



How Much is Enough?

Limiting and Protecting Local Resources in Publicly
Financed Development Projects





Overview

- Why is a developer asking for assistance?
 - Why would a local government consider providing assistance?
 - Protecting Local Resources
 - Policy
 - Process
 - Pro Forma Analysis
 - **Project Examples**
-



Why is a Developer Asking for Assistance?

- **Don't ask, don't get**
 - Gap!
 - ✓ Insufficient cash flow to....
 - Support the level of debt needed to build the project and/or
 - Provide high enough investment returns to attract equity to build the project
 - ✓ Either insufficiency results in a financial gap
 - Why might there be a financial gap?
 - ✓ Unproven market, low market rents, and/or affordable rents
 - ✓ Extraordinary development costs
 - Land, Environmental remediation, Structured parking, Infrastructure
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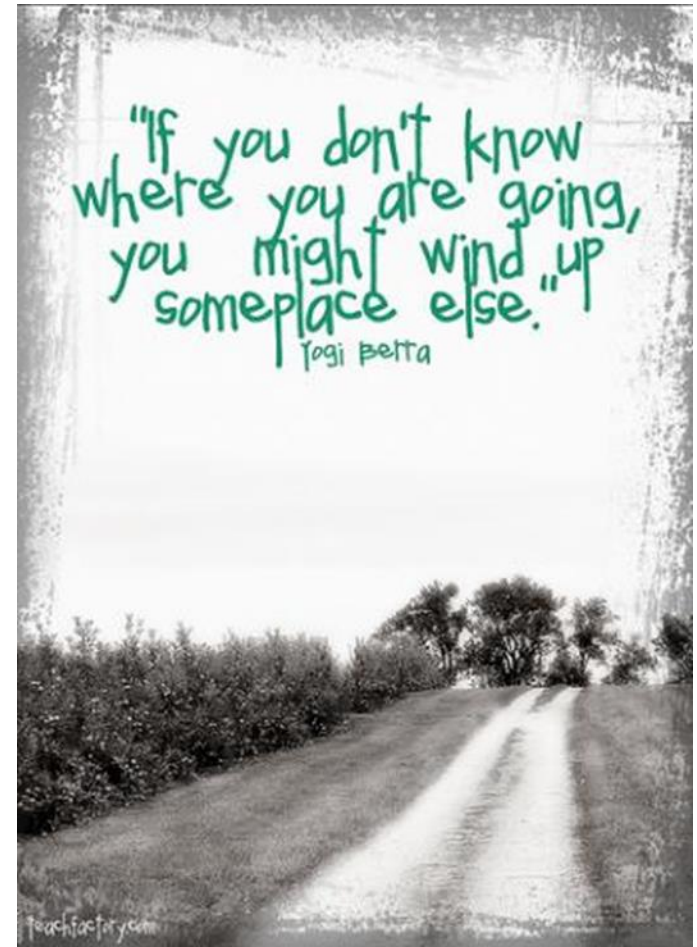
Why would a local government provide assistance?

- Fundamentally: You really, really want what the developer is proposing!!!
 - ✓ Existence of financial barriers preventing the private market from developing a site in accordance with your vision
- Public entities participate to overcome these barriers:
 - ☐ Change the market
 - ☐ Improve housing availability and choice
 - ☐ Improve quality of life
 - ☐ Job creation
 - ☐ Tax base growth and diversification
 - ☐ Redevelopment of blighted and polluted areas
 - ☐ Downtown revitalization

Protecting Local Resources

1. Establish an economic development / redevelopment plan

- ✓ Helps get staff and policymakers on the same page
- ✓ Provides the foundation for success
- ✓ Ensures you are prepared to act when opportunity arises – flexibility
- ✓ **Sets priorities**





Protecting Local Resources

2. Adopt public financing policy

- ✓ Communicates goals and parameters for providing public assistance
- ✓ **Establishes a process for reviewing requests for assistance (application)**
- ✓ Sets an expectation for an escrow account funded by the developer to evaluate the application





