City of Brooklyn Park

Blue Line Extension Innovative Financing:

Real Estate Development

July 31, 2020

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RE: TOD Innovative Financing Strategies:

The Metropolitan Council retained Baker Tilly to study financing tools available to assist Transit-Oriented Development (TOD). Part of the study includes providing Real Estate Development Technical Assistance for ten projects that were selected by the Technical Assistance Committee (TAC). Two of the projects were identified by the City as potential TOD development/redevelopment opportunity sites adjacent to the Blue Line Extension.

The two projects provided for evaluation and coordination of technical assistance are both site specific and in the conceptual stage for development concepts. Certain assumptions were made regarding type, density and phasing of development. The projects are being evaluated based on the following criteria:

- Applicable Zoning
- Site Selection Criteria
- Site Planning Principals
- Financing/Funding Structure
- Financial Feasibility

Input provided by City staff assisted with updating and refining the development assumptions related to the above criteria. We appreciate the opportunity to have worked with the City on these exciting projects.

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Contents

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Introduction

Blue Line LRT Overview

The METRO Blue Line Extension (Blue Line Extension) Light Rail Transit (LRT), also known as the Bottineau Transitway or Bottineau LRT, is a 13-mile addition to the existing Blue Line and will extend from downtown Minneapolis through north Minneapolis, Golden Valley, Robbinsdale, Crystal, and Brooklyn Park, serving the northwest Twin Cities metro area. The Blue Line Extension will link to local and express bus routes at its stations and connect to the region's LRT system at Target Field Station in downtown Minneapolis. The route includes eleven LRT stations, with five stations in Brooklyn Park:

- Oak Grove Parkway and West Broadway
- 93rd Avenue North and West Broadway
- 85th Avenue North and West Broadway
- Brooklyn Boulevard and West Broadway
- 63rd Avenue North and Highway 81

Brooklyn Park Station Area Plan

The Brooklyn Park Station Area Plan provides the following guiding principles:

- Placemaking
    - Transform West Broadway into a beautiful multi-modal main street
    - Reinforce Brooklyn Park's "Hometown Feel"
    - Create a unique sense of place at each station in terms of character and predominant land use
    - Implement consistent fencing, lighting, and landscape standards along West Broadway Avenue
- Connectivity
    - Connect all modes of transportation to light rail stations
    - Encourage pedestrian- and bike-friendly crosswalks
    - Create walkable and bikeable arterials
    - Improve bus connections on major east/west roads
- Land Use
    - Consider Transit Oriented Overlays to encourage transit-oriented development and higher density around stations
    - Take advantage of compact building design and reduced parking requirements within a ½-mile radius of stations
    - Allow for targeted mixing of land uses
    - Preserve affordable housing
    - Create a range of housing opportunities and choices including mixed income, affordable, and market rate
    - Remove hurdles to economic development

The projects identified by the City of Brooklyn Park for Real Estate Development Technical Assistance are described in the Brooklyn Park station area plans.

Transit Oriented Development (TOD)

TOD is development that is typically located within a quarter- to half-mile radius of a transit station that will offer a mix of housing, employment, commercial/retail and transportation choices within a neighborhood and business district. Easier access to public transit should provide for lower household costs and less expensive alternatives to driving to and from destinations. It is also intended to provide people with better access to more job opportunities throughout a larger region. TOD often requires significant investments in infrastructure and community facilities for the type of development that can support use. Investments may include:

- Increasing the capacity of infrastructure including streets, roads, and utilities (sewer, water, storm drain) to support additional development.
- Enhancing pedestrian and bicycle access by the addition or improvement of sidewalks, crosswalks, bicycle lanes, bicycle storage, and streetscape enhancements such as lighting, landscaping, public plazas and benches.
- Creating or improving parks, plazas, and other open space.

- Building structured parking garages for park-and-ride transit riders, which allows surface parking lots to be redeveloped for TOD.

TOD infrastructure and additional development that occur are all intended to benefit the environment and economy by allowing people to walk, bicycle, or take transit that reduces pollution and provides affordable transportation options. TOD improvements can be challenging to finance due to the high upfront investments and lack of revenues available to support the costs, in addition to the public being a primary beneficiary.

Purpose of This Report

The purpose of this report is to provide the Metropolitan Council, the City of Brooklyn Park, other local leaders, and the development community with guidance on the feasibility of implementing Transit Oriented Development projects in Brooklyn Park along the planned Bottineau LRT route. The City has identified two potential TOD sites: Project 1: Site located at intersection of 63rd and County Road 81 and Project 2: Buerkle Acura. The report provides background on the criteria that led to the selection of these sites for TOD and analysis of the financial feasibility of TOD projects. For each project, the report looks at the planned development scale and uses and analyzes the financial feasibility. First, the analysis assesses the financial feasibility of each project using a traditional financing method (private debt and equity). For each project, the report goes on to evaluate the financial performance of each project if in an "enhanced" scenario using alternative financing tools.

Key Findings

For both identified project sites the analysis has found that traditional financing alone would not be sufficient to generate a feasible project resulting in a financial gap absent public assistance and alternate funding sources. For the City to implement TOD projects that align with the Comprehensive Plan and meet the goals of TOD, the City and its partners will need to work in partnership with developers to utilize alternative financing tools such as those listed in the "Funding Tools" section of this report and may include loans, grants, tax credit programs, and local incentives. The final section of this report provides additional information on these tools.

