	2018
Years of Tax Increment	23
Assumes Last Year of Tax Increment	2040
Fiscal Disparities Election [Outside (A), Inside (B), or NA]	Inside(B)
Incremental or Total Fiscal Disparities	Incremental
Fiscal Disparities Contribution Ratio	38.5419% Pay 2015
Fiscal Disparities Metro-Wide Tax Rate	161.6250% Pay 2015
Maximum/Frozen Local Tax Rate:	110.413% Pay 2011
Current Local Tax Rate: (Use lesser of Current or Max.)	108.410% Pay 2015
State-wide Tax Rate (Comm./Ind. only used for total taxes)	50.8400% Pay 2015
Market Value Tax Rate (Used for total taxes)	0.21266% Pay 2015

Tax Rates		
Exempt Class Rate (Exempt)		0.00%
Commercial Industrial Preferred Class Rate (C/I Pref.)		
First \$150,000		1.50%
Over \$150,000		2.00%
Commercial Industrial Class Rate (C/I)		2.00%
Rental Housing Class Rate (Rental)		1.25%
Affordable Rental Housing Class Rate (Aff. Rental)		
First \$100,000		0.75%
Over \$100,000		0.25%
Non-Homestead Residential (Non-H Res. 1 Unit)		
First \$500,000		1.00%
Over \$500,000		1.25%
Homestead Residential Class Rate (Hmstd. Res.)		
First \$500,000		1.00%
Over \$500,000		1.25%
Agricultural Non-Homestead		1.00%

BASE VALUE INFORMATION (Original Tax Capacity)

Map #	PID	Owner	Address	Land Market Value	Building Market Value	Total Market Value	Percentage Of Value Used for District	Original Market Value	Tax Year Original Market Value	Property Tax Class	Current Original Tax Capacity	Class After Conversion	After Conversion Orig. Tax Cap.	Area/Phase
1	28-32-25-42-0017	PSD		\$ 2,104,300	0	2,104,300	33%	701,433	Pay 2016	Exempt	-	Rental	8,768	
				2,104,300	0	2,104,300		701,433			0		8,768	

Note:

1. Base values are for pay 2016 based upon review of County website on 9-1-15.
2. Base value of land is based upon 5 of the 15 acres (33%) of value



PSD Apartments - No Inflation
 City of Ramsey
 122 Market Rate Apartments

PROJECT INFORMATION (Project Tax Capacity)													
Area/Phase	New Use	Estimated Market Value Per Sq. Ft./Unit	Taxable Market Value Per Sq. Ft./Unit	Total Sq. Ft./Units	Total Taxable Market Value	Property Tax Class	Project Tax Capacity	Project Tax Capacity/Unit	Percentage Completed 2016	Percentage Completed 2017	Percentage Completed 2018	Percentage Completed 2019	First Year Full Taxes Payable
	Apt	118,198	118,198	121	14,301,958	Rental	178,774	1,477	75%	100%	100%	100%	2019
TOTAL					14,301,958		178,774						
Subtotal Residential				121	14,301,958		178,774						
Subtotal Commercial/Ind.				0	0		0						

Note:

1. Market values are based upon estimates from County Assessor on 9-10-15.

TAX CALCULATIONS									
New Use	Total Tax Capacity	Fiscal Disparities Tax Capacity	Local Tax Capacity	Local Property Taxes	Fiscal Disparities Taxes	State-wide Property Taxes	Market Value Taxes	Total Taxes	Taxes Per Sq. Ft./Unit
Apt	178,774	0	178,774	193,809	0	0	30,415	224,224	1,853.09
TOTAL	178,774	0	178,774	193,809	0	0	30,415	224,224	

Note:

1. Taxes and tax increment will vary significantly from year to year depending upon values, rates, state law, fiscal disparities and other factors which cannot be predicted.

WHAT IS EXCLUDED FROM TIF?	
Total Property Taxes	224,224
less State-wide Taxes	0
less Fiscal Disp. Adj.	0
less Market Value Taxes	(30,415)
less Base Value Taxes	(9,505)
Annual Gross TIF	184,304



Memo

To: Patrick Brahma – Economic Development Manager
From: Stacie Kvilvang - Ehlers
Date: September 17, 2015
Subject: Analysis of Request for Assistance - PSD Apartments

The City has received a proposal from PSD LLC to construct a 122-unit market rate rental project on land it purchased from the City in January of this year. The development is expected to commence construction this fall and be completed in 2016.

Due to increased costs in construction, the Developer is requesting \$500,000 in assistance from the City. This memo is intended to review the need for TIF assistance based on our analysis of the developer’s project budget and projections, generally known as a pro forma. This memo also includes a recommendation for an amount of assistance based upon this review.

Ehlers conducted a thorough review of the developer’s budget and operating pro forma to ensure all development costs, anticipated revenues, and expenditures were represented appropriately. The table below depicts the proposed sources and uses for the project.