Key Questions in Public Financing Assistance

- Non-financial:
 - ✓ How does the project advance the community's goals?
 - ✓ What other projects are competing for funding (and attention)?
 - **Financial (“but for” test):**
 - ✓ Does the project have a financial gap?
 - ✓ If so, how big is the gap?
 - ✓ Does the community have the resources or desire to assist with some or all of the gap?
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City of La Crosse Economic Development Policy

- Economic Development Ordinance
 - Statement of purpose to address economic development challenges
 - Establishment of Economic Development Commission
 - Sets standards for assistance
- Determination of assistance eligibility

ELIGIBLE

- Business retention/expansion
- Mixed use developments
- Downtown office & retail
- Neighborhood stabilization/revitalization
- Removal of blight

INELIGIBLE

- Speculative office/retail
- Big box commercial
- Pirating of tenants
- Market rate multi-family



Determining Financial Need

- Minimum 15% equity required
- 20 yr. max payback
- TIF assistance should not exceed 10% of increase in improved property value
 - Special considerations for manufacturing, historic buildings or environmental abatement are allowed
 - Fairly unique to La Crosse
- Internal Rate of Return (IRR)
- 20% or more increase in taxable valuation
- Living Wage requirement



Determining Non-Financial Need

- Responsibility of development to prove community benefits
 - Public Benefit
 - Job and business attraction and retention
 - Redevelopment of underutilized properties
 - Enrollment in MTU Works program
 - Strengthen city's economic & employment base
 - Special Considerations
 - High quality building materials, standard of urban design
 - Demonstrate effort to attract employees to live within city limits
 - Protection of natural resources
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Answering the Financial Questions: Pro Forma Analysis

- Review developer's application and financial information (pro forma)
 - ✓ In depth analysis
 - ✓ Determine gap, if any
 - ✓ Maximize private sources of funding
 - ✓ Minimize public assistance needed to make a project financially feasible?
-

	Stabilized Year									
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Income	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Rental Income										
Gross potential	2,808,811	2,864,987	2,922,287	2,980,732	3,040,347	3,101,154	3,163,177	3,226,441	3,290,861	3,356,428
Less: Vacancy	(196,617)	(200,549)	(146,114)	(149,037)	(152,017)	(155,058)	(158,159)	(161,322)	(164,549)	(167,832)
Total Rental Income	2,612,194	2,664,438	2,776,172	2,831,696	2,888,330	2,946,096	3,005,018	3,065,119	3,126,312	3,188,596
Other Income										
Garage	952,272	971,317	990,744	1,010,559	1,030,770	1,051,385	1,072,413	1,093,861	1,115,728	1,137,999
Misc	36,509	36,509	36,509	36,509	36,509	36,509	36,509	36,509	36,509	36,509
Storage	28,800	28,800	28,800	28,800	28,800	28,800	28,800	28,800	28,800	28,800
Internet	33,596	33,596	33,596	33,596	33,596	33,596	33,596	33,596	33,596	33,596
Less: Vacancy	(66,659)	(67,992)	(69,352)	(50,528)	(51,538)	(52,569)	(53,621)	(54,693)	(55,784)	(56,895)
Total Other Income	984,518	1,002,230	1,020,297	1,058,936	1,078,136	1,097,721	1,117,697	1,138,073	1,158,843	1,179,999
Effective Gross income	3,596,712	3,666,668	3,796,469	3,890,632	3,966,466	4,043,817	4,122,716	4,203,192	4,285,155	4,368,595
Expenses	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Operating Expenses	2,277,235	2,333,168	2,403,163	2,475,258	2,549,515	2,626,001	2,704,781	2,785,924	2,869,411	2,955,248
Management Fees	205,443	211,606	217,954	224,493	231,228	238,165	245,310	252,669	260,241	268,028
Property Taxes (2% Inflation)	205,449	209,558	213,749	218,024	222,385	226,832	231,369	235,996	240,709	245,509
Reserves	17,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500
TOTAL EXPENSES	2,705,627	2,771,832	2,852,366	2,935,275	3,020,628	3,108,498	3,198,959	3,292,090	3,387,967	3,486,674
NET OPERATING INCOME	891,085	894,836	944,103	955,357	945,838	935,319	923,756	911,102	897,310	866,113
TIF PAYMENTS (0% inflation)	161,458	164,687	167,981	171,341	174,768	178,263	181,828	185,465	189,174	192,958
ADJUSTED NET OPERATING INCOME	1,052,543	1,059,523	1,112,084	1,126,697	1,120,606	1,113,582	1,105,584	1,096,567	1,086,484	866,113
Debt Service - Series A	628,763	628,763	628,763	628,763	628,763	628,763	628,763	628,763	628,763	628,763
Debt Service - Series B	125,650	125,650	125,650	125,650	125,650	125,650	125,650	125,650	125,650	0
CASH FLOW AFTER FINANCING	298,130	305,111	357,671	372,285	366,193	359,170	351,171	342,154	332,071	237,350
NET CASH TO DEVELOPER	298,130	305,111	357,671	372,285	366,193	359,170	351,171	342,154	332,071	237,350
RETURN ON INVES.-ANNUAL (WITH TIF)	14.56%	15.00%	17.46%	18.18%	17.88%	17.54%	17.15%	16.71%	16.21%	11.59%
RETURN ON INVES.-ANNUAL (WITHOUT TIF)	6.67%	6.86%	9.26%	9.81%	9.35%	8.83%	8.27%	7.65%	6.98%	11.59%
RETURN ON INVES.-AVERAGE (WITH TIF)	6.18%	6.36%	10.18%	11.51%	12.42%	13.06%	13.52%	13.83%	14.05%	13.99%
CASH ON COST (WITH TIF)	8.16%	8.22%	8.62%	8.74%	8.69%	8.64%	8.57%	8.50%	8.42%	6.72%
ANNUAL ON COST (WITHOUT TIF)	6.91%	6.94%	7.32%	7.41%	7.33%	7.25%	7.16%	7.06%	6.96%	6.72%
ANNUAL DEBT COVERAGE	139.52%	140.44%	147.41%	149.35%	148.54%	147.61%	146.55%	145.35%	144.02%	137.75%

