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Development Incentives II: How To Measure Results

Using Cost Savings and Return Metrics to Ensure Assistance is Reasonable

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Why Should Incentives be Offered/Provided?

- **Communities want to:**
 - Remove Blight, Rehabilitate or Conserve Property
 - Encourage Higher Quality Economic Development,
 - Enhance Property Values & Be Competitive in the Market Place
 - Create Jobs
- **Developers and investors need to:**
 - Cover their Costs
 - Earn a *reasonable* profit for incurring process, construction, lease-up and interest rate risk
- **The “But For” Clause, per statute is Key**
 - Is there a Gap that needs to be filled to make the project happen, as proposed, and in the time frame expected?
- **Due Diligence is an Essential part of the Incentive Consideration Process – to validate the Gap before AND after project maturity.**



Now - a key provision in Development Agreements

- The deal is all but sealed...
- You've done your due diligence...
- You've agreed to the terms...
- You've validated the up front Gap and provided the assistance...



...How do you protect against giving too much?

- **By Incorporating a “Look Back” Provision in the Deal.**



“Lookback” Considerations

- Initial Underwriting and Approval
 - Municipal assistance was requested to satisfy “But/For”
 - Deal approved on best projections to allow reasonable returns
 - Set a cap on developer returns before revenue sharing
- Comparison of Actual Results to Initial Projections
 - Year 2: If construction cost savings are achieved, then larger amount of assistance was not merited – reduce current (grant/loan) or ongoing payments (PAYGO) to conform to actual need.
 - Year 10: If the Internal Rate of Return (IRR) at sale exceeds expected range, recoup portion of sales proceeds to adjust back to projected range



Step I. Project Costs – Is There a Funding Gap?

- Up Front Project Costs
 - Land / Site Cost
 - Building costs
 - Sitework, Infrastructure
 - Parking,
 - Impact Fees, Assessments
 - Contingency
- Funding sources
 - Debt
 - Equity, Deferred Development Fees
 - State Grants
 - Tax Credits – NMTC, LIHTC
 - Tax Increment Financing – Grant, Loan, PAYGO
- Sources of funds must equal the uses or costs



Project Budget/Determining Feasibility

When costs exceed sources, the project is said to have a “Gap”

- ➔ If the Gap can't be bridged, the project does not proceed
- ➔ Development Capital will go where it can earn competitive returns.
- ➔ Community may have to settle for lesser product.
- ➔ In some deals Gap may be too large to bridge.



When to Deliver the Assistance

- At Beginning of the Project (Grant or Loan)
 - City cash contributed up front
 - Highest Risk to Municipality
- Upon Project Occupancy
 - Developer short-term financed, payable upon milestones/completion
 - Developer / Bank Assumes Completion Risk.
- Throughout the Duration of the TID
 - Pay-As-you-Go (PAYGO)
 - TID Revenues Provided via Municipal Revenue Obligation (MRO)
 - Developer monetizes MRO
 - Transfers All Risk to Developer
- Question of who takes on the risk, when, or how it is shared



Evaluate Alternate Scenarios

- Evaluate developer assumptions, fees, and returns, compare to market standards
- Determine appropriate structure and level of assistance
 - Grant, PAYGO, combination
- Is projected assistance in compliance with community's policies and funding abilities
- How does proposed project affect the overall Tax Increment District (TID) cash flows and other Municipal financial obligations.



Project Budget – Initial Application

SOURCES		
	Amount	% of Cost
DEVELOPER MORTGAGE FINANCING	20,000,000	69.59%
MONETIZED TIF LOAN (PAYGO)	2,195,000	7.64%
DEVELOPER EQUITY	5,795,400	20.16%
GRANTS	750,000	2.61%
DEFERRED DEVELOPER FEE	0	0.00%
TOTAL SOURCES	28,740,400	

USES		
	Amount	% of Cost
LAND ACQUISITION COSTS	1,900,000	6.61%
CONSTRUCTION COSTS	23,000,000	80.03%
PROFESSIONAL SERVICES	1,870,000	6.51%
FINANCING COSTS	705,000	2.45%
REAL ESTATE TAXES	160,000	0.56%
DEVELOPER FEE (paid during construction)	1,105,400	3.85%
TOTAL USES	28,740,400	



Project - Due Diligence At Construction Completion

- Financing Provided
 - Construction loan commitment
 - Additional equity required
- Construction Hard Costs
 - AIA contract, schedule
 - Unfunded balances/Escrows
 - Actual costs incurred vs Allowances
- Professional services
 - Architects, Surveyors, Appraisers
- Cost Savings / Sharing?