Development Criteria

Development Criteria and Considerations	
Current Primary Zoning	TOD-Center
Relationship to Comprehensive Plan	Transit Station Area
Lot Coverage	100% maximum
Building Considerations	Maximum height 6 stories Up to 8 stories with Conditional Use Permit (CUP) Building width: 200 feet maximum
Parking Considerations	Parking minimums and maximums do not apply to TOD zones. Parking structure must be 1 story less than building

Applicable Zoning

The Transit Oriented Development "TOD" zoning districts are established to provide for the creation of mixed use, multi-modal neighborhoods within walking distance of public transit. These districts enhance walkability by requiring small block sizes, reduced travel lane widths on local streets, and active frontages. These districts may be applied around high frequency transit service stations, per district maps. Multiple types of development are encouraged, with developments designed to promote walking, bicycling and transit use. The placement of building edges and treatment of architecture, parking, landscaping, sidewalks, and public spaces are to be carefully planned in order to achieve the pedestrian oriented development envisioned for the districts. These districts are developed to generate income from taxes. All development must conform to the Comprehensive Plan and to the adopted Brooklyn Park Subarea Stormwater Master Plan.

The City-identified projects we are reviewing are described as follows:

1. Project #1: Site located at southeast intersection of 63rd and County Road 81
2. Project #2: Buerkle Acura Site

They are included in the City's designated "TOD-C" Transit Oriented Development Center District. The "TOD-C" TOD Center is intended to provide for the most intensive mixed-use, transit-oriented zoning district.

Transit Oriented Development Overlay

A Transit Oriented Development Overlay (TOD Overlay) is a regulatory tool that creates a special zoning district for the furtherance of transit-oriented development. This approach is recommended for the property west of the LRT stop along both sides of 63rd Avenue and the east side of West Broadway. Small one-story houses on very large lots (approximately a half-acre) line the streets today. A TOD Overlay will allow/incentivize homeowners to make improvements or additions to their property and will encourage assembly of parcels to create a more viable redevelopment project, given the proximity to transit.

Site Selection Criteria

The two anticipated project sites in the City identified for potential development/redevelopment opportunities could both be considered as TOD opportunities. When evaluating a project, there are conditions of that project site that may be considered when evaluating viability. The following is a general listing of certain characteristics associated with TOD projects.

- Reduced Parking
- Bicycle Access
- Pedestrian access and walkability
- Transit station access
- Codes that allow for higher density and mixed use
- Nearby amenities

- Affordable housing
- Jobs
- Supporting businesses

When analyzing the projects and potential TOD opportunities, it is important to understand which of the above characteristics may be incorporated into a particular site and define what potential barriers or constraints may exist that would cause a project not to be viable. Barriers may include location, financial, political, or market. Some of those constraints can more easily be controlled and mitigated, as compared to others. It is our understanding the sites chosen for Brooklyn Park include several of the characteristics listed above. An outcome for the project evaluations is to understand how the sites that were currently selected could be enhanced TOD projects by achieving additional measurements such as affordable housing, jobs, supporting businesses, bicycle and pedestrian access. The additional TOD enhancements do not typically generate revenue and instead increase costs for the project, creating financial gaps that require substantial levels of public and other funding sources.

Project Descriptions

Project 1: Site located at intersection of 63rd and County Road 81

The intersection of County Road 81 and 63rd Avenue has been identified as a central focus within the 63rd Avenue Station Area Plan. The station area is generally defined by low-density neighborhoods that encircle a node of higher intensity uses. It is characterized by modest single-family homes along a grid pattern of streets with apartments, commercial, industrial, and transit uses stitched in along the County Road 81 corridor. A high percentage of residents in this area do not own a car. With the LRT stop comes the opportunity and need for enhanced pedestrian and bike connections and targeted development. The mixed-use core will grow to leverage the 63rd Avenue Station.

The properties to be included in Project 1 are all vacant and owned by Hennepin County at the southeast corner of County Road 81 and 63rd Avenue, adjacent to the Crystal Lake Regional Trail. The last retail building in the neighborhood was demolished as part of the recent County Road 81 widening. Residents expressed a strong desire for an Ethnic Marketplace and a place to allow small businesses to start and grow. The plan would include a year-round building where vendors could back up their vehicles to a shared enclosed space. A pedestrian connection should be considered between the bus loop and industrial property to the north so workers can more easily access the LRT platform.

Although this site has been considered a target for a market use, the City has also received feedback that there is a desire to understand the feasibility of a business incubator. For purposes of our analysis we are instead focusing on the development of a business incubator at this location. Liberian Business Association is located in the station area and has expressed interest in developing an incubator. The City is interested in exploring development of an immigrant business incubator at this site which would include detailing out workable long-range operating models. There are additional infrastructure improvements that have been identified as beneficial for this project site that may include a pedestrian/bike bridge to cross over County Road 81.

General Project Description	
Property Address	6280 Lakeland 6288 Lakeland 6729 63rd Avenue N 6721 63rd Avenue N
Parcel ID	32-119-21-43-0027 32-119-21-43-0001 32-119-21-43-0002 32-119-21-43-0003
Existing Market Value	$0, tax exempt – Hennepin County owned (assess 2020, pay 2021)
Site Size	1.84 acres
Development Assumptions	Business Incubator – 40,000 square feet

Financing/Funding Structure

The analysis for this project site assumes the construction of a large commercial/office building that could host entrepreneurial, small and start-up businesses. Total development costs for the project are estimated to be $12,925,000 based on $200/square foot construction. Additional costs would include land, construction interest, developer fee, legal fees, architect fees, reserves, other soft costs and construction contingency. Generally, there are ranges for certain costs, including land, construction, and developer fees, as estimated. We may see developer fees around 3-5% for privately financed projects. The operating revenues include rental rates for the office space. The projected operating cash flow proforma assumptions are consistent with industry standards for annual inflators and vacancy rates. With these assumptions and no additional funding sources, the project is not expected to be financially feasible.