Income				
	Monthly Rent	Units	Annual Revenue	Rent/ Sq/Ft
Studio - Memory Care Aff	\$877	4	\$42,096	365
Studio - Memory Care	\$4,200	11	\$554,400	425
Studio - Memory Care	\$4,200	6	\$302,400	450
1 bedroom - Affordable	\$877	10	\$105,240	603
Assisted Living	\$3,950	34	\$1,611,600	603
Independent Living	\$2,300	5	\$138,000	897
Total Rental Income	229,478	70	\$2,753,736	39,852
Other				
Service Package			\$933,600	
Storage			\$36,509	
Other			\$28,800	
Misc			\$33,596	
Total Other Income			\$1,032,505	
Gross Revenue			\$3,786,241	
Vacancy Loss - Units		7%	(\$258,113.52)	
Effective Gross Income			\$3,528,127	
Expense				
	Total		Per Unit	
Operating Costs				
Administrative	\$294,175		\$4,203	
Marketing	\$69,956		\$999	
Activities	\$104,038		\$1,486	
Assited Living	\$986,525		\$14,093	
Dietary	\$427,500		\$6,107	
Housekeeping	\$68,163		\$974	
Laundry	\$1,336		\$19	
Security	\$998		\$14	
Insurance	\$48,431		\$692	
Total Maintenance	\$330,050		\$4,715	
Total Operating	\$2,331,172		\$33,302	
Management and Other Costs				
Management Fees	\$179,836	5.10%	\$2,569	% of EGI
Property Taxes	\$201,421		\$2,877	
Reserves	\$17,500		250	
Total Expenses	\$2,729,929		\$38,998.98	
Net Operating Income	\$798,199			

Return on Cost
(NOI/TDC)

Debt Service
Coverage

Vacancy

Rents

Operating

Annual TIF

Return on equity



PROJECT EXAMPLES – OFFICE/WAREHOUSE



Northland Ind. – Brooklyn Park, MN

- **8.15** acre site
- **75,000** square foot office / warehouse
 - ✓ Primary Tenant:
NAPCO – defense contractor with over **50** employees
- TDC of approximately **\$5.686** million (**\$76 sq/ft**)