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Why Perform Detailed Final Accounting?

- Why should you require a detailed final account?
 - Municipality is, in essence, an equity partner by providing economic assistance
 - You should verify the success and profitability of the project within parameters of authorized Development Agreement
 - Identify general accounting, human errors
 - Public Assistance amount to be reduced by Cost Savings
 - Transparency; fiduciary oversight of constituents' funds



Project Budget at Completion

- Confirm Project Scope and Impact on Cost Structure
 - Did Project change size, use, capital stack?
 - Bank loan, developer equity requirements impacted
 - Other sources: grants, subordinate financing utilized
- Cost Savings identified
 - Reduce/recapture final development incentive
 - Reduce total PAYGO participation
- How do Savings Affect Return Metrics?
 - Lower equity reduces investor preferred payments; OR
 - Lower PAYGO loan lessens debt service, increasing cash flows



Project Budget “Lookback” at Completion

SOURCES - \$500K reduction in PAYGO Participation, Equity		
	Amount	% of Cost
DEVELOPER MORTGAGE FINANCING	20,000,000	72.10%
MONETIZED TIF LOAN (PAYGO)	1,695,000	6.11%
DEVELOPER EQUITY	5,295,400	19.09%
GRANTS	750,000	2.70%
DEFERRED DEVELOPER FEE	0	0.00%
TOTAL SOURCES	27,740,400	

USES - \$1M Construction Cost Savings		
	Amount	% of Cost
LAND ACQUISITION COSTS	1,900,000	6.85%
CONSTRUCTION COSTS	22,000,000	79.31%
PROFESSIONAL SERVICES	1,870,000	6.74%
FINANCING COSTS	705,000	2.54%
REAL ESTATE TAXES	160,000	0.58%
DEVELOPER FEE (paid during construction)	1,105,400	3.98%
TOTAL USES	27,740,400	

In this example, project returns **increase** by 200 basis points with same loan amount



Construction Lookback – Initial Projection

City of Stellar WI - Stellar Apartments Multifamily

Sales Analysis

YEAR	2025	2026	2027	2028	2029
SALE ANALYSIS END OF YEAR	8	9	10	11	12
Net Operating Income End of Year	1,815,079	1,839,453	1,863,932	1,888,506	1,913,164
Divided By Cap Rate	6.75%	6.75%	6.75%	6.75%	6.75%
Gross Sale Price	26,890,057	27,251,163	27,613,812	27,977,865	28,343,174
DEVELOPER MORTGAGE FINANCING	15,830,103	15,195,476	14,531,696	13,837,421	13,111,251
MONETIZED TIF LOAN (PAYGO)	279,343	0	0	0	0
Net Sale Amount	10,780,611	12,055,686	13,082,116	14,140,444	15,231,924
Sales Expense	5.00%	(1,344,503)	(1,362,558)	(1,398,893)	(1,417,159)
Final Amount	9,436,108	10,693,128	11,701,426	12,741,551	13,814,765
IRR ANALYSIS END OF YEAR	8	9	10	11	12
Year	Sales Proceeds	Cash Flow	Cash Flow	Cash Flow	Cash Flow
Initial Investment		(5,795,400)	(5,795,400)	(5,795,400)	(5,795,400)
2018	0	29,396	29,396	29,396	29,396
2019	0	318,559	318,559	318,559	318,559
2020	0	350,110	350,110	350,110	350,110
2021	0	382,051	382,051	382,051	382,051
2022	0	414,383	414,383	414,383	414,383
2023	7,037,813	447,105	447,105	447,105	447,105
2024	8,218,149	480,218	480,218	480,218	480,218
2025	9,436,108	9,949,830	513,721	513,721	513,721
2026	10,693,128	0	11,525,410	832,282	832,282
2027	11,701,426	0	0	12,231,360	529,934
2028	12,741,551	0	0	0	13,296,059
2029	13,814,765	0	0	0	0
2030	14,922,385	0	0	0	14,393,931
2031	16,065,787	0	0	0	0
2032	17,246,411	0	0	0	0
Total		6,576,251	8,665,553	10,203,785	11,798,418
INTERNAL RATE OF RETURN		11.08%	12.05%	12.23%	12.33%
				12.33%	12.37%



