DRAFT MEMORANDUM

To: Dakota County Community Development Agency

From: Tammy Omdal, Managing Director
Jessica Green, Managing Director

Date: January 22, 2023

Re: Tax Increment Financing (TIF) Assistance for Housing Project in Rosemount

---

The Dakota County Community Development Agency (the "CDA") requested that Northland review the Application from Real Estate Equities, LLC (the "Developer") for TIF. In preparing this review, Northland relied on information included in the Application.

The Developer is requesting approximately $1.2 million in TIF payable over 15 years, with interest, among other forms of assistance, to assist with the financing of a 160-unit apartment building to be located near the intersection of County Hwy. 42 and County Road 73 in the City of Rosemount (the "Project"). Rental rates for all apartments will be available to people with incomes ranging from 50-70% of the area median income (AMI). The 2022 Median Family Income (2023 guidelines have yet been published) for Dakota County, as calculated by the U.S. Department of Housing and Urban Development, is $118,200. The parcel is approximately 4.49 acres.

The request is for the CDA to establish a housing TIF district to capture the increase in property taxes from the Project to assist with the financing of the affordable housing units. TIF assistance for a residential rental property requires that a minimum of either 20% of the units be leased to person at or below 50% of AMI, or 40% of the units be leased to persons at or below 60% of AMI. The project will meet the requirement as the Developer is proposing 69%, or 110 units, will be affordable to those at 60% or below of AMI.

Northland has reviewed the information submitted by the Developer based on general industry standards for land acquisition, construction costs, developer fees, operating expenses, and rental rates, among other items. We find the information provided to be within general industry standards. Exhibit A provides a preliminary source and use of funds for the $49.15 million Project.

OBSERVATIONS

It is Northland's observation that the Project, as proposed, is feasible only through assistance, in part from TIF. This observation may change if information about the Project changes. Financing

affordable housing projects takes multiple sources to achieve rents at affordable levels. Based on the Application, the Developer proposes to maximize public finance tools, including 4% Low-income Housing Tax Credits (LIHTC), HOPE Funds and TIF to assist with financing the Project. The Developer plans to seek tax-exempt bonding (first mortgage) to finance approximately 52% of the costs of the Project. In addition, the Developer will defer a portion of the developer fee. Subject to the estimated terms of assistance, we find that the Project, as proposed, would not be reasonably expected to occur solely through private investment within the reasonably near future.

Based on the pro forma developed by Northland, using information from the Developer and information we independently prepared, we estimate the TIF assistance could be limited to a duration of 15 years, subject to final terms of the first mortgage. Our opinion on duration may change based on new information from the Developer and changes to the assumptions. Our analysis assumes 1.0% annual inflation in taxable market value for the Project and preliminary 2023 tax rates.

We estimate the Project is feasible with approximately $760,000 in TIF assistance, based on a maximum term of 15 years and 5.00% interest rate. This assumes the CDA will provide 70% of the TIF collected to payment on a TIF revenue note issued to the Developer, with assistance provided on a "pay-go" basis payable solely from TIF. The CDA would retain TIF not payable to the Developer to pay administrative costs of the district (up to 10% of TIF) and to assist other affordable housing projects within Rosemount. The CDA would collect increment for the maximum duration of 26 years. Exhibit B provides estimated TIF cash flow.

Without assistance the Project will not achieve a cash-on-cost basis, net operating income divided by total development cost, of at least 5.0% (see Exhibit C). TIF is estimated to be necessary to achieve debt service coverage for the Project to be feasible. Developer compensation on these types of projects is typically the developer fee. It is common for a developer to defer a large portion of the developer fee to make the project work, as is proposed for the Project. The developer fee is paid out of cash flow, so the dollars are "at-risk" for the developer. We might typically expect the developer fee to be repaid within the first 15-years of the Project.

USE OF TIF

A decision to deny the use of TIF does not necessarily mean that there will be no future improvements on the site. A decision to approve may be made based on a finding that the Project, as proposed, would not be reasonably expected to occur solely through private investment within the reasonably near future. It does not mean that "no" development, housing or commercial, will occur on the site ever. While not a statutory required finding for a housing TIF district, the

preliminary analysis shows that an induced development will yield a net increase in taxable market value (approximately $40 million future value) for the site compared to the likely taxable market value (approximately $200,000 future value) without TIF.