Northland Ind. – Brooklyn Park, MN

- **Challenge:** The cost to correct poor soil conditions on the property made development financially infeasible
- Scannell Properties identified a total project gap of **\$564,000** (based on bids for soil corrections)





Northland Ind. – Brooklyn Park, MN - Analysis

- Review of developer pro forma
 - ✓ Land costs
 - ✓ Construction costs
 - ✓ Lease rate
 - ✓ Proposed financing (debt, equity, rate, term)
 - ✓ Developer fee
 - ✓ Rate of return target (**8%** return on cost per developer)
 - **Substantiate extraordinary soil correction costs**
 - ✓ Review of bids from multiple third party contractors
-



SOURCES		
	With No Assistance	With Assistance
First Mortgage	4,264,496	3,926,996
City TIF Note	0	450,000
Developer Equity	1,421,499	1,308,999
TOTAL SOURCES	5,685,995	5,685,994
USES		
	With No Assistance	With Assistance
Acquisition Costs	240,451	240,451
Construction Costs	4,460,512	4,460,512
Professional Services	449,898	449,898
Financing Costs	316,490	316,490
Developer Fee	218,643	218,643
TOTAL USES	5,685,994	5,685,994
INCOME		
	With No Assistance	With Assistance
Rent - (75,000 sq. ft. @ \$4.85 / sq. ft.)	363,750	363,750
Annual TIF Income	0	68,355
NET OPERATING INCOME	363,750	432,105
Total Return on Cost - 8% Target	6.40%	7.60%



Northland Industrial – Brooklyn Park- Outcome

- Pro forma analysis supported **\$450,000** PAYGO Note over **9** years
- Construction commenced in 2018



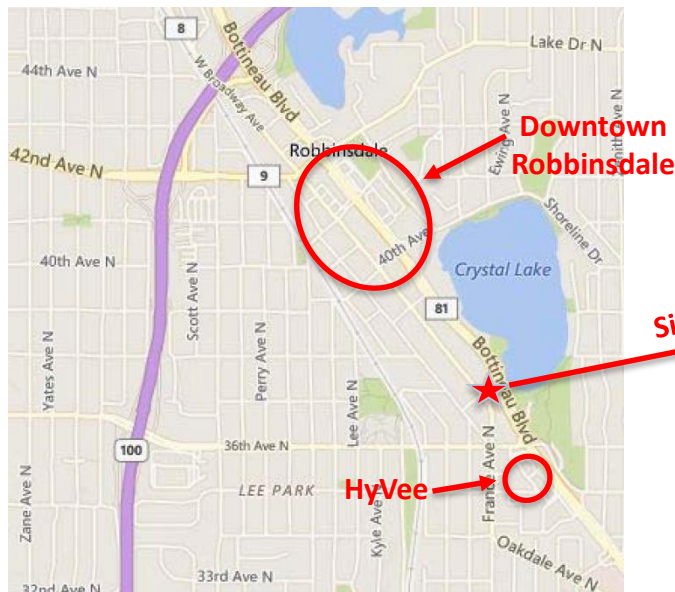


PROJECT EXAMPLES – MARKET RATE APARTMENTS



Bird Town Flats – Robbinsdale, MN

- **2.5** acre site
- **152**-unit market rate apartment
- Redevelopment of vacant and under-utilized parcels
- **\$29** million project cost (**\$196,000**/unit)





Bird Town Flats – Robbinsdale, MN

- Challenge:
Redevelopment; land assembly; market rents too low to support new construction
- Beard Group identified a gap of **\$4.5** million
- Qualifies as a redevelopment TIF District





Bird Town Flats – Robbinsdale, MN - Analysis



- Review of developer pro forma
 - ✓ Land assembly costs
 - ✓ Construction costs
 - ✓ **Market rents** – need to ensure projections are high enough
 - **Required review of detailed market study**
 - ✓ Proposed financing (debt, equity, rate, term)
 - ✓ Developer fee
 - ✓ Rate of return target