Financial Feasibility using Baseline/Traditional Financing

We have assumed that a traditional project funding structure would include private financing of a first mortgage and owner equity as primary revenue sources. It is assumed the baseline/ traditional financing structure would not be sufficient for a proposed TOD project as considered for this project site and that additional funding from other sources will be necessary for financing of certain extraordinary project costs related to redevelopment, TOD enhancements, affordable commercial space and additional public infrastructure improvements.

The projected operating revenues from the project would be used to finance operating expenses, support debt service payments and provide equity investor returns. The project cash flows incorporate operating revenues will include rental rates from the commercial and any other related income. Annual debt service payments have been amortized over 30 years assuming repayment of the first mortgage at 5%. Assumptions within the operating cash flow proforma are consistent with industry standards for annual inflators of 3% and annual vacancy rates of 5%. With the baseline assumptions as described assuming solely private financing and no additional public funding sources, the project is not expected to be financially feasible. The projected financial gap for this first funding structure is approximately $6,000,000. This is generally consistent for TOD projects that incorporate extraordinary public purpose costs that are not supported by the market. A traditional privately financed approach for this TOD project is not feasible.

For this project concept to be financially feasible, we can assume there will need to be an alternative financing structure that incorporate additional funding programs, strategies and sources to close the financial gap. The enhanced financing scenario illustrated in the next section will incorporate additional funding sources and programs as a means of providing an alternative funding structure(s) that could provide for the development of a financially feasible project.

Financial Feasibility Using Enhanced Financing

As stated above, the projected financial gap assuming a traditionally financed development project financed solely with private investment could be expected to be approximately $6,000,000. Those funding sources alone would not support a financially feasible project based on current assumptions. Additional funding, either as upfront in the form of grant or lower-interest financing, or additional cashflow from other sources would be necessary to assist with financing of the project due to the higher development costs and reduced annual revenues available to support repayment of equity investment and debt obligations.

Annual operating revenues less operating expenses is the net operating income of the project. Net operating income is used to support annual debt service payments and provide equity investor returns within market ranges. In order to obtain adequate project funding, annual operating revenues are required to:

1) meet minimum debt coverage requirements of a lender
2) produce reasonable rates of return to the investors

The financial gap has been calculated based on the level of private financing and equity this project could expect to receive based on net operating income. Additional upfront funding sources that reduce the burden of annual operating revenues' ability to pay expenses and cash flow funding would allow the project to be financially feasible. It is assumed that additional upfront and annual operating funding sources would be necessary to establish and enhance financial feasibility.

Enhanced Financing Scenario

To understand how this project could achieve financial feasibility (increased debt coverage and/or investor returns), we started with the traditional funding structure and $6,000,000 gap. The enhanced financing scenario has focused more on the inclusion of innovative funding strategies and programs that may not be as common but considered for certain project components. Components of this proposed project that contribute to the $6,000,000 funding gap and will need innovative funding sources include:

1. Business incubator commercial space
2. Infrastructure improvements

There are funding strategies and programs specific to each of the project components that would be used in combination on eligible pieces of the total project. There are certain programs that only work for commercial/retail space and those that work only for residential units. In certain cases, the funding sources would also be sufficient to support additional TOD infrastructure improvements. In other instances, additional funding sources above those for commercial or residential uses would need to be incorporated.

Utilizing public assistance that includes local participation, regional and state funding sources would provide additional resources for a financially feasible project that also includes TOD components. For a project of this type that incorporates multiple components all requiring public assistance, increased public participation may be considered reasonable. The availability of actual programs and funding sources will be based on developer investor resources, market demand, project performance, and project type. The project performance for the enhanced financing scenario has demonstrated returns that would be at the low end of minimum levels as necessary to create a financially feasible project.

The land is currently owned by Hennepin County and there may be an opportunity to create an additional public/private partnership between the City/County and community for this project. For this analysis we are including a land purchase price.

The planned development for this project site would be the construction of an office/business incubator. A business incubator is generally a nonprofit corporation that assists start-up and developing businesses by providing already-established space and support infrastructure, usually at below-market rates. Entrepreneurs must generally apply for admission into a business incubator program, which includes a review of the business sustainability, business plan and other sources of funds. Basic funding sources would start with private debt and equity. It is assumed that additional upfront and annual operating funding sources would be necessary to establish and enhance financial feasibility.

Business incubators are often sponsored by private companies, municipal entities and public institutions such as colleges or universities, so much of their funding may come from the sponsoring organization in addition to other private donors. Establishment of a business incubator could provide the organizational structure used to share resources (reduce costs), receive funding (close upfront and operating financial gap) and promote community involvement.

Sources and Uses

The following table contains an estimate of the required costs to acquire the site and develop the proposed project. Given assumptions regarding the ability of the project to generate net operating revenues and the ability to capitalize those revenues, it also shows the assumption regarding equity, capital provided through borrowing (debt), and the resultant initial financing gap.

