Mayor
John T. Keis

Council Members
Tom Fischer
Michael McGraw
Christian Torkelson
Teresa Miller

515 Little Canada Road East
Little Canada, MN 55117
www.littlecanadamn.org

City Administrator
Chris Heineman

Workshop Meeting of the Little Canada City Council
Wednesday, April 27, 2022
6:00 p.m.
City Center Conference Room

A G E N D A

1. CALL TO ORDER - Workshop Meeting - 6:00 P.m.
2. Roll Call
3. Workshop Topics
   A. Proposed Housing TIF District For Twin Lake Development Project

      Documents:

      2022 TWIN LAKE BLVD TIF WORKSHOP MEMO AND ANALYSIS.PDF
4. Adjourn

This agenda is subject to change by additions and deletions.

STAFF REPORT

TO: Mayor Keis and Members of the City Council

FROM: Chris Heineman, City Administrator
Corrin Wendell, Community Development Director

DATE: April 27, 2022

RE: Preliminary Financial Needs Analysis and Revenue Projections for proposed Tax Increment Financing Housing (TIF) District (Twin Lakes Apartments)

BACKGROUND

The City of Little Canada has received an application for financial assistance through Tax Increment Financing (TIF) to assist with financing a portion of the extraordinary development costs related to the construction of a new 60-unit multifamily workforce housing project. City staff is working with Mikaela Huot from Baker Tilly Municipal Advisors to evaluate the level of financial assistance required. Staff has also met with the developer, Paul Keenan, of Reuter Walton on several occasions to review the TIF application and requested assistance, the bond financing, and the proposed project timeline.

The purpose of this workshop is to explain the justification for financial assistance, review the developer's request for TIF assistance, and provide an overview of the proposed project financing. Mikaela Huot will also explain two potential options to provide assistance, including the creation of a new Housing Tax Increment Finance District or utilize Temporary Spending Authority for unobligated tax increment as authorized by the Minnesota Legislature in 2021.

The attached memo from Mikaela Huot provides a summary of the developer's request for assistance. According to her analysis, the developer has demonstrated that there is a clear financial gap and that the project costs cannot be supported solely by the project alone. Mikaela Huot will be in attendance at the workshop to provide additional details and answer questions.

Memo – Draft for Review

To:	Members of the City Council of the City of Little Canada Chris Heineman, City Administrator Corrin Wendell, Community Development Director
From:	Mikaela Huot, Director
Date:	April 27, 2022
Subject:	Preliminary Financial Needs Analysis and Revenue Projections for proposed Tax Increment Financing Housing (TIF) District (Twin Lakes Apartments)

Background
The City of Little Canada has received an application for financial assistance through Tax Increment Financing (TIF) to assist with financing a portion of the extraordinary development costs related to the construction of a new 60-unit multifamily affordable housing project comprising of 1, 2 and 3-bedroom units with income and rent limits restricted to 60% area median income (54 units) and 30% area median income (6 units). The total development cost of the project is approximately $19 million and will be financed with a combination of debt financing (supported by project cash flow and tax increment revenues), tax credits, deferred developer fee and Ramsey County grant funding.

Developer Request for Assistance
The developer has identified a financial gap of $1,000,000 and has requested assistance from the City to fill that gap. Tax increment revenues through the establishment of a Tax Increment Financing Housing District is a tool that could assist to close the financial gap. The project costs that cannot be supported solely by the project alone typically justify the need for public financial assistance as it would allow the project to proceed as proposed with reduced rents and to provide appropriate funding sources for financing of the extraordinary project costs. The developer has indicated in discussions with City staff that the receipt of City financial assistance is necessary for the project to proceed based on current financing limitations.

The total development costs from the developer's financial materials is illustrated in the table below.

Sources	Amount	Uses	Amount
Debt	$8,165,000	Acquisition	$240,000
Equity (Tax Credits)	$7,794,854	Construction	$13,656,631
Ramsey County	$1,500,000	Professional Fees	$1,138,636
TIF	$1,000,000	Developer Fee	$2,280,000
Deferred Developer Fee	$466,826	Syndicator Fees	$45,000
NOI During Construction	$121,678	Financing Costs	$1,388,510
		Reserves	$299,581
Total	$19,048,358	Total	$19,048,358

Tax increment financing has been identified as a tool that would be provided as pay-as-you-go, meaning as reimbursement for eligible costs, and would not be an upfront funding source. The developer will use traditional affordable housing funding sources including tax credit equity and debt to finance initial project costs

Project Financing

There are generally two ways in which assistance can be provided for most projects, either upfront or on a pay-as-you-go basis. With upfront financing, the City would finance a portion of the developer's initial project costs through the issuance of bonds or as an internal loan. Future tax increment would be collected by the City and used to pay debt service on the bonds or repayment of the internal loan. With pay-as-you-go financing, the developer would finance all project costs upfront and would be reimbursed over time for a portion of those costs as revenues are available.