SUMMARY

This memorandum was prepared to assist with evaluation of the request for assistance submitted by the Developer. The assumptions and estimated amounts provided in this memorandum and exhibits are subject to change. The key items to note from the memorandum are as follows:

- All 160 apartment units are proposed to be affordable with rents and income limits ranging from 50-70% of AMI. Income averaging of the HOPE units is proposed to allow for the Project to support additional debt with increased income. Income qualifications and rent requirements for the proposed public financing will be met. Exhibit D includes information on rent analysis as prepared by the Developer.
- The public finance tools proposed include tax exempt bonding, 4% LIHTC, HOPE Funds and TIF. The Developer has submitted application to the CDA for the bonds, LIHTC, HOPE Funds and is requesting the CDA to establish a housing TIF district.
- The Developer will defer a portion of the developer fee (approximately $2.9 million). The developer fee will be repaid from future cash flow, as available, from the project with interest. The repayment term is estimated to be within 15 years.
- Preliminary review suggests the Project, as proposed, is feasible only through assistance, in part from TIF. The TIF assistance is estimated at approximately $760,000, based on a 15-year maximum term with 5.00% rate.

Exhibit A

Dakota County Community Development Agency
Rosemount, MN
Amber Fields Apartment Project
160 Unit Residential Apartment Building
Developer Sources and Uses of Funds for Construction

	Total	% of Total	Per Unit
Sources of Funds (Permanent)			
First mortgage [1]	$25,550,000	52.0%	$159,688
First mortgage - taxabale	$4,720,000	9.6%	$29,500
HOPE Funds	$750,000	1.5%	$4,688
LIHTC Equity - 1st Installment (Closing)	$3,046,343	6.2%	$19,040
LIHTC Equity - 2nd Installment (Completion)	$9,139,028	18.6%	$57,119
LIHTC Equity - 3rd Installment (Stabilization)	$2,132,343	4.3%	$13,327
LIHTC Equity - 4th Installment (Stabilization)	$914,000	1.9%	$5,713
Deferred developer fee	$2,896,873	5.9%	$18,105
Total Sources of Funds	$49,148,587	100.0%	$307,179
Uses of Funds			
Acquisition	$2,400,000	4.88%	$15,000
Construction [3]	$34,440,000	70.07%	$215,250
Bridge financing costs	$142,092	0.29%	$888
Bond costs	$260,613	0.53%	$1,629
Soft costs (not including developer fee)	$2,660,011	5.41%	$16,625
Title and tax credit fees	$258,042	0.53%	$1,613
Other interest and reserves	$4,528,829	9.21%	$28,305
Developer fee payable at closing	$1,562,127	3.18%	$9,763
Deferred developer fee	$2,896,873	5.89%	$18,105
Total Uses of Funds	$49,148,587	100.00%	$307,179

Number of Units 160

Notes:

1/ Developer's application provides for 40 year term at 5.08% amortized over 40 years, with a 15-year amortization. First mortgage shown above is inclusive of TIF Note.

2/ Assistance is requested to support acquisition costs.

Exhibit B

Dakota County Community Development Agency
Rosemount, MN
Amber Fields Housing Project
Tax Increment Financing District No. 4-17 (Housing)
Projected Tax Increment Cash Flow