Sources and Uses of Funds Illustrating Traditional/Baseline Financing with Gap

Sources		Uses	
First Mortgage	5,540,000	Land	1,500,000
Equity	1,385,000	Construction	8,000,000
		Contingency	1,200,000
		Interest	400,000
		Developer Fee	500,000
		Legal Fees	125,000
Gap	6,000,000	Architect	200,000
		Other	500,000
		Reserves	500,000
Total	12,925,000	Total	12,925,000

To illustrate how the financial gap of $6,000,000 could be resolved, we adjusted the upfront sources of funds to include additional revenues through grants and other mechanisms. The additional funding sources would be facilitated through the establishment and use of alternate funding sources. For example, if we were to assume the City and development team could incorporate a community owned business, business incubator, community land trust, and/or resource center to facilitate development and subsequent success of commercial retail and office space within the project, the assumption is that those strategies would attract the additional funding sources necessary for the project. Funding sources specific to the commercial project components could include:

- Opportunity Zone Funding,
- Social impact investors
- Angel investors
- Small business administration

Many of the above funding sources have more favorable terms including lower interest rates, reduced equity returns, long-term investment and deferred funds. All of the above would provide the upfront financing needed for acquisition, construction and other related soft costs. The above funding sources could also be used in conjunction with some traditional funding sources available from local, regional and state sources.

We also decreased the project costs, namely land, assuming the County may be a public partner and work with the City and private entities to assist in bringing the vision to reality. Reduced costs and additional funding sources/programs reduce annual burdens on cash flow to allow the project to provide lower interest rates and other shared amenities that would be necessary for this type of development. Rental revenues were not increased, due to the need to retain the affordability for the young businesses that will locate here. In addition to the potential strategies and sources listed in the table below, the City may also explore alternate funding programs as described further under “Funding Tools” to allow for project feasibility. The sources and uses listed below are intended to illustrate a potential financial structure of how the gap could be closed. We anticipate City staff could utilize this structure when reviewing potential development scenarios as such opportunities present themselves in the future and in conjunction with Blue Line development.

The purpose of the enhanced financing scenario is to illustrate how innovative financing strategies could be used to develop a project that meets the City’s desired TOD project objectives including affordable commercial retail/office space, affordable and moderate-income housing and infrastructure improvements. The table that follows incorporates the alternative financing scenario that would fill the $6,000,000 financial gap with additional revenue sources supported by the alternate strategies.

Rental revenues were not increased, due to the need to retain the affordability for the young businesses that will locate here. In addition to the potential strategies and sources listed in the table below, the City may also explore alternate funding programs as described further under “Funding Tools” to allow for project feasibility. The sources and uses listed below are intended to illustrate a potential financial structure of how the gap could be closed. We anticipate City staff could utilize this structure when reviewing potential development scenarios as such opportunities present themselves in the future and in conjunction with Blue Line development.

Potential strategies may include community-owned businesses, business incubators, public use renting space, resource centers, etc. as a means of attracting additional business types and potential funding sources to the project site. These types of programs may attract additional funding resources that do not require the same return on investment as private investment, thus reducing potential financing gaps. Community based enterprises use business to improve the life of a community. They are different from private enterprise because their business activity is undertaken as a means of achieving community benefit, not private gain. Business incubators assist start-up and developing businesses through reduced rental rates to provide opportunities for success and growth and depending on their focus, may attract patient investors that are driven by longer-range industry-specific benefits. There may also be social impact investors that share the same vision as community leaders. In particular for this site, the Liberian Business Association’s current presence and interest in a business incubator could provide the energy and impetus needed to secure other resources that help make the project a reality. The City may choose to consider the establishment of a revolving loan fund to provide lower-interest mezzanine financing.

Sources and Uses of Funds Illustrating Enhanced Financing to fill Gap			
Sources		Uses	
First Mortgage	5,540,000	Land	0
Equity	1,385,000	Construction	8,000,000
		Contingency	1,200,000
Grants	750,000	Interest	400,000
Sponsor equity funding	3,750,000	Developer Fee	500,000
		Legal Fees	125,000
		Architect	200,000
		Other	500,000
		Reserves	500,000
Total	11,425,000	Total	11,425,000

The operating proformas on the following pages show the annual cash flow projections using the assumptions outlined under “Financing/Funding Structure” above and based on the total development costs originally of $12,925,000 and the reduced cost of $11,425,000. The first schedule as further described under “Financial Feasibility using Baseline/Traditional Structure” appears to achieve adequate debt coverage and return to the developer but is $6,000,000 short of funding total development costs. The second schedule as described under “Financial Feasibility using Enhanced Structure” appears to have similar coverage and developer return results but uses higher rental income and additional debt and non-debt sources to provide full funding for the project.

Draft Operating Proforma with Traditional/Base Financing

City of Brooklyn Park, Minnesota
Business Incubator
With Financial Gap

Sources	Amount	Percent	Uses	Amount
First Mortgage	5,540,000	42.86%	Land	1,500,000
Equity	1,385,000	10.72%	Construction	8,000,000
		0.00%	Contingency	1,200,000
		0.00%	Interest	400,000
		0.00%		
		0.00%	Developer fee	500,000
		0.00%	Legal fees	125,000
		0.00%	Architect	200,000
Gap	6,000,000	46.42%	Other	500,000
		0.00%	Reserves	500,000
		0.00%		
Total	12,925,000		Total	12,925,000
			Per SF Cost (40,000 SF)	323

IRR	11.31%
FMV	$9,650,372
NOI Year 10	579,022
Cap Rate	6.00%
Mortgage	8,410,769
Cost of Sale	3%
Sale Proceeds	$950,092
Remaining TIF (PV)	
Yield on Cost	3.90%
Cash on Cash Return	9.91%