Bird Town Flats – Robbinsdale - Analysis

SOURCES						
	TIF Request	Pct.	Per Unit	Analysis	Pct.	Per Unit
First Mortgage	22,332,658	74.9%	146,925	22,332,658	74.9%	146,925
City TIF Note	4,500,000	15.1%	29,605	2,500,000	8.4%	16,447
Developer Equity	3,000,000	10.1%	19,737	4,141,600	13.9%	27,247
TOTAL SOURCES	29,832,658	100%	196,267	28,974,258	97%	190,620
USES						
	TIF Request	Pct.	Per Unit	Analysis	Pct.	Per Unit
Acquisition Costs	1,794,000	6.0%	11,803	1,794,000	6.2%	11,803
Construction Costs	22,415,400	75.1%	147,470	22,415,400	77.4%	147,470
Permits/Fees	907,029	3.0%	5,967	907,029	3.1%	5,967
Professional Services	1,539,560	5.2%	10,129	1,539,560	5.3%	10,129
Financing Costs	918,269	3.1%	6,041	918,269	3.2%	6,041
Developer Fee	2,258,400	7.6%	14,858	1,400,000	4.8%	9,211
TOTAL USES	29,832,658	100%	196,267	28,974,258	100%	190,620
RETURN ON INVESTMENT						
	Year 3		Year 15	Year 3		Year 15
Average Annual Cash on Cash	8.3%		14.0%	8.6%		11.5%
(Annual Cash Flow / Equity)						



Bird Town Flats – Robbinsdale, MN - Outcome

- **\$2.5 million**
PAYGO Note
over **15** years
- Construction
commenced in
2018





River Oaks Landing – Fergus Falls, MN

- **4.84** acre site
- Development of greenfield site
- **24**-unit market-rate senior rental housing (55+)
- **\$4.17** million project cost (**\$173,750**/unit)





River Oaks Landing – Fergus Falls, MN

- **Challenge:** City needed new rental housing choices
- Developers unable to make the numbers work
- City agreed to partner for new housing
- Goal: more housing choices for seniors – free up housing for the workforce

Financial Returns	No Assistance	
	Year 3	Year 10
Rents	412,154	473,436
Operating Expenses	(130,651)	(142,538)
Net Operating Income (NOI)	281,503	330,898
First Mortgage Debt Service	(240,802)	(240,802)
Net Income	40,701	90,096
Return on Equity	3.8%	8.4%

**Below
Market
Returns!**



River Oaks Landing – Fergus Falls Analysis

- Rents
 - ✓ **\$1.10**/ft projected rents (aggressive for the market)
 - Project development costs and operating expenses were reasonable for the market
 - Below market returns
 - Tax Abatement could be used for this project
-



River Oaks Landing – Fergus Falls Analysis

Financial Returns	No Assistance		With Assistance	
	Year 3	Year 10	Year 3	Year 10
Rent	412,154	473,436	412,154	473,436
Operating Expenses	(130,651)	(142,538)	(130,651)	(142,538)
Tax Abatement	0	0	18,065	18,065
Net Operating Income (NOI)	281,503	330,898	299,568	348,963
First Mortgage Debt Service	(240,802)	(240,802)	(240,802)	(240,802)
Net Income	40,701	90,096	58,766	108,161
Return on Equity	3.8%	8.4%	5.5%	10.1%



River Oaks Landing – Fergus Falls Outcome

- **\$175,000** PAYGO
Tax Abatement
Note for **15** years
- Developer
assumed partial
costs of a City trail
in exchange for **5**
more years
- Project is
complete and fully
occupied



