

Memo

To: Ryan Schroeder, City Manager
Jim Hartshorn, Community Development Director

From: Keith Dahl and Stacie Kvilvang, Ehlers

Date: June 22, 2020

Subject: Kmart Redevelopment Project – Analysis of TIF Request

In December of last year, the EDA reviewed and considered a request for public financial assistance from Dominion in connection to the Kmart redevelopment site. Since that time, several assumptions and development costs have changed due to the City’s prevailing wage ordinance. This memo has been prepared, at the request of the City, to review the updated project and determine the amount of supportable TIF assistance.

Dominion is now proposing to construct a 247-unit affordable senior apartment and a 146-unit, non-age restricted affordable apartment. Construction would begin in the fall of 2020 with a total development cost (TDC) of approximately \$122.7 million. This represents an increase of over \$23 million from their previous proposal with most of the increase directly related to the prevailing wage requirements which were not previously included. Prevailing wage increased project costs by approximately \$15.3 million, the addition of 24-units increased the project costs by about \$4.4 million, and the remaining \$3.3 million increase is made up of auxiliary financing costs and developer fees which are based on the TDC.

Due to the increased costs, Dominion requested 26 years of Tax Increment Financing (TIF) assistance in the form of a pay-as-you-go (PAYGO) TIF Note to fill a development gap in their project.

We’ve conducted a review of the updated development budget and pro forma and based on our review, Dominion’s requested financial assistance is more than what is necessary for the project to become “financially feasible”. We’ve concluded that the project would only require 16 years of assistance totaling \$5 million, which Dominion agrees with.

The tables below provide a synopsis of the sources and uses associated with the project:

SOURCES			
	Amount	Pct.	Per Unit
First Mortgage (Tax-Exempt)	55,530,000	45%	141,298
TIF Mortgage	5,000,000	4%	12,723
First Mortgage (Taxable Tail)	10,310,000	8%	26,234
Tax Credits	37,124,631	30%	94,465
Deferred Developer Fee (100% of Total Fee)	11,129,774	9%	28,320
Deferred Contractor Fee (72% of Total Fee)	3,556,511	3%	9,050
TOTAL SOURCES	122,650,916	100%	312,089

USES			
	Amount	Pct.	Per Unit
Acquisition Costs	6,365,000	5%	16,196
Construction Costs	84,423,429	69%	214,818
Contractor Fee	4,908,306	4%	12,489
Professional Services	3,973,600	3%	10,111
Financing Costs	6,694,172	5%	17,034
Developer Fee	11,129,774	9%	28,320
Cash Accounts/Escrows/Reserves	5,156,635	4%	13,121
TOTAL USES	122,650,916	100%	312,089

Please contact either of us at 651-697-8500 with any questions.