Expense Inflation Rate **3.00%**
Revenue Inflation Rate **2.00%**

				Year	1	2	3	4	5	6	7	8	9	10
Revenues	Unit #	SF/Unit	Rent/SF	Rent/Unit										
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
Parking	40,000		15.00	600,000	600,000	612,000	624,240	636,725	649,459	662,448	675,697	689,211	702,996	717,056
vacancy			5%	10%	(30,000)	(30,600)	(31,212)	(31,836)	(32,473)	(33,122)	(33,785)	(34,461)	(35,150)	(35,853)
Other					-	-	-	-	-	-	-	-	-	-
Total Revenues					570,000	581,400	593,028	604,889	616,986	629,326	641,913	654,751	667,846	681,203
Operating Expenses														
Op Ex and Taxes														
Total Operating Expenses			15%		85,500	87,210	88,954	90,733	92,548	94,399	96,287	98,213	100,177	102,180
Cash Flow Available for Debt Service					484,500	494,190	504,074	514,155	524,438	534,927	545,626	556,538	567,669	579,022
Debt Service														
1st Mortgage Debt Service					(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)
Total Debt Service					(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)
Debt Coverage Ratio					1.36	1.38	1.41	1.44	1.47	1.50	1.53	1.56	1.59	1.62
Net Income					127,621	137,311	147,195	157,276	167,559	178,048	188,747	199,659	210,790	222,143
Deferred Fee Repayment														
Net Available Cash Flow					127,621	137,311	147,195	157,276	167,559	178,048	188,747	199,659	210,790	222,143
Hypothetical Sale														$950,092
Cash Flow				-1,385,000	127,621	137,311	147,195	157,276	167,559	178,048	188,747	199,659	210,790	222,143
				-1,385,000	127,621	264,932	147,195	157,276	167,559	178,048	188,747	199,659	210,790	1,172,235
10 Year Projected IRR					**11.31%**									
					9.21%	9.91%	10.63%	11.36%	12.10%	12.86%	13.63%	14.42%	15.22%	16.04%

Draft Operating Proforma with Enhanced Financing

City of Brooklyn Park, Minnesota
Business Incubator
Operating Proforma Illustrating Enhanced Financing for Filling Gap

Sources	Amount	Percent	Uses	Amount
First Mortgage	5,540,000	48.49%	Land	-
Equity	1,385,000	12.12%	Construction	8,000,000
		0.00%	Contingency	1,200,000
Grants	750,000	6.56%	Interest	400,000
Sponsor funding (sponsor)	3,750,000	32.82%		
		0.00%	Developer fee	500,000
		0.00%	Legal fees	125,000
		0.00%	Architect	200,000
		0.00%	Other	500,000
		0.00%	Reserves	500,000
		0.00%		
Total	**11,425,000**		Total	**11,425,000**

Expense Inflation Rate	**3.00%**
Revenue Inflation Rate	**2.00%**

IRR	11.31%
FMV	$9,650,372
NOI Year 10	579,022
Cap Rate	6.00%
Mortgage	8,410,769
Cost of Sale	3%
Sale Proceeds	$950,092
Remaining TIF (PV)	
Yield on Cost	4.41%
Cash on Cash Return	9.91%

				Year	1	2	3	4	5	6	7	8	9	10
Revenues	Unit #	SF/Unit	Rent/SF	Rent/Unit										
					-	-	-	-	-	-	-	-	-	-
Commercial	40000		15.00	600,000	600,000	612,000	624,240	636,725	649,459	662,448	675,697	689,211	702,996	717,056
vacancy			5%	10%	(30,000)	(30,600)	(31,212)	(31,836)	(32,473)	(33,122)	(33,785)	(34,461)	(35,150)	(35,853)
Other					-	-	-	-	-	-	-	-	-	-
Total Revenues					570,000	581,400	593,028	604,889	616,986	629,326	641,913	654,751	667,846	681,203
Operating Expenses														
Total Operating Expenses			15%		85,500	87,210	88,954	90,733	92,548	94,399	96,287	98,213	100,177	102,180
Cash Flow Available for Debt Service					484,500	494,190	504,074	514,155	524,438	534,927	545,626	556,538	567,669	579,022
Debt Service														
1st Mortgage Debt Service					(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)
Total Debt Service					(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)	(356,879)
Debt Coverage Ratio					1.36	1.38	1.41	1.44	1.47	1.50	1.53	1.56	1.59	1.62
Net Income					127,621	137,311	147,195	157,276	167,559	178,048	188,747	199,659	210,790	222,143
Deferred Fee Repayment														
Net Available Cash Flow					127,621	137,311	147,195	157,276	167,559	178,048	188,747	199,659	210,790	222,143
Hypothetical Sale														$950,092
Cash Flow				-1,385,000	127,621	137,311	147,195	157,276	167,559	178,048	188,747	199,659	210,790	222,143
				-1,385,000	127,621	264,932	147,195	157,276	167,559	178,048	188,747	199,659	210,790	1,172,235
10 Year IRR - With Assistance					**11.31%**									
					9.21%	9.91%	10.63%	11.36%	12.10%	12.86%	13.63%	14.42%	15.22%	16.04%

Project 2: Buerkle Acura Site

Project 2 as identified by the City of Brooklyn Park staff is located at the intersection of West Broadway Avenue and Brooklyn Boulevard and is near a main Brooklyn Park commercial node. It is not considered a pedestrian-friendly area to reach existing retail destinations on three of the four intersection corners. The LRT stop will increase the level of pedestrian and bicycle traffic and improvements will be required to improve safety. It is anticipated that a public/private partnership will be required between the city and shopping center owners to implement missing walkway connections through large parking lots. Today most of the pedestrian facilities are along the face of buildings.