Construction Lookback – Results with Cost Savings

City of Stellar WI - Stellar Apartments Multifamily - Post Completion Results - Cost Savings

Sales Analysis

YEAR	2025	2026	2027	2028	2029
SALE ANALYSIS END OF YEAR	8	9	10	11	12
Net Operating Income End of Year	1,815,079	1,839,453	1,863,932	1,888,506	1,913,164
Divided By Cap Rate	6.75%	6.75%	6.75%	6.75%	6.75%
Gross Sale Price	26,890,057	27,251,163	27,613,812	27,977,865	28,343,174
DEVELOPER MORTGAGE FINANCING	15,830,103	15,195,476	14,531,696	13,837,421	13,111,251
MONETIZED TIF LOAN (PAYGO)	215,711	0	0	0	0
Net Sale Amount	10,844,243	12,055,686	13,082,116	14,140,444	15,231,924
Sales Expense	5.00%	(1,344,503)	(1,362,558)	(1,380,691)	(1,398,893)
Final Amount	9,499,740	10,693,128	11,701,426	12,741,551	13,814,765
IRR ANALYSIS END OF YEAR	8	9	10	11	12
Year	Sales Proceeds	Cash Flow	Cash Flow	Cash Flow	Cash Flow
Initial Investment		(5,295,400)	(5,295,400)	(5,295,400)	(5,295,400)
2018	0	94,241	94,241	94,241	94,241
2019	0	383,403	383,403	383,403	383,403
2020	0	414,955	414,955	414,955	414,955
2021	0	446,896	446,896	446,896	446,896
2022	0	479,227	479,227	479,227	479,227
2023	7,222,227	511,949	511,949	511,949	511,949
2024	8,343,227	545,062	545,062	545,062	545,062
2025	9,499,740	10,078,306	578,566	578,566	578,566
2026	10,693,128	0	11,525,410	832,282	832,282
2027	11,701,426	0	0	12,231,360	529,934
2028	12,741,551	0	0	0	13,296,059
2029	13,814,765	0	0	0	0
2030	14,922,385	0	0	0	0
2031	16,065,787	0	0	0	0
2032	17,246,411	0	0	0	0
Total		7,658,639	9,684,309	11,222,541	12,817,174
INTERNAL RATE OF RETURN		13.55%	14.21%	14.22%	14.18%
				14.18%	14.11%



Step II. How Do We Measure Developer Profit?

Income-producing rental and commercial projects

- Cash on Cash (COC) Returns

- >> Example: Annual cash flow of \$10,000 divided by \$100,000 investment is 10% COC return
- >> Snapshot in time, average over investment period

- Internal Rate of Return (IRR)

- >> Annual COC plus net proceeds after sale of project
- >> Discounted cash flow over investment term plus sales proceeds, divided by initial investment
- >> Within reasonable market ranges



Rental Operating *Pro Forma* Review

- Net Operating Income
 - NOI = total revenues less operating expenses (before debt service, income taxes and depreciation)
- Operating Expenses
 - Includes marketing, administrative, payroll, utilities, insurance, maintenance & repair, carrying costs
 - Property Taxes - [review with assessor to affirm assessed values](#)
 - Management Fees as a percentage of Effective Gross Income
 - Replacement Reserves used to fund major repairs and improvements
- NOI divided by Cap Rate = Value



Rental *Pro Forma* – Initial Projection

City of Stellar WI - Stellar Apartments Multifamily

Income					
	Monthly Rent	Units	Annual Revenue	Sq/Ft	Rent/Sq/Ft
Rent - Residential					
Studio	\$1,100	24	\$316,800	550	\$2.00
1 bedroom	\$1,313	90	\$1,417,500	750	\$1.75
2 bedroom	\$1,650	56	\$1,108,800	1,100	\$1.50
Total Apartment Rental Income	236,925	170	\$2,843,100	142,300	\$1.66
				Rent/Unit	\$1,394
Other Residential Income					
Garage (incl in base rent)					
Storage					
Misc			\$30,000		
Total Other Residential Income			\$30,000		
Gross Revenue			\$2,873,100		
Apartment Vacancy Loss		5%	(\$143,655.00)		
Effective Gross Income			\$2,729,445		

