Rolfs, Daniel

From: Tom Landgraf [tom@dimdevllc.com]
Sent: Wednesday, February 11, 2015 5:09 PM
To: Rolfs, Daniel
Cc: Scott Frank; Hayden Frank
Subject: Garver funding gap analysis

Dan:

This is a follow up to your inquiry as to what the proposed changes in the Wisconsin Historic Preservation tax credit would do to the ACC financial forecast for the Garver redevelopment. We estimate that the gap caused by the loss of the historic tax credit is approximately $3,2500,000, or roughly 18% of the total Garver building redevelopment cost.

In reviewing the language contained in the Governor's budget bill, and after discussing the impact of that proposal with staff at the State Historical Society, it seems pretty clear, for planning purposes, we have to assume there will be no Wisconsin credit available for the Garver redevelopment. I am basing that on the assumption that the new language will be enacted as proposed, and that it will be effective July 1, 2015. The current timeline you are operating under would not allow sufficient time to be able to obtain an approved NPS Part 2 from the NPS by the July 1 date. If we could make the July 1 date, we could operate under current law, which would not restrict the credit applicability. After that date, with only $10 million of credit authorized for the entire state, and given the as of yet undetermined application process, it is unlikely that the credit would be available. The other big unknown is what would the credit sell for, given the recapture provision related to jobs. Who knows how that provision would be implemented. I could see a scenario where a developer is successful in obtaining a credit reservation, but unsuccessful in syndicating it for much value. If selected, we would certainly attempt to move the process along as fast as possible, but realistically, there are a lot of moving parts outside of our control.

That said, we have looked at a number of alternatives, and are continuing to explore other aspects. We are assuming that the scoring criteria in the RFP is unchanged, as are the City and neighborhood desires for community space, sustainable redevelopment, low noise and traffic impact to the neighborhood, and no use of the North Plat land beyond what has been identified. We are also assuming the presence of the 99 year ground lease.

The project architect and general contractor will evaluate value engineering changes to the ACC Garver redevelopment project plan. However, as you know, there are many unknowns relating to soils, hazardous waste, and NPS application of the criteria relating to the approval of a Part 2 application. Thus, eliminating cost from the Garver building redevelopment contingency is not a solution to the budget gap with as many variables in play. As you know, reducing cost also reduces the federal historic tax credit, and the affordable housing tax credit. One is on a slippery slope when using cost reductions to balance a project budget when tax credits are involved.

The ACC proposal assumes the Garver building is predominately affordable rental units for older adults. Thus, increasing rent to make up for the GAP in funding sources is going in the wrong direction. ACC would not want to abandon the concept of developing a mix of affordable and market rate housing on the site. Increasing rent in any of the units is not a desirable option, as that runs counter to the financial feasibly. It is easy to say some of the gap can be made up by increasing rent, but realistically, that does not address much of the gap.

Increasing the sources of funds, without increasing the operating or rental cost of the redevelopment, is the key to solving this gap dilemma. In that regard, we see the following as viable options that we are evaluating. We have identified the amounts, along with a short explanation of the theory. These are in addition to the value engineering results. Therefore, consider this a work in progress.

$ 500,000 WEDC Vacant Industrial Site grant (this is very competitive, but the site does qualify, and the grant would be applicable to the proposed reuse)
300,000 HOME – CDBG loans / grants for the affordable units on site – these funds exist in current state and City programs, but are also very competitive
500,000 Olbrich Maintenance Facility – use approximately $65,000 of the annual property tax to finance a 10 year note for this building, versus project development funds
850,000 Additional developer equity – value engineering savings – possible larger loans
250,000 Charge a modest usage fee ($20,000 annually) for a portion of the current 10,500 square feet set aside for un-programmed community – special events
850,000 GAP loan – retire a 10 year GAP loan using a portion of the increased property taxes generated by the redevelopment

$ 3,250,000 Potential GAP

As you can see, under this scenario, no single change can offset a loss of roughly 18% of the development sources of funds for property redevelopment. In 2014, the state funded roughly $44,000,000 in historic preservation. This is up from a typical yearly amount of roughly $11,000,000. The growth in adding this additional property to the local government tax base is attributed to the 20% state historic tax credit enacted in late 2013. The flip side of that coin is that removal of the tax credit is likely to have significant impact on feasibility of historically significant structures such as Garver.

As I indicated earlier, we are assuming that the City at this point is not allowing expansion of the development site beyond the five acres, or relaxing some the RFP requirements that drive cost into the transaction. Obviously, if those criteria change, then our solution to the funding GAP would also change. There is no question that the simplest solution is to increase the amount of investor equity and borrowed money. Both of those solutions, while scenarios we are evaluating, increase the "business risk" of the transaction. If Garver were in a more visible location, with better vehicular access, the increased investment might be supported by a higher building value. Removing the impact of the 99 year ground lease will also contribute to the financing value of the transaction. In the end, the transaction needs to be able to be financed in today's market. Addressing the funding gap by cutting cost and increasing rent, borrowed funds - additional equity, are unlikely to be the solutions, unless some of the terms of the RFP change.

I am aware that the TID currently does not have funding capacity to make up the full gap. No doubt, some of the increased increment from the Garver redevelopment is already earmarked for use in the current TID project financing. We are continuing to look for ways to reduce or eliminate any use of the Garver property tax increment to aid in offsetting the gap caused by the unexpected charge in the state historic tax credit. However, until we have had the time to complete the work on building redesign and related construction cost impacts, we believe that a financially viable redevelopment is going to need some third party assistance in the form that does not force rent increases to the affordable and moderate income residents. We are also continuing to pursue the Kessenich property site and evaluate redevelopment potential at that location. That redevelopment will add employment to the area, and most likely increment to the property tax base. However, tossing that benefit into the Garver redevelopment gap analysis cannot be determined at this time.

We will continue to advance the ball on the value engineering and redesign aspects, and will get that information to you as soon as we can. I am assuming the cutoff time for presentation of that material will be late next week. Let me know if that timeline works.

Thanks

Tom

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