In the Bass Lake Road and Brooklyn Boulevard station areas, any short-term growth will not be driven by the need for a net increase in retail space, but from finding opportunities to support small retailers who are meeting the needs of new demographic groups, such as younger households, people of color, and immigrants. This could involve repositioning older properties to be more conducive to small retailers or improving the public realm to help maintain or increase occupancies. The Station Area Plans identified flexible, low-cost market stalls in strategic locations targeted to startups and entrepreneurs as an example of this type of opportunity. Project 2 is structured as a mixed-use site that could support some of the desired uses for the area.

General Project Description	
Property Address	7925 Brooklyn Boulevard
Parcel ID	2911921210096
Existing Market Value	$4,848,600 (assess 2020, pay 2021)
Site Size	5.49 acres
Development Assumptions	Mixed Use Development – Higher Density – 300 rental housing units – 100 for-sale owner-occupied units – 70,000 square feet Commercial-Retail-Office

Financing/Funding Structure

Based on the City's Comprehensive plan, the analysis assumes the planned development for this project site could be the construction of a mixed use residential and commercial project with owner-occupied and rental homes and supporting retail space. The total development costs for the project are estimated to be $125,785,000 based on the following construction cost estimates for each of the project components.

- $200,000/unit apartment units
- $200/square foot for commercial space
- $275,000/unit for sale units

Remaining costs included within the total costs are land, construction interest, developer fee, legal fees, architect fees, reserves, other soft costs and construction contingency. Generally, there are ranges for certain costs, including land, construction, and developer fees, as estimated. We may see developer fees around 3-5% for privately financed projects. The table on the following page provides a summary of the preliminary sources and uses of funds for this financing structure with an estimated funding gap.

The operating revenues include rental rates assuming market rate apartments and commercial retail space. The projected operating cash flow proforma assumptions are consistent with industry standards for inflation and vacancy to include 3% annual increase in revenues and expenditures. With these assumptions and no additional funding sources, the project is not expected to be financially feasible.

Financial Feasibility Using Baseline/Traditional Financing

We have assumed that a traditional project funding structure would include private financing of a first mortgage and owner equity as primary revenue sources. It is assumed the baseline/ traditional financing structure would not be sufficient for a proposed TOD project considered for this project site and that additional funding from other sources will be necessary for financing of certain extraordinary project costs related to redevelopment, TOD enhancements, infeasible commercial space, mixed-income/affordable housing development, and additional public infrastructure improvements.

The projected operating revenues from each phase/building of the project would be used to finance operating expenses, support debt service payments and provide equity investor returns. The project cash flows incorporate operating revenues that include rental rates from the residential apartment units and commercial retail space, parking and any other related income. Operating expenses have been estimated as a percentage of annual revenues. Annual debt service payments have been amortized over 30 years assuming repayment of the first mortgage at 5%. Assumptions within the operating cash flow proforma are consistent with industry standards for annual revenue and expense inflators of 3% and annual vacancy rates of 5%. With the baseline assumptions as described assuming solely private financing and no additional public funding sources, the project is not expected to be financially feasible. The projected financial gap for this first funding structure is approximately $25,000,000. This is generally consistent for TOD projects that incorporate extraordinary public purpose costs that are not supported by the market. A traditional privately financed approach for this TOD project is not feasible.

For this project concept to be financially feasible, we can assume there will need to be an alternative financing structure that incorporate additional funding programs, strategies and sources to close the financial gap. The enhanced financing scenario illustrated in the next section will incorporate additional funding sources and programs as a means of providing an alternative funding structure(s) that could provide for the development of a financially feasible project.

Financial Feasibility Using Enhanced Financing

As stated above, the projected financial gap assuming a traditionally financed redevelopment project financed solely with private investment could be expected to be approximately $25,000,000. Those funding sources alone would not support a financially feasible project based on current assumptions. Additional funding, either as upfront in the form of grant or lower-interest financing, or additional cashflow from other sources would be necessary to assist with financing of the project due to the higher development costs and reduced annual revenues available to support repayment of equity investment and debt obligations.

Annual operating revenues less operating expenses is the net operating income of the project. Net operating income is used to support annual debt service payments and provide equity investor returns within market ranges. In order to obtain adequate project funding, annual operating revenues are required to:

1) meet minimum debt coverage requirements of a lender
2) produce reasonable rates of return to the investors

The financial gap has been calculated based on the level of private financing and equity this project could expect to receive based on net operating income. Additional upfront funding sources that reduce the burden of annual operating revenues' ability to pay expenses and cash flow funding would allow the project to be financially feasible. It is assumed that additional upfront and annual operating funding sources would be necessary to establish and enhance financial feasibility.

Enhanced Financing Scenario

To understand how this project could achieve financial feasibility (increased debt coverage and/or investor returns), we started with the traditional funding structure and $25,000,000 gap. We targeted funding sources that could be used to reduce that gap. This could include some familiar funding sources such as tax increment financing, energy and sales tax rebates, tax credits, low-interest loans, deferred developer fee, Met Council, LCDA and Hennepin County TOD/AHIF funding.