Expense					
	Total			Per Unit or SF	
Residential Operating Costs					
Administrative	\$65,000			Unit	\$382
Total Utilities	\$254,000			Unit	\$1,494
Insurance	\$30,000			Unit	\$176
Total Maintenance	\$178,000			Unit	\$1,047
Management and Other Costs					
Management Fees	\$81,883	3.00%	% of EGI		\$482
Property Taxes	\$430,000				\$2,529
Reserves	\$42,500				\$250
Total Expenses	\$1,081,383				\$6,361
Net Operating Income	\$1,648,062		Operating Expense Ratio		39.62%



Operating Cash Flow – Initial Projection

ASSUMPTIONS	
Rental Revenue Inflation	2.00%
Other Income Inflation	2.00%
Inflation on Expenses	3.00%
Vacancy Rate - Residential	5.00%

City of Stellar WI - Stellar Apartments Multifamily

Stabilized Year

	2018	2019	2020	< >	2025	2026	2027	2028
	Year 1	Year 2	Year 3		Year 8	Year 9	Year 10	Year 11
Income								
Rental Income								
Gross potential	2,843,100	2,899,962	2,957,961		3,265,828	3,331,145	3,397,768	3,465,723
Total Rental Income	2,843,100	2,899,962	2,957,961		3,265,828	3,331,145	3,397,768	3,465,723
Misc Income	30,000	30,600	31,212		34,461	35,150	35,853	36,570
Total Gross Income	2,873,100	2,930,562	2,989,173		3,300,289	3,366,295	3,433,620	3,502,293
Residential Vacancy	(143,655)	(146,528)	(149,459)		(165,014)	(168,315)	(171,681)	(175,115)
Effective Gross income	2,729,445	2,784,034	2,839,715		3,135,274	3,197,980	3,261,939	3,327,178
Expenses								
Residential Operating Expenses	527,000	542,810	559,094		648,144	667,588	687,615	708,244
Management Fees	81,883	84,340	86,870		100,706	103,727	106,839	110,044
Property Taxes	430,000	442,900	456,187		528,846	544,711	561,052	577,884
Reserves	42,500	42,500	42,500		42,500	42,500	42,500	42,500
TOTAL EXPENSES	1,081,383	1,112,550	1,144,651		1,320,195	1,358,526	1,398,007	1,438,672
NET OPERATING INCOME	1,648,062	1,671,484	1,695,063		1,815,079	1,839,453	1,863,932	1,888,506
TIF PAYGO PAYMENTS (60% of Taxes)	0	265,740	273,712		317,307	326,827	0	0
ADJ NOI - CASH FLOW AVAIL. FOR DEBT SERVICE	1,648,062	1,937,224	1,968,775		2,132,386	2,166,280	1,863,932	1,888,506
DEVELOPER MORTGAGE FINANCING	1,333,998	1,333,998	1,333,998		1,333,998	1,333,998	1,333,998	1,333,998
MONETIZED TIF LOAN (PAYGO)	284,667	284,667	284,667		284,667	0	0	0
CASH FLOW AFTER FINANCING	29,396	318,559	350,110		513,721	832,282	529,934	554,508
NET CASH TO DEVELOPER	29,396	318,559	350,110		513,721	832,282	529,934	554,508
RETURN ON INVES.- CASH ON CASH (ANNUAL)	0.51%	5.50%	6.04%		8.86%	14.36%	9.14%	9.57%
ANNUAL DEBT COVERAGE	101.82%	119.68%	121.63%		131.74%	162.39%	139.73%	141.57%
ANNUAL DEBT COVERAGE W/O RESERVES	104.44%	122.31%	124.26%		134.36%	165.58%	142.91%	144.75%



