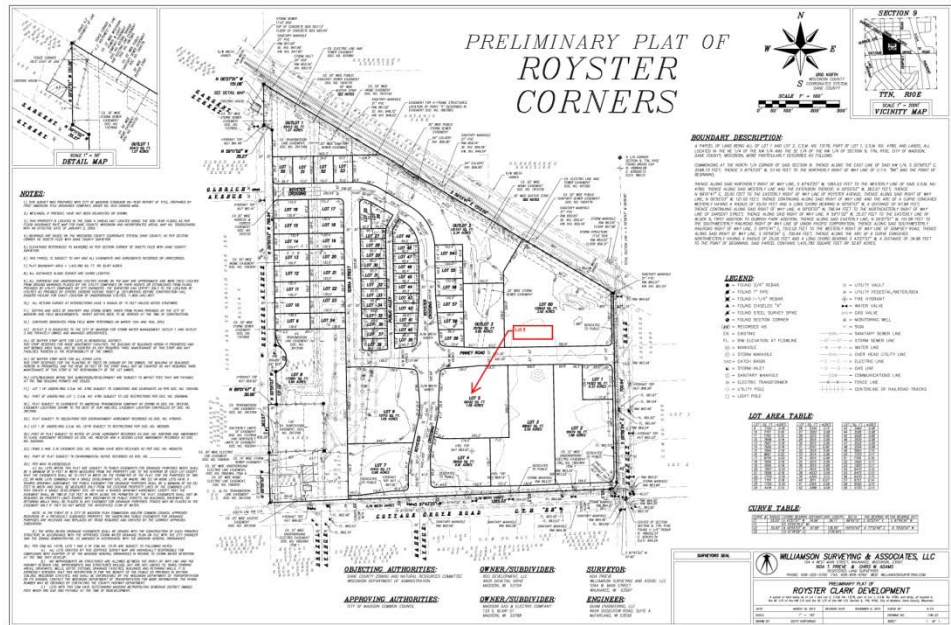


**City of Madison TIF Report
Pinney Lane Apartments LLC
November 12, 2013**

Background

Pinney Lane Apartments, LLC (“Borrower”) has proposed a \$11,925,000 redevelopment project to develop approximately 70 apartment units (59 of them affordable), approximately 106 parking stalls, approximately 2,500 gross square feet of commercial uses (“Project”) on property generally located on Lot 5 of the Royster Corners (“Property”) **pictured at right**. The project is located with the newly-created TID #44 (Royster Clark).



Gap Analysis

Project Cost Analysis. Borrower proposes to purchase the 73,715 SF site from Rudebusch Development for \$770,000 to construct the Project.

Staff determined that the land cost of \$770,000 (\$11,000 per unit or \$10.45 per SF) is within an acceptable range to develop affordable housing. Hard construction cost of \$6,800,000 (\$122,857 per unit or \$92 per SF) is also within an acceptable range for housing. Soft costs of \$2,555,000 (\$36,500 per unit or \$27 per SF) are also acceptable. Soft costs as a percentage of hard costs, in this case 30% of hard costs are also within an acceptable range for an affordable housing project.



Financing Analysis. Although the total project cost is in line with a typical market-rent housing development, the impact of lower, affordable rents reduces the income value of the Project to approximately \$3,500,000. Affordable rents range between \$355/month for a 1 bedroom/1 bath and \$920/month for a 3 bedroom/1 bath (**See Residential Unit Mix Table on Page 3**). Lower value means lower private sector financing—in this case only \$2,700,000 to cover \$11,925,000 of project cost.

A significant amount of equity will be generated through the sale of \$7,500,000 of Section 42 tax credits, allocated by the Wisconsin Housing and Economic Development Authority (WHEDA) and \$1,080,000 of other public funds. Other public funds include \$394,000 of CDBG HOME funds, a \$420,000 Federal Home Loan Bank loan, \$266,000 from the Madison Affordable Housing Trust Fund. In addition, Developer will defer its \$245,000 developer fee. This amount of equity, near-equity and subordinated debt conforms to the TIF Policy requirements that 1) Borrower’s equity investment equals or exceeds TIF loan assistance and 2) that all other sources of funding be utilized before TIF.



The current WHEDA tax credit allocation process is based on a scoring system that awards extra points to projects that include TIF as part of the financing structure. Although the project could apply for tax credits sufficient to bridge the gap, tax credit applicants that include TIF are more likely to be awarded a tax credit allocation than those that do not include TIF. In this case, staff and Borrower were able to negotiate a gap, using TIF, that secures WHEDA points for a tax credit allocation and yet stay within a safe underwriting distance in terms of TIF exposure (56% of TIF) for a new project in newly-created TID.

Causes of Gap. Although costs are within acceptable market ranges, the reduced income value of the project subsequently reduces private debt attraction, thereby making the project dependent upon public financial assistance such as CDBG/HOME, tax credits and TIF. Reducing cost to reduce the gap is not feasible in market terms, as all costs appear fairly consistent in comparison to market rates for each cost category. The gap in this Project is due to a lack of private investment to pay for project cost and the WHEDA requirement that TIF participate in the project in order to receive a tax credit allocation.

Project Data

Total Land Area	73,715 SF
Building Area	93,265 gross SF
Apartment Units:	
Affordable	59
Market	11
Total Units	70
Parking Stalls	106

Pinney Lane Apartments	Cost (Rounded)
Land	(770,000)
Hard Construction	(8,600,000)
Soft Cost	(2,555,000)
TOTAL COST	(\$11,925,000)

Sources and Uses	
Loan	\$2,700,000
Equity (Section 42 Tax Credits)	\$7,500,000
Other Public Funds & Deferred Fee	\$1,325,000
Total Sources	\$11,525,000
Less: Uses	(11,925,000)
GAP	(\$400,000)

Residential Unit Mix

Unit Type	No. of Units	SF	Rent/Month
1 BR + Bath	9	740	\$355
1 BR + Bath	3	740	660
1 BR + Bath	7	740	725
1 BR + Bath	6	740	900
2 BR + Bath	9	1100	425
2 BR + Bath	5	1100	795
2 BR + Bath	10	1100	875
2 BR + Bath	5	1100	1,150
3 BR + Bath	16	1450	920



TIF Loan Security

The TIF Loan shall be evidenced by a note bearing 0% interest from the City to Borrower in the amount of \$400,000. The City shall receive a second mortgage in favor of the City of Madison to secure the loan. Principals of Borrower, namely Rich Arnesen and Helen Bradbury, shall provide personal guaranty of the TIF Loan. Borrower shall provide an increment guaranty. In the event the Project is sold or transferred to a tax exempt entity ("Buyer"), Buyer pays the amount of tax last levied upon the sale or transfer of the project until 2040 (PILOT payment).

Other Considerations

- 1. TIF Policy – Exception to 50% Rule.** The TIF Loan represents approximately 56% of the present value of the estimated tax incremental revenues generated by the Project and requires an exception to TIF Policy that no more than 50% be made available to a project ("50% Rule").
- 2. Other Program Approvals.** The TIF Loan is contingent upon approval of funding from City of Madison CDBG HOME funds, the Madison Affordable Housing Trust Fund and Federal Home Loan Bank.
- 3. TID #44 Certification.** The TIF loan disbursement is contingent upon the City receiving certification of TID #44 by the Wisconsin Department of Revenue.