The enhanced financing scenario has focused more on the inclusion of innovative funding strategies and programs that may not be as common but considered for certain project components. Components of this proposed project that contribute to the $25,000,000 funding gap and will need innovative funding sources include:

1. Commercial/retail space
2. Mixed income housing
3. Infrastructure improvements

There are funding strategies and programs specific to each of the project components that would be used in combination on eligible pieces of the total project. There are certain programs that only work for commercial/retail space and those that work only for residential units. In certain cases, the funding sources would also be sufficient to support additional TOD infrastructure improvements. In other instances, additional funding sources above those for commercial or residential uses would need to be incorporated.

Utilizing public assistance that includes local participation, regional and state funding sources would provide additional resources for a financially feasible project that also includes TOD components. For a project of this type that incorporates multiple components all requiring public assistance, increased public participation may be considered reasonable. The availability of actual programs and funding sources will be based on developer investor resources, market demand, project performance, and project type. The project performance for the enhanced financing scenario has demonstrated returns that would be at the low end of minimum levels as necessary to create a financially feasible project.

Sources and Uses

The following table provides a summary of the preliminary sources and uses of funds assuming a baseline/traditional financing scenario. It includes an estimate of the total development costs related to acquisition and subsequent construction of the mixed-use project components. Given assumptions regarding the ability of the project to generate net operating revenues and the ability to capitalize those revenues, it also shows the assumption regarding equity, capital provided through borrowing (debt), and the resultant initial financing gap of $25,000,000.

Sources and Uses of Funds Illustrating Baseline/Traditional Financing with Gap			
Sources		Uses	
First Mortgage	56,628,000	Land	7,500,000
Equity	14,157,000	Construction	101,500,000
		Contingency	3,700,000
Sales Proceeds	30,000,000	Financing	3,700,000
		Soft Costs	5,000,000
Gap	25,000,000	Developer Fee	4,385,000
Total	125,785,000	Total	125,785,000

Enhanced Financing Strategy

To illustrate how the financial gap of $25,000,000 could be resolved, we adjusted the upfront sources of funds to include additional revenues through grants and other mechanisms. The additional funding sources would be facilitated through the establishment and use of alternate funding sources. For example, if we were to assume the City and development team could incorporate a community owned business, business incubator, community land trust, and/or resource center to facilitate development and subsequent success of commercial retail and office space within the project, the assumption is that those strategies would attract the additional funding sources necessary for the project. Funding sources specific to the commercial project components could include:

- Opportunity Zone Funding
- Social impact investors

- Angel investors
- Small business administration

Many of the above funding sources have more favorable terms including lower interest rates, reduced equity returns, long-term investment and deferred funds. All of the above would provide the upfront financing needed for acquisition, construction and other related soft costs. The above funding sources could also be used in conjunction with some traditional funding sources available from local, regional and state sources. The housing components of the project are expected to utilize some of the City programs described under Funding strategies.

The purpose of the enhanced financing scenario is to illustrate how innovative financing strategies could be used to develop a project that meets the City's desired TOD project objectives including affordable commercial retail/office space, affordable and moderate-income housing and infrastructure improvements. The table that follows incorporates the alternative financing scenario that would fill the $25,000,000 financial gap with additional revenue sources supported by the alternate strategies.

Sources and Uses of Funds Illustrating Enhanced Financing to fill Gap

Sources		Uses	
First Mortgage *	65,828,000	Land	7,500,000
Equity	16,457,000	Construction	101,500,000
Sales Proceeds	30,000,000	Contingency	3,700,000
Grants	1,500,000	Financing	3,700,000
Sponsor Equity	6,000,000	Soft Costs	5,000,000
Loan (low interest)	6,000,000	Developer Fee	4,385,000
Total	125,785,000	Total	125,785,000

** would include annual tax increment revenues as additional cashflow to support debt service payments*

The operating proformas on the following pages show the annual cash flow projections using the assumptions outlined above under "Financing/Funding Structure" and based on the project described with total development costs of $125,785,000. The first schedule appears to achieve adequate debt coverage and return to the developer but is $25,000,000 short of funding total development costs. The second schedule appears to have similar coverage and developer return results but uses higher rental income and additional debt and non-debt sources to provide full funding for the project.

Operating Proforma: Baseline/Traditional Financing

City of Brooklyn Park, Minnesota
Buerkle Honda
Operating Proforma Illustrating Baseline/Traditional Financing

Sources	Amount	Percent	Uses	Amount
First Mortgage	56,628,000	45.02%	Land	7,500,000
Equity	14,157,000	11.25%	Construction	14,000,000
		0.00%	Construction	60,000,000
For Sale Units	30,000,000	23.85%	Contingency	3,700,000
			Financing	3,700,000
			Soft Costs	5,000,000
			Developer fee	4,385,000
Financial Gap	25,000,000	19.88%	Construction	27,500,000
Total	**125,785,000**		Total	**125,785,000**

Revenue Inflation Rate	**3.00%**
Expense Inflation Rate	**3.00%**

IRR	13.68%
FMV	$85,302,687
NOI Year 10	5,118,161
Cap Rate	6.00%
Mortgage	46,062,384
Cost of Sale	3%
Sale Proceeds	$36,681,222
Remaining TIF (PV)	
Yield on Cost	3.31%
Cash on Cash Return	2.77%