Sales Analysis – Original Projection

City of Stellar WI - Stellar Apartments Multifamily

Sales Analysis

YEAR	2025	2026	2027	2028	2029
SALE ANALYSIS END OF YEAR	8	9	10	11	12
Net Operating Income End of Year	1,815,079	1,839,453	1,863,932	1,888,506	1,913,164
Divided By Cap Rate	6.75%	6.75%	6.75%	6.75%	6.75%
Gross Sale Price	26,890,057	27,251,163	27,613,812	27,977,865	28,343,174
DEVELOPER MORTGAGE FINANCING	15,830,103	15,195,476	14,531,696	13,837,421	13,111,251
MONETIZED TIF LOAN (PAYGO)	279,343	0	0	0	0
Net Sale Amount	10,780,611	12,055,686	13,082,116	14,140,444	15,231,924
Sales Expense	5.00%	(1,344,503)	(1,380,691)	(1,398,893)	(1,417,159)
Final Amount	9,436,108	10,693,128	11,701,426	12,741,551	13,814,765
IRR ANALYSIS END OF YEAR	8	9	10	11	12
Year	Sales Proceeds	Cash Flow	Cash Flow	Cash Flow	Cash Flow
Initial Investment		(5,795,400)	(5,795,400)	(5,795,400)	(5,795,400)
2018	0	29,396	29,396	29,396	29,396
2019	0	318,559	318,559	318,559	318,559
2020	0	350,110	350,110	350,110	350,110
2021	0	382,051	382,051	382,051	382,051
2022	0	414,383	414,383	414,383	414,383
2023	7,037,813	447,105	447,105	447,105	447,105
2024	8,218,149	480,218	480,218	480,218	480,218
2025	9,436,108	9,949,830	513,721	513,721	513,721
2026	10,693,128	0	11,525,410	832,282	832,282
2027	11,701,426	0	0	12,231,360	529,934
2028	12,741,551	0	0	0	13,296,059
2029	13,814,765	0	0	0	0
2030	14,922,385	0	0	0	0
2031	16,065,787	0	0	0	0
2032	17,246,411	0	0	0	0
Total		6,576,251	8,665,553	10,203,785	11,798,418
INTERNAL RATE OF RETURN		11.08%	12.05%	12.23%	12.33%
					12.37%



Investment Return Metrics – IRR, COC

- The **IRR** of an investment is the *discount rate* at which the *net present value* of cash outflows such as initial equity of the investment, equals the *net present value* of the inflows, including proceeds from project sale.
- **IRR** may also reflect project risk – a riskier project would warrant a higher return than a more “stable” investment such as US Treasuries, for example.
 - >> Typical range of 12 - 18% at stabilization/sale
- **Cash-On-Cash** may be used for longer term investments where a sale is not anticipated.
 - >> Typical range of 8 – 12% once stabilized



Rental *Pro Forma* – Rent Increase

City of Stellar WI - Stellar Apartments Multifamily - Post Completion Results - Increased Rent

Income					
	Monthly Rent	Units	Annual Revenue	Sq/Ft	Rent/Sq/Ft
Rent - Residential					
Studio	\$1,155	24	\$332,640	550	\$2.10
1 bedroom	\$1,378	90	\$1,488,375	750	\$1.84
2 bedroom	\$1,733	56	\$1,164,240	1,100	\$1.58
Total Apartment Rental Income	248,771	170	\$2,985,255	142,300	\$1.75
				Rent/Unit	\$1,463
Other Residential Income					
Garage (incl in base rent)					
Storage					
Misc			\$30,000		
Total Other Residential Income			\$30,000		
Gross Revenue			\$3,015,255		
Apartment Vacancy Loss	5%		(\$150,762.75)		
Effective Gross Income			\$2,864,492		
Achieved rental increase over initial projections	5%				
Expense					
	Total				Per Unit or SF
Residential Operating Costs					
Administrative	\$65,000			Unit	\$382
Total Utilities	\$254,000			Unit	\$1,494
Insurance	\$30,000			Unit	\$176
Total Maintenance	\$178,000			Unit	\$1,047
Management and Other Costs					
Management Fees	\$85,935	3.00%	% of EGI		\$505
Property Taxes	\$430,000				\$2,529
Reserves	\$42,500				\$250
Total Expenses	\$1,085,435				\$6,385
Net Operating Income	\$1,779,057			Operating Expense Ratio	37.89%
				Previous OpEx	39.62%



