

MEMORANDUM

TO: Sean Sullivan, Economic Development Manager
 FROM: Jason Aarsvold - Ehlers
 DATE: June 30, 2021
 SUBJECT: Oppidan, Inc TIF Request

The City of Ramsey (the “City”) received a request for tax increment financing (TIF) assistance from Oppidan, Inc, (the “Developer”) to facilitate development of 3 industrial buildings totaling 405,300 sq. ft. located north of Bunker Lake Blvd. and west of Armstrong Blvd (PID# 20-32-25-43-0005). The Developer is requesting \$2.9 million in tax increment assistance to off-set the extraordinary construction costs given current market fluctuations. The proposed project qualifies for inclusion in an economic development TIF district, which has a nine-year maximum duration.

The purpose of this memorandum is 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 analysis is commonly referred to as the “but for” test, meaning the project would not occur on this site “but for” the public assistance being provided. Based on this analysis, we determined TIF assistance in the amount of \$1.172 million is warranted for the project as further described in the recommendations section below.

Pro Forma Analysis

Generally, this project meets the expectations of a flex industrial project with regards to project costs, financing, projected revenues, and return on investment. The proposed sources and uses of funds for the project are included below, followed by our findings relating to the analysis of the project:

Sources		
	Amount	Pct.
First Mortgage	30,877,947	72%
TIF Mortgage	1,172,000	3%
Equity	10,683,316	25%
TOTAL SOURCES	42,733,263	100%

Uses			
	Amount	Pct.	Per Sq. Ft.
Acquisition Costs	4,050,000	9.48%	9.99
Construction Costs	31,076,396	72.72%	76.68
Professional Services	3,824,068	8.95%	9.44
Financing Costs	1,792,553	4.19%	4.42
Developer Fee	1,500,000	3.51%	3.70
Cash Accounts	490,246	1.15%	1.21
TOTAL USES	42,733,263	100%	105.44

- The developer is proposing permanent financing (including the recommended TIF portion) for 75% of the project costs and will bring 25% in equity, or approximately \$10.68 million. This financing structure is in line with typical industrial projects.
- The total development costs for this project are approximately \$42.73 million, or \$105.44 per square foot. Based on our experience with similar projects, this is a bit higher than is typical, and being driven by the extraordinary construction costs and market fluctuations.
- For a project of this nature, we would expect to see a developer fee between 3% and 4% of total development costs. The developer's proposed fee is 3.51% of total development costs and is within an acceptable range.
- The proposed rents are assumed at a blended rate of \$6.33 per square foot (\$5.50/sq. ft. warehouse and \$11.00/sq. ft. office). This is based on assumed 15% office and 85% warehouse/production buildout. Because these are speculative buildings, the actual rents are unknown currently. The final rents will depend on the tenant's buildout. \$6.33 per square foot is a reasonable assumption in the market.

Recommendations

Based on current projections, the project cannot generate enough TIF in the nine-year life of the district to meet the developer's full request. The recommendation below balances the use of TIF for the project to meet the developer's return on investment expectations with the need for the City to complete necessary infrastructure improvements using TIF from the project.

Industrial developers are typically seeking a yield-on-cost return of between 6.5% and 7%. The yield on cost is calculated by dividing the project's net operating income by total development costs. Current projections show the Developer averaging 6.36% yield on cost over the next 10 years without any TIF assistance, which is below the desired threshold.

In order to support a market based return on investment for the project, and to preserve tax increment for other City infrastructure needs in the area, we recommend providing "pay-as-you-go" TIF assistance in an amount up to \$1,172,000. With "pay-as-you-go" TIF assistance, the City does not provide any funding up-front. Instead, the City enters into an agreement to provide tax increment payments that are generated solely from the project's actual increased property taxes. The Developer uses those future tax increment payments to obtain additional debt and/or support returns on investment. If the tax increment is insufficient to pay the TIF assistance in full, the City does not make up the shortfall.

This assistance would be payable from 60% of the tax increment received in the district over its nine-year life. With this assistance, the projected average yield on cost over the next 10 years increases to 6.72%, which is within a typical market range and not unduly enriching the project. The remaining 40% of increment would be available to the City for administration and to support construction of new infrastructure.