Pay-as-you-go-financing is generally more acceptable than upfront financing for the City because it shifts the risk for repayment to the developer. If tax increment revenues are less than originally projected, the developer receives less and therefore bears the risk of not being reimbursed the full amount of their financing. However, in some cases pay as you go financing may not be financially feasible. With bonds, the City would still need to make debt service payments and would have to use other sources to fill any shortfall of tax increment revenues. With internal financing, the City reimburses the loan with future revenue collections and may risk not repaying itself in full if tax increment revenues are not sufficient. The project financing as requested includes pay-as-you-go for reimbursement of eligible costs.

Tax Increment Revenue Assumptions

To estimate the amount of available TIF revenues generated by the proposed project, certain assumptions were made based on the value of the project, construction schedule, and anticipated financing terms.

- Total existing value of $294,000
  - Parcel ID: 313022310002
  - Base value as of Jan. 1, 2021
  - Original net tax capacity (ONTC) of $2,205
  - Assuming reclassification as residential rental low-income 4d
    - 0.75% first $100,000 and .25% value above $100,000
- Estimated total market value upon completion
  - Estimated $200,00/unit
  - 60 total units
  - $12,000,000 total taxable value
- Incremental value based on difference between existing and new land/building value
- Construction commences in 2022 and is completed in 2023
  - Project values 100% complete for assess 2024 and taxes payable 2025
  - Delay first increment until payable 2025
- Net present value (discount) rate of 4.5%
- 2.5% annual market value inflation

Preliminary Revenue Projections	
Existing Base Land Value	$294,000
Estimated Total Taxable Value	$12,000,000
Estimated annual available increment (full buildout)	$68,815
Total gross tax increment (26 years)	$2,146,816
City retainage (10%)	$214,684
Net amount available for development (90%)	$1,932,132
Estimated Present Value Revenues (26 Years) at 4%	$1,020,328

Developer Pro forma Analysis including But-For

Upon approval of a TIF district and project, the City must make several findings, including the “but for” test: that the proposed development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future. The developer has stated that but for the provision of tax increment financing, the project as proposed would not occur. The developer has provided financial information including total sources and uses of funds and 15-year operating cash flow proforma demonstrating a financial gap of approximately $1,000,000 gap due to reduced rents of the project at both 60% area median income (54 units) and 30% area median income (6 units). The reduced operating revenues resulting from the restricted rents limits the ability of the project to support the total development costs with existing sources of revenue.

Based on the developer’s stated position relative to the need for tax increment financing assistance, the City could make its “but for” finding and provide tax increment assistance. We recommend, however, that the City review the provided assumptions to consider if the project meets the but-for test and, if so, what an appropriate level and type of TIF assistance may be based on the information submitted by the developer. Following thorough evaluation of the project as provided allows the City to be prepared to make an informed “but-for” decision based on the likelihood of the project needing assistance, as well as the appropriate level of assistance. As stated previously, the developer’s request for financial assistance of $1,000,000. Based on current revenue projections, it would the entire term of a new housing TIF District to support repayment.

To complete the but-for analysis, we reviewed the developer’s total sources and uses of funds and 15-year operating proforma, showing a result if the developer received the assistance as pay-as-you-go (reimbursement for TIF eligible costs) and showing a result if the developer did not receive assistance. Our analysis of the proformas included a review of the development budget, projected operating revenues and expenditures, and the project’s capacity to support annual debt service payments. The purpose of evaluating the operating proformas is to understand the potential cash flow performance to assist with making the determination that 1) tax increment assistance is necessary and 2) an appropriate level of assistance will be provided.

An additional measure of project need and financial feasibility is the Debt Coverage Ratio (DCR), which is a calculation detailing the ratio by which operating income exceeds the debt-service payments for the project. If the DCR is greater than 1.0 it indicates the project has operating income that is greater than the debt-service payment by some margin; conversely if the DCR is less than 1.0 it indicates the project is incapable of meeting its debt-service payment and would need to seek additional revenue sources in order to pay its debt. Typical lending standards will require a DCR of greater than 1.0 as a measure of cushion in the event actual revenues and expenses are different than projected.

The amount of debt financing available for the project is based on net operating income (NOI), which is lease revenues less operating expenses. Due to the reduced revenues generated by the affordable housing units (6 30%-units), the annual cash flow of the project will be limited and requires additional funding sources beyond the traditional debt and equity as debt repayment is based on payments to be made to the lender with available cash flow. Public funding including tax increment revenues from the City and other public agencies (grants) provides the additional sources required to close the financial gap resulting from the reduced project revenues.

Thank you for the opportunity to be of assistance to the City of Little Canada. We will be prepared to discuss the financial analysis and project financing components at the City Council Workshop scheduled for April 27. Please contact me at 651.368.2533 or Mikaela.huot@bakertily.com with any questions or comments.