TIF District Year	Taxes Payable Year	Taxable Market Value (TMV) [1, 6]	Total Available TIF [8]	Total TIF Retained by CDA [7]	PV of Total TIF Retained by CDA [5, 7]	TIF to Developer	PV of TIF to Developer [5]
1	2026	31,200,000	113,220	33,966	30,362	79,254	68,911
2	2027	31,512,000	113,494	34,048	59,616	79,446	134,659
3	2028	31,827,120	113,771	34,131	87,802	79,640	197,393
4	2029	32,145,391	114,051	34,215	114,961	79,836	257,250
5	2030	32,466,845	114,333	34,300	141,129	80,033	314,364
6	2031	32,791,514	114,619	34,386	166,344	80,233	368,862
7	2032	33,119,429	114,907	34,472	190,641	80,435	420,864
8	2033	33,450,623	115,198	34,559	214,054	80,638	470,486
9	2034	33,785,129	115,493	34,648	236,615	80,845	517,838
10	2035	34,122,981	115,790	34,737	258,356	81,053	563,024
11	2036	34,464,210	116,090	34,827	279,306	81,263	606,144
12	2037	34,808,852	116,392	34,918	299,496	81,475	647,293
13	2038	35,156,941	116,698	35,010	318,953	81,689	686,562
14	2039	35,508,510	117,007	35,102	337,703	81,905	724,038
15	2040	35,863,595	117,319	35,196	355,774	82,123	759,804
16	2041	36,222,231	117,635	117,635	413,826		
17	2042	36,584,454	117,953	117,953	469,775		
18	2043	36,950,298	118,275	118,275	523,698		
19	2044	37,319,801	118,599	118,599	575,669		
20	2045	37,692,999	118,928	118,928	625,761		
21	2046	38,069,929	119,259	119,259	674,041		
22	2047	38,450,629	119,594	119,594	720,577		
23	2048	38,835,135	119,932	119,932	765,432		
24	2049	39,223,486	120,273	120,273	808,669		
25	2050	39,615,721	120,618	120,618	850,345		
26	2051	40,011,878	120,967	120,967	890,519		
			3,040,415	1,830,548	890,519	1,209,867	759,804

Key Assumptions for Cash Flow:

1 Taxable market value (TMV) annual growth assumption = 1.00%
2 Original Tax Capacity Rate estimated based on Taxes Payable Year 2023.
3 Election for captured tax capacity is 100.00%
4 Captured Tax Capacity is net of Base Tax Capacity calculated based on a TMV = $153,000.
5 Present value (PV) is calculated based on semi-annual payments and dated date of 1/1/2024.
6 TMV calculated based on 160 housing units at an estimated average value of $195,000/unit. Affordable rental housing property classification (4d) rate.
7 TIF retained by the CDA will pay administrative costs and assist other affordable housing projects within the boundaries of Development Project Area No. 4, which is proposed to be coterminous with the municipal boundaries of City of Rosemount.
8 Total Available TIF (Tax Increment Financing) is net of State Auditor Fee of 0.36%.

Exhibit C

Dakota County Community Development Agency
Rosemount, MN
Amber Fields Apartment Project
160 Unit Residential Apartment Building
Preliminary Estimated Pro Forma