Operating Cash Flow – Increased Rents

ASSUMPTIONS		City of Stellar WI - Stellar Apartments Multifamily - Increased Rent						
Rental Revenue Inflation	2.00%	Stabilized Year						
Other Income Inflation	2.00%							
Inflation on Expenses	3.00%							
Vacancy Rate - Residential	5.00%							
	2018	2019	2020	<>	2025	2026	2027	2028
	Year 1	Year 2	Year 3		Year 8	Year 9	Year 10	Year 11
Income								
Rental Income								
Gross potential	2,985,255	3,044,960	3,105,859		3,429,120	3,497,702	3,567,656	3,639,009
Total Rental Income	2,985,255	3,044,960	3,105,859		3,429,120	3,497,702	3,567,656	3,639,009
Misc Income	30,000	30,600	31,212		34,461	35,150	35,853	36,570
Total Gross Income	3,015,255	3,075,560	3,137,071		3,463,580	3,532,852	3,603,509	3,675,579
Residential Vacancy	(150,763)	(153,778)	(156,854)		(173,179)	(176,643)	(180,175)	(183,779)
Effective Gross income	2,864,492	2,921,782	2,980,218		3,290,401	3,356,209	3,423,333	3,491,800
Expenses	Year 1	Year 2	Year 3		Year 8	Year 9	Year 10	Year 11
Residential Operating Expenses	527,000	542,810	559,094		648,144	667,588	687,615	708,244
Management Fees	85,935	88,513	91,168		105,689	108,860	112,125	115,489
Property Taxes	430,000	442,900	456,187		528,846	544,711	561,052	577,884
Reserves	42,500	42,500	42,500		42,500	42,500	42,500	42,500
TOTAL EXPENSES	1,085,435	1,116,723	1,148,949		1,325,178	1,363,659	1,403,293	1,444,117
NET OPERATING INCOME	1,779,057	1,805,059	1,831,268		1,965,223	1,992,551	2,020,040	2,047,683
TIF PAYGO PAYMENTS (60% of Taxes)	0	265,740	273,712		317,307	326,827	0	0
ADJ NOI - CASH FLOW AVAIL. FOR DEBT SERVICE	1,779,057	2,070,799	2,104,980		2,282,530	2,319,377	2,020,040	2,047,683
DEVELOPER MORTGAGE FINANCING	1,333,998	1,333,998	1,333,998		1,333,998	1,333,998	1,333,998	1,333,998
MONETIZED TIF LOAN (PAYGO)	284,667	284,667	284,667		284,667	0	0	0
CASH FLOW AFTER FINANCING	160,392	452,134	486,315		663,865	985,379	686,042	713,685
NET CASH TO DEVELOPER	160,392	452,134	486,315		663,865	985,379	686,042	713,685
RETURN ON INVES.- CASH ON CASH (ANNUAL)	2.77%	7.80%	8.39%		11.46%	17.00%	11.84%	12.31%
ANNUAL DEBT COVERAGE	109.91%	127.93%	130.04%		141.01%	173.87%	151.43%	153.50%
ANNUAL DEBT COVERAGE W/O RESERVES	112.53%	130.56%	132.67%		143.64%	177.05%	154.61%	156.69%



IRR – Actual Results with Increased Rents

Multifamily - Post Completion Results - Increased Rent

Sales Analysis

YEAR	2025	2026	2027	2028	2029
SALE ANALYSIS END OF YEAR	8	9	10	11	12
Net Operating Income End of Year	1,965,223	1,992,551	2,020,040	2,047,683	2,075,470
Divided By Cap Rate	6.75%	6.75%	6.75%	6.75%	6.75%
Gross Sale Price	29,114,415	29,519,269	29,926,520	30,336,044	30,747,710
DEVELOPER MORTGAGE FINANCING	15,830,103	15,195,476	14,531,696	13,837,421	13,111,251
MONETIZED TIF LOAN (PAYGO)	279,343	0	0	0	0
Net Sale Amount	13,004,969	14,323,792	15,394,824	16,498,623	17,636,459
Sales Expense	5.00%	(1,455,721)	(1,496,326)	(1,516,802)	(1,537,386)
Final Amount	11,549,248	12,847,829	13,898,498	14,981,821	16,099,074
IRR ANALYSIS END OF YEAR	8	9	10	11	12
Year	Sales Proceeds	Cash Flow	Cash Flow	Cash Flow	Cash Flow
Initial Investment		(5,795,400)	(5,795,400)	(5,795,400)	(5,795,400)
2018	0	160,392	160,392	160,392	160,392
2019	0	452,134	452,134	452,134	452,134
2020	0	486,315	486,315	486,315	486,315
2021	0	520,937	520,937	520,937	520,937
2022	0	556,002	556,002	556,002	556,002
2023	9,070,199	591,511	591,511	591,511	591,511
2024	10,290,521	627,465	627,465	627,465	627,465
2025	11,549,248	12,213,113	663,865	663,865	663,865
2026	12,847,829	0	13,833,208	985,379	985,379
2027	13,898,498	0	0	14,584,540	686,042
2028	14,981,821	0	0	0	15,695,506
2029	16,099,074	0	0	0	0
2030	17,251,591	0	0	0	0
2031	18,440,765	0	0	0	0
2032	19,668,051	0	0	0	0
Total		9,812,470	12,096,431	13,833,142	15,630,150
INTERNAL RATE OF RETURN		15.19%	15.58%	15.43%	15.26%