Projected Tax Increment Report

City of Little Canada, Minnesota
Tax Increment Financing (Housing) District
Twin Lakes Apartments: Reuter Walton Housing project
Preliminary Revenue Projections: 60 Units valued at $200,000/unit for $12M

Annual Period Ending (1)	Total Market Value [(1)] (2)	Total Net Tax Capacity [(2)] (3)	Less: Original Net Tax Capacity [(3)] (4)	Retained Captured Net Tax Capacity (5)	Times: Tax Capacity Rate [(4)] (6)	Annual Gross Tax Increment (7)	Less: State Aud. Deduction 0.360% (8)	Subtotal Net Tax Increment (9)	Less: Admin. Retainage 10.00% (10)	Annual Net Revenue (11)	P.V. Annual Net Rev. To 08/01/23 4.50%
12/31/22	294,000	2,205	2,205	0	119.498%	0	0	0	0	0	0
12/31/23	294,000	2,205	2,205	0	119.498%	0	0	0	0	0	0
12/31/24	294,000	2,205	2,205	0	119.498%	0	0	0	0	0	0
12/31/25	12,000,000	60,000	2,205	57,795	119.498%	69,064	249	68,815	6,882	61,933	55,683
12/31/26	12,300,000	60,750	2,205	58,545	119.498%	69,960	252	69,708	6,971	62,737	53,977
12/31/27	12,607,500	61,519	2,205	59,314	119.498%	70,879	255	70,624	7,062	63,562	52,332
12/31/28	12,922,688	62,307	2,205	60,102	119.498%	71,820	259	71,561	7,156	64,405	50,743
12/31/29	13,245,755	63,114	2,205	60,909	119.498%	72,785	262	72,523	7,252	65,271	49,210
12/31/30	13,576,899	63,942	2,205	61,737	119.498%	73,775	266	73,509	7,351	66,158	47,731
12/31/31	13,916,321	64,791	2,205	62,586	119.498%	74,789	269	74,520	7,452	67,068	46,304
12/31/32	14,264,229	65,661	2,205	63,456	119.498%	75,828	273	75,555	7,556	67,999	44,925
12/31/33	14,620,835	66,552	2,205	64,347	119.498%	76,893	277	76,616	7,662	68,954	43,594
12/31/34	14,986,356	67,466	2,205	65,261	119.498%	77,985	281	77,704	7,770	69,934	42,310
12/31/35	15,361,015	68,403	2,205	66,198	119.498%	79,105	285	78,820	7,882	70,938	41,069
12/31/36	15,745,040	69,363	2,205	67,158	119.498%	80,252	289	79,963	7,996	71,967	39,871
12/31/37	16,138,666	70,347	2,205	68,142	119.498%	81,428	293	81,135	8,114	73,021	38,713
12/31/38	16,542,133	71,355	2,205	69,150	119.498%	82,633	297	82,336	8,234	74,102	37,594
12/31/39	16,955,686	72,389	2,205	70,184	119.498%	83,869	302	83,567	8,357	75,210	36,513
12/31/40	17,379,578	73,449	2,205	71,244	119.498%	85,135	306	84,829	8,483	76,346	35,469
12/31/41	17,814,067	74,535	2,205	72,330	119.498%	86,433	311	86,122	8,612	77,510	34,459
12/31/42	18,259,419	75,649	2,205	73,444	119.498%	87,764	316	87,448	8,745	78,703	33,482
12/31/43	18,715,905	76,790	2,205	74,585	119.498%	89,127	321	88,806	8,881	79,925	32,538
12/31/44	19,183,802	77,960	2,205	75,755	119.498%	90,525	326	90,199	9,020	81,179	31,625
12/31/45	19,663,397	79,158	2,205	76,953	119.498%	91,958	331	91,627	9,163	82,464	30,743
12/31/46	20,154,982	80,387	2,205	78,182	119.498%	93,426	336	93,090	9,309	83,781	29,889
12/31/47	20,658,857	81,647	2,205	79,442	119.498%	94,932	342	94,590	9,459	85,131	29,062
12/31/48	21,175,328	82,938	2,205	80,733	119.498%	96,475	347	96,128	9,613	86,515	28,263
12/31/49	21,704,711	84,262	2,205	82,057	119.498%	98,056	353	97,703	9,770	87,933	27,489
12/31/50	22,247,329	85,618	2,205	83,413	119.498%	99,677	359	99,318	9,932	89,386	26,740
						$2,154,573	$7,757	$2,146,816	$214,684	$1,932,132	$1,020,328

(1) Total estimated market value based on $200,000/housing unit
preliminary and subject to further review. Includes 2.5% annual market value inflator
(2) Total net tax capacity based on residential rental low income (4d) classification: 0.75% first $100,000 value and 0.25% value above $100,000
(3) Original net tax capacity based on 2021/2022 existing property value
(4) Total local combined tax rate available for proposed taxes payable 2022