Year of TIF District	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Gross Income (before TIF)	2,916,998	2,975,338	3,034,845	3,095,542	3,157,453	3,220,602	3,285,014	3,350,714	3,417,728	3,486,083	3,555,805	3,626,921	3,699,459	3,773,448	3,848,917
Less expenses (before real estate taxes)	(749,145)	(776,420)	(804,728)	(834,109)	(864,605)	(896,259)	(929,117)	(963,224)	(998,629)	(1,035,383)	(1,073,539)	(1,113,150)	(1,154,274)	(1,196,969)	(1,241,296)
Less real estate taxes	(207,304)	(208,507)	(209,723)	(210,951)	(212,191)	(213,444)	(214,709)	(215,986)	(217,277)	(218,580)	(219,897)	(221,226)	(222,569)	(223,926)	(225,295)
Net Operating Income (NOI)	1,960,549	1,990,411	2,020,394	2,050,482	2,080,656	2,110,899	2,141,188	2,171,504	2,201,822	2,232,119	2,262,369	2,292,544	2,322,616	2,352,554	2,382,326
Plus TIF Revenue	79,254	79,446	79,640	79,836	80,033	80,233	80,435	80,638	80,845	81,053	81,263	81,475	81,689	81,905	82,123
NOI with TIF	**2,039,803**	**2,069,856**	**2,100,033**	**2,130,317**	**2,160,689**	**2,191,132**	**2,221,623**	**2,252,142**	**2,282,667**	**2,313,172**	**2,343,632**	**2,374,019**	**2,404,305**	**2,434,459**	**2,464,449**
Debt Service	1,783,021	1,783,021	1,783,021	1,783,021	1,783,021	1,783,021	1,783,021	1,783,021	1,783,021	1,783,021	1,783,021	1,783,021	1,783,021	1,783,021	1,783,021
Asset Management Fee	15,450	15,914	16,391	16,883	17,389	17,911	18,448	19,002	19,572	20,159	20,764	21,386	22,028	22,689	23,370
Net Cash Flow before Payment on Deferred Developer Fee	**241,332**	**270,922**	**300,622**	**330,414**	**360,279**	**390,200**	**420,154**	**450,120**	**480,075**	**509,992**	**539,847**	**569,612**	**599,256**	**628,749**	**658,058**
Payment on Deferred Developer Fee	241,332	270,922	300,622	330,414	360,279	390,200	420,154	450,120	480,075	60,413	-	-	-	-	-
Net Cash Flow after Payment on Deferred Developer Fee	-	-	-	-	-	-	-	-	-	449,580	539,847	569,612	599,256	628,749	658,058
Cash on cost with TIF (NOI/TDC)	4.2%	4.2%	4.3%	4.3%	4.4%	4.5%	4.5%	4.6%	4.6%	4.7%	4.8%	4.8%	4.9%	5.0%	5.0%
Cash on cost without TIF	4.0%	4.0%	4.1%	4.2%	4.2%	4.3%	4.4%	4.4%	4.5%	4.5%	4.6%	4.7%	4.7%	4.8%	4.8%
Debt coverage with TIF	1.14	1.16	1.18	1.19	1.21	1.23	1.25	1.26	1.28	1.30	1.31	1.33	1.35	1.37	1.38
Debt coverage without TIF	1.10	1.12	1.13	1.15	1.17	1.18	1.20	1.22	1.23	1.25	1.27	1.29	1.30	1.32	1.34

Notes:

1/ Total Development Cost (TDC): $49,148,587

2/ Total Developer Fee of $4,459,000. A portion of the Developer Fee will be deferred and paid from net cash flow from the project, payable with interest.

4/ Expenses include real estate taxes based on $31,200,000 taxable market value, with units classified as 4d, preliminary pay 2023 tax rates held constant, and 1.0% annual increase in taxable market value.

Exhibit D
Rent Analysis as Prepared by the Developer

Rosemount LIHTC
Rent Analysis

Units		
1-Bed	34	21%
2-Bed	78	49%
3-Bed	48	30%
	160	

Unit Type	Set Aside	# of Units	2022 Gross Max Rents	Utility Allowance	2022 Net Max Rents	Underwritten Rents	Monthly Income	Annual Income
Rent Restricted								
1 Bedroom / 1 Bath	50%	8	1,100	88	1,012	1,012	8,096	97,152
2 Bedroom / 2 Bath	50%	9	1,320	107	1,213	1,213	10,917	131,004
3 Bedroom / 2 Bath	50%	8	1,525	127	1,398	1,398	11,184	134,208
Rent Restricted								
1 Bedroom / 1 Bath	60%	18	1,320	88	1,232	1,232	22,176	266,112
2 Bedroom / 2 Bath	60%	60	1,584	107	1,477	1,477	88,620	1,063,440
3 Bedroom / 2 Bath	60%	32	1,830	127	1,703	1,703	54,496	653,952
Rent Restricted								
1 Bedroom / 1 Bath	70%	8	1,540	88	1,452	1,452	11,616	139,392
2 Bedroom / 2 Bath	70%	9	1,848	107	1,741	1,741	15,669	188,028
3 Bedroom / 2 Bath	70%	8	2,135	127	2,008	2,008	16,064	192,768
Total/Average		**160**	**$ 1,602**	**$ 109**	**$ 1,493**	**$ 1,493**	**$ 238,838**	**$ 2,866,056**
Average Income		**60.00%**						

Dakota County CDA UA - 2/1/2023			
	1	2	3
Cooking (Elec.)	7	10	13
Heating (Gas)	35	41	47
Lights/Refrigeratic	26	36	47
Electric Surcharge	10	10	10
Natural Gas Surch	10	10	10
Total - CDA	**88**	**107**	**127**