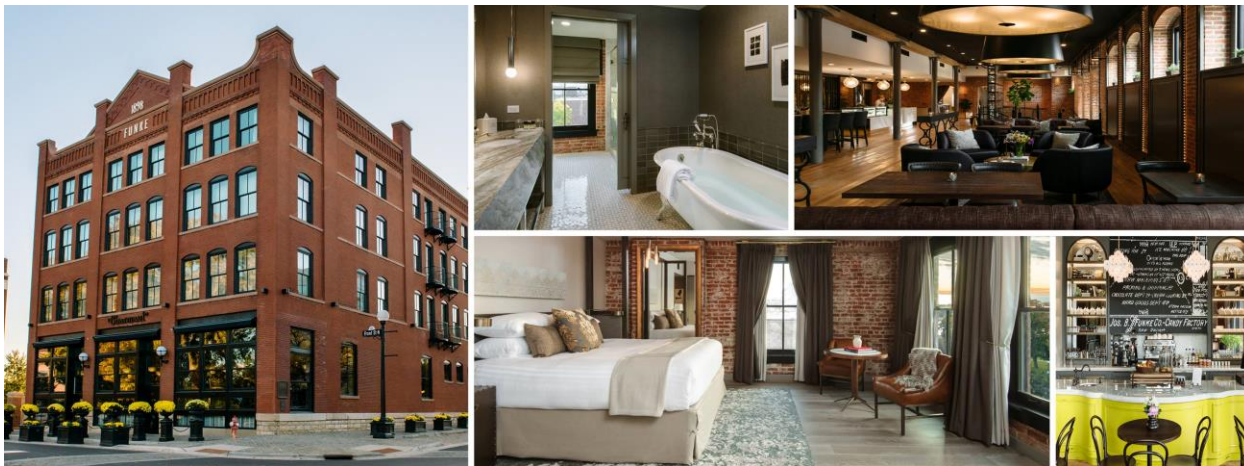


LA CROSSE PROJECT EXAMPLES – TIF PROJECTS



Charmant Hotel, 2015

- **Challenge:** Historic redevelopment – built in 1898 – former candy shop-turned-furniture warehouse
- **4-story, 67-room** award-winning luxury boutique hotel with a full restaurant, bar, and rooftop patio
- **\$26M** project cost – **\$750,000** in PAYGO TIF
- 2014 value: \$405,800 vs. 2019 value: \$9,214,800





Charmant Hotel – 2015





Doerflinger's Building (Duluth Trading Company), 2016

- Redeveloped building with first floor retail tenant
- **Challenge:** Historic building renovation – originally built in 1904 as Doerflinger's Department Store
- **\$1.85M** project cost
- **\$192,810** in City funding
 - **\$98,810** TIF grant
 - **\$94,000** loan
- 2016 value: \$1,817,500 vs. 2019 value: \$2,407,600





Doerflinger's Building (Duluth Trading Company), 2016





2219 Lofts, 2016

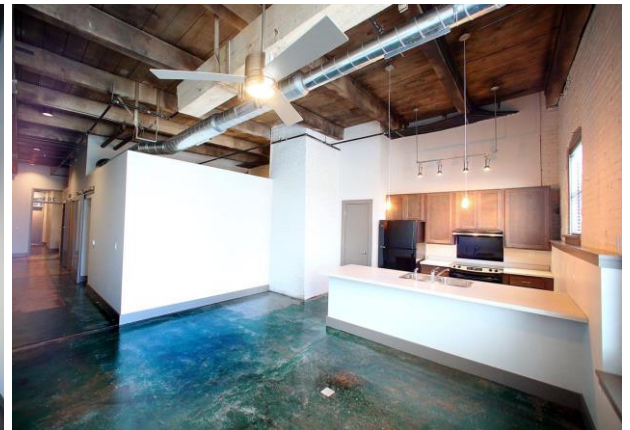
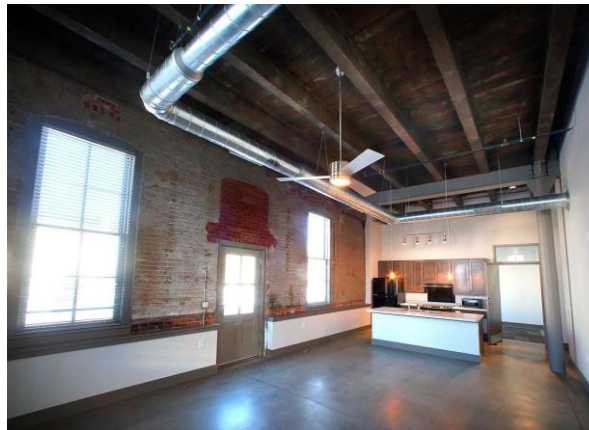
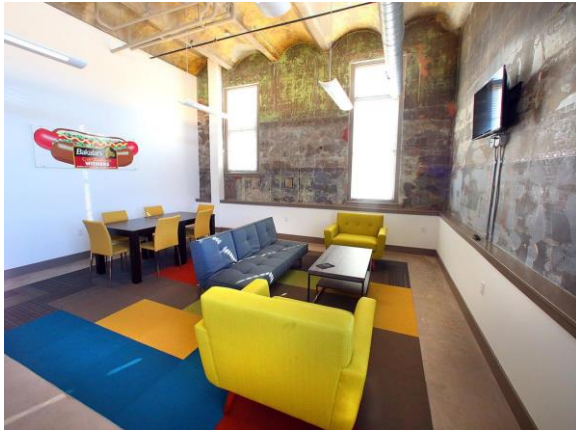
- **1.31** acre site
- **Challenge:** Tornado-damaged historic building – built in 1903 – formerly part of Gund Brewery, National Guard Armory, Bakalars Sausage Company, LIHTC
- **24** low-income apartment units
- **\$3.54M** project cost
- **\$666,000** City funding
 - **\$500,000** City CBDG/HOME loan
 - **\$166,000** PAYGO TIF
- 2016 value: \$358,800 vs. 2019 value: \$881,500