SOURCES		
	Amount	Pct.
Developer Financing	14,165,515	75.00%
Developer Equity	4,721,838	25.00%
TOTAL SOURCES	18,887,353	100.00%

USES			
	Amount	% of Cost	Per Unit
Acquisition	1,339,252	7.09%	10,977
Construction	15,827,368	83.80%	129,733
Professional Services	542,923.00	2.87%	4,450
Financing Costs	902,810	4.78%	7,400
Developer Fee	275,000	1.46%	2,254
TOTAL USES	18,887,353	100%	154,814

Generally, this project meets the expectations of a multifamily housing development with regards to the financing structure, projected revenues, on-going operational costs and developer fee. Following are our findings with regards to the analysis completed for the development:

- Our analysis confirms the maximum supportable first mortgage the developer can secure for this project based on current underwriting criteria is \$14.165 million, assuming a 20 year loan at 4.0%. The developer is proposing to bring approximately \$4.7 million in equity, which is 25% of total project costs. This financing structure is in line with typical market rate projects.
- The total development costs for this project are approximately \$18.9 million, or \$154,814 per unit. Based on our experience with similar projects, we would expect total development costs to range between \$150,000 and \$200,000 per unit. This development is at the lower range, due primarily to the lack of underground parking which cannot be accommodated on the site due to high water table issues.
- The developer fee of \$275,000 is under two (2) percent of total development costs. For a project of this nature, we would expect to see a developer fee between 2% to 5%, so the fee is below typical industry standards.
- Land acquisition at \$10,977/unit is within the range of \$8,000 to \$12,000 we typically see. However, we are of the opinion that the market in Ramsey is closer to the \$8,000/unit.
- Proposed rents range between \$999 per month for a 1-bedroom unit, to \$1,625 for a 3-bedroom unit. The average rent is projected at \$1.33 per square foot. Typical market rate project rents range from \$1.50 to \$2.00 sq/ft, dependent upon location. Based upon the configuration of units (several 3-bedroom units) and area rents, we are of the opinion that the market for rents in Ramsey should be in the \$1.40 to \$1.50 range.
- The operating costs are projected at \$4,300/unit (The market range of operating costs is \$3,500 to \$4,500). The management costs are projected at 4.50% of effective gross income (EGI). We would expect to find management fees ranging between 3% and 5% of EGI. Based on our analysis and conversations with the developer, we conclude that the operating expenses may be a little high, primarily due to a higher maintenance budget and caretaker unit allowance.
- Vacancy is underwritten at 7%. Although this was typical several years ago, most lending institutions are allowing a 5% vacancy rate for underwriting purposes.
- Replacement reserves of \$287/unit are slightly below the *minimum* industry standards of \$300/unit. The developer is of the opinion this is sufficient to provide for future improvements and is an acceptable amount for their lender's underwriting criteria. Generally, we would prefer to see more reserves set aside for future viability.

- The projected cash-on-cash return (COC) on investment in year three (3) is 1.5% without assistance and 4.81% with assistance. This well below industry standards of 10%. Even with assistance, the cumulative COC return in year 15 is only 6.54%, which again is below industry standards.

Changes to the Proforma to Determine If Assistance Is Needed

Based upon our review, we reformatted the developer's proforma to adjust the following items to be in line with industry standard:

1. Land acquisition at \$8,000/unit
2. Increased rents to average of \$1.45 sq/ft (increased 1 & 2 bedroom units by \$100/month and 3 bedroom units by \$200/month)
3. Increased replacement reserves to \$300/unit
4. Reduced vacancy to 5%
5. Increased developer fee to \$565,000 (3%)

Based up these revisions, the developer's return in year 3 is still only 5.91%, which is below industry standard. If we add in the requested assistance, the return in year 3 goes to 9.21% with the cumulative return in year 15 at 11.50% (closer to industry standards).

Format of Assistance and Recommendations

Based on our review of the developer's pro forma and current market conditions, the proposed development may not reasonably be expected to occur solely through private investment within the reasonably near future. Due to the costs associated with constructing a market rate multifamily housing development, this project is feasible only through assistance, in part, from City contributions.

Our recommendation, however, is that the City provide the developer a pay-as-you-go note for \$500,000 at 4% interest, which is the interest rate on the developers first mortgage. The TIF note will be paid with 85% of the TIF generated by the project over the first 4 years. It should be noted that starting in year 5, 100% of the TIF generated (approximately \$184,000/year) will go to repay the City for its overall investment in the COR to date.

The developer has indicated that they are accepting of this proposal and are willing to move forward based upon the TIF assistance.

Please contact me at 651-697-8506 with any questions.

Why use TIF #14 as a funding source?

- TIF districts are a very common, and very powerful, economic development tool. TIF districts allow City's not only to capture their tax increment created in a project, TIF districts also allow Cities to capture County and School District tax increment as well. In summary, it's about 3x more powerful than only capturing the City's portion of local property taxes.
- TIF districts do not disrupt the current (or "base") property taxes. In other words, the taxes currently being received (before the proposed improvements) will remain for all effected jurisdictions.
- Tax increment, as proposed in this particular case, will not negatively affect the City's fiscal disparities calculation/ payment required form all other C./I. taxed properties in Ramsey—as fascial disparities will be paid for in this proposed project. In other words, this TIF district will not negatively affect fiscal disparities.
- In the case of the proposed PSD LLC project, 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.
- When TIF District #14 was originally created, project assistance was identified as an eligible use.

Why don't we use a different existing funding source?

- The City could use a handful of other, relatively unencumbered, funding sources for this project (i.e. EDA fund, EDA RLF, TIF #1, Anoka County HRA).
- Based on staff and consultant review, it is recommended the City keep the City's relatively unencumbered dollars for future development projects (i.e. Bunker Lake Boulevard, COR Improvements, Future Business Park, Highway 10 improvements, removing blighted properties, other project assistance requests, Shovel Ready certifications, etc.). Relatively unencumbered funding sources are a rare commodity for Cities. This is an opportunity to maximize/ capitalize on a powerful economic development tool (TIF).
- Staff would like to note, a TIF district is not the only/ or required funding source in this case. The Council does have the ability deviate from this strategy.