Previous IRR = 12.23%



Cost Sharing Over IRR Hurdle

Multifamily - Post Completion Results - Increased Rent					
Sales Analysis					
YEAR	2025	2026	2027		
SALE ANALYSIS END OF YEAR	Year 8	Year 9	Year 10		
Net Operating Income End of Year	1,965,223	1,992,551	2,020,040		
Divided By Cap Rate	6.75%	6.75%	6.75%		
Gross Sale Price	29,114,415	29,519,269	29,926,520		
DEVELOPER MORTGAGE FINANCING	15,830,103	15,195,476	14,531,696		
MONETIZED TIF LOAN (PAYGO)	279,343	0	0		
Minus Series C Debt	0	0	0		
Net Sale Amount	13,004,969	14,323,792	15,394,824		
Sales Expense	5.00% (1,455,721)	(1,475,963)	(1,496,326)		
Final Amount	11,549,248	12,847,829	13,898,498		
IRR ANALYSIS END OF YEAR	Year 8	Year 9	Year 10	Year 10	
Year	Sales Proceeds	Cash Flow	Cash Flow	Cash Flow	Dev Cash Flow
Initial Investment		(5,795,400)	(5,795,400)	(5,795,400)	(5,795,400)
2018	0	160,392	160,392	160,392	160,392
2019	0	452,134	452,134	452,134	452,134
2020	0	486,315	486,315	486,315	486,315
2021	0	520,937	520,937	520,937	520,937
2022	0	556,002	556,002	556,002	556,002
2023	9,070,199	591,511	591,511	591,511	591,511
2024	10,290,521	627,465	627,465	627,465	627,465
2025	11,549,248	12,213,113	663,865	663,865	663,865
2026	12,847,829	0	13,833,208	985,379	985,379
2027	13,898,498	0	0	14,584,540	12,334,540
Total		9,812,470	12,096,431	13,833,142	11,583,142
INTERNAL RATE OF RETURN		15.19%	15.58%	15.43%	14.00%
Year 10 Sales+NOI 14,584,540 (12,334,540) = \$2,250,000 (Excess Proceeds)					
IRR Differential Over 14.0% Threshold		IRR Differential Allocation:			
		Developer		60% = \$1,350,000	
		City		40% = \$ 900,000	
				50% = \$1,125,000	



The “Look Back” – The Key Provision in Development Agreements

- Verifies success of the project vs. original request and validates assistance provided
- Allows the community to share in the financial success of the project over an agreed-upon measure
- Provides third-party accountability to constituents, CDA, Council and Board
- At a minimum, inclusion of “Look Back” as a starting point provides leverage in negotiations



Components of a “Look Back” Provision

- Identify items to be reviewed as part of the Look Back
- What information will be required and from what source – verified construction costs, operating results
- Information provided before project sale/TID closure
- Examples on Look Back:
 - Construction Costs
 - Relocation
 - Loan Costs
 - Demolition/Site Costs
 - Carrying Costs
 - Rental Rates & Operating Expenses
- Compare resulting profitability (COC, IRR) vs. original



Final Concepts

- Development / redevelopment is a complicated process, with many moving parts
- Communities need to do their due diligence, as each project presents different considerations
- Need to understand the development process, or utilize consultants who are experts in their field
- If the sources of funds are available at a reasonable return, the project gets built. Without a reasonable return, projects will not move forward
- Development incentives are a powerful tool that can positively impact a community when properly vetted; goal is to ensure they're a reasonable and appropriate use of public funds





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