2219 Lofts – Opened January 2017

Before: Tornado-damaged roof and corner structures





The Hub on 6th, 2018

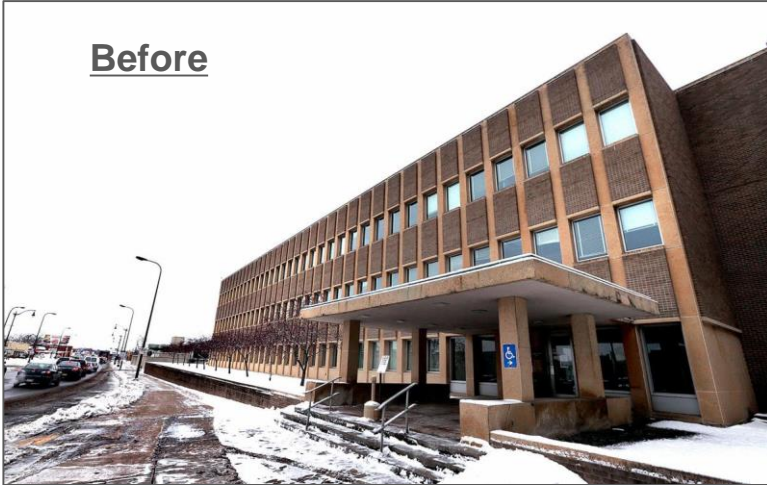
- **1.64** acre site
- **Challenge:** Redeveloped Former La Crosse County Administrative Building – 1960s Brutalist architecture, asbestos remediation
- **95** apartment units for rent
- **18** 4th floor condos for purchase
- **\$15M** project cost
- **\$1.7M** City funding
 - **\$1.2M** TIF grant
 - **\$500,000** TIF loan – repaid with condo sales





The Hub on 6th, 2018

Before





DuraTech Industries, 2018

- **6** acre lot
- **Challenges:** Industrial/manufacturing building expansion
– 47,000 SF – job creation requirement – 41 jobs
- **\$7.5M** project cost
- City funding:
 - **\$275,000** TIF PAYGO grant
 - Industrial Revenue Bonds





DuraTech Industries, 2018





Garden Terrace Apartments, 2019

- **1.9** acre site
- **Challenge:** Floodplain elevation, LIHTC project
- **50**-unit, mixed-income apartments and a 2,000 SF community center with attached greenhouse
- **\$7.8M** project cost
- City contributions:
 - **\$180,000** TIF grant
 - **\$700,000** CDBG loan
 - Donation of City property/land swap





Garden Terrace Apartments, 2019





Final Thoughts

- Just because a developer asks for assistance doesn't mean they **NEED** it
 - **ALWAYS** have an analysis done to determine need
 - Negotiation isn't for the **FAINT** of heart
 - **RELY** on your experts to assist in negotiations (they can be the bad guys AND give you political cover)
 - Every project is truly **DIFFERENT**
 - Affordable housing will **ALWAYS** need some assistance
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