				Year	1	2	3	4	5	6	7	8	9	10
Revenues	Unit #	SF/Unit	Rent/SF	Rent/Unit										
Apartments														
Studio	100	550	1.85	1,017.50	1,221,000	1,257,630	1,295,359	1,334,220	1,374,246	1,415,474	1,457,938	1,501,676	1,546,726	1,593,128
1 Bedroom	50	850	1.85	1,572.50	943,500	971,805	1,000,959	1,030,988	1,061,918	1,093,775	1,126,588	1,160,386	1,195,198	1,231,053
2 Bedroom	50	1,100	1.85	2,035.00	1,221,000	1,257,630	1,295,359	1,334,220	1,374,246	1,415,474	1,457,938	1,501,676	1,546,726	1,593,128
Apartments														
Studio	50	550	1.85	1,017.50	610,500	628,815	647,679	667,110	687,123	707,737	728,969	750,838	773,363	796,564
1 Bedroom	25	850	1.85	1,572.50	471,750	485,903	500,480	515,494	530,959	546,888	563,294	580,193	597,599	615,527
2 Bedroom	25	1,100	1.85	2,035.00	610,500	628,815	647,679	667,110	687,123	707,737	728,969	750,838	773,363	796,564
Retail	20,000			20	400,000	412,000	424,360	437,091	450,204	463,710	477,621	491,950	506,708	521,909
Office	50,000			15	750,000	772,500	795,675	819,545	844,132	869,456	895,539	922,405	950,078	978,580
Parking	325		-	50	195,000	200,850	206,876	213,082	219,474	226,058	232,840	239,825	247,020	254,431
vacancy			5%	10%	(388,413)	(400,065)	(412,067)	(424,429)	(437,162)	(450,277)	(463,785)	(477,698)	(492,029)	(506,790)
TIF					-	-	-	-	-	-	-	-	-	-
Total Revenues	300				6,034,838	6,215,883	6,402,359	6,594,430	6,792,263	6,996,031	7,205,912	7,422,089	7,644,752	7,874,094
Operating Expenses														
Total Operating Expenses			35%		2,112,193	2,175,559	2,240,826	2,308,050	2,377,292	2,448,611	2,522,069	2,597,731	2,675,663	2,755,933
Cash Flow Available for Debt Service					3,922,644	4,040,324	4,161,533	4,286,379	4,414,971	4,547,420	4,683,843	4,824,358	4,969,089	5,118,161
Debt Service														
1st Mortgage Debt Service					(3,647,896)	(3,647,896)	(3,647,896)	(3,647,896)	(3,647,896)	(3,647,896)	(3,647,896)	(3,647,896)	(3,647,896)	(3,647,896)
Total Debt Service					(3,647,896)	(3,647,896)	(3,647,896)	(3,647,896)	(3,647,896)	(3,647,896)	(3,647,896)	(3,647,896)	(3,647,896)	(3,647,896)
Debt Coverage Ratio					1.08	1.11	1.14	1.18	1.21	1.25	1.28	1.32	1.36	1.40
Net Income					274,748	392,428	513,637	638,483	767,075	899,524	1,035,946	1,176,462	1,321,192	1,470,265
Deferred Fee Repayment														
Net Available Cash Flow					274,748	392,428	513,637	638,483	767,075	899,524	1,035,946	1,176,462	1,321,192	1,470,265
Hypothetical Sale														$36,681,222
Cash Flow				-14,157,000	274,748	392,428	513,637	638,483	767,075	899,524	1,035,946	1,176,462	1,321,192	1,470,265
				-14,157,000	274,748	667,176	513,637	638,483	767,075	899,524	1,035,946	1,176,462	1,321,192	38,151,487
Projected 10 Year IRR					**13.68%**									
Estimated Cash on Cash Return					1.94%	2.77%	3.63%	4.51%	5.42%	6.35%	7.32%	8.31%	9.33%	10.39%

Operating Proforma: Enhanced Financing

Buerkle Honda
Operating Proforma Illustrating Enhanced Financing

Sources	Amount	Percent	Uses	Amount
First Mortgage	65,828,000	52.33%	Land	7,500,000
Equity	16,457,000	13.08%	Construction	14,000,000
		0.00%	Construction	60,000,000
For Sale Units	30,000,000	23.85%	Contingency	3,700,000
			Financing	3,700,000
Grants	1,500,000	1.19%	Soft Costs	5,000,000
Sponsor Equity	6,000,000	4.77%	Developer fee	4,385,000
Loan	6,000,000	4.77%	Construction	27,500,000
Total	**125,785,000**	**100%**	Total	**125,785,000**

Revenue Inflation Rate	**3.00%**
Expense Inflation Rate	**3.00%**

IRR	14.64%
FMV	$99,185,798
NOI Year 10	5,951,148
Cap Rate	6.00%
Mortgage	53,545,854
Cost of Sale	3%
Sale Proceeds	$42,664,370
Remaining TIF (PV)	7,546,395
Yield on Cost	4.17%
Cash on Cash Return	2.23%

				Year	1	2	3	4	5	6	7	8	9	10
Revenues	Unit #	SF/Unit	Rent/SF	Rent/Unit										
Apartments														
Studio	100	550	1.85	1,017.50	1,221,000	1,257,630	1,295,359	1,334,220	1,374,246	1,415,474	1,457,938	1,501,676	1,546,726	1,593,128
1 Bedroom	50	850	1.85	1,572.50	943,500	971,805	1,000,959	1,030,988	1,061,918	1,093,775	1,126,588	1,160,386	1,195,198	1,231,053
2 Bedroom	50	1,100	1.85	2,035.00	1,221,000	1,257,630	1,295,359	1,334,220	1,374,246	1,415,474	1,457,938	1,501,676	1,546,726	1,593,128
Apartments														
Studio	50	550	1.85	1,017.50	610,500	628,815	647,679	667,110	687,123	707,737	728,969	750,838	773,363	796,564
1 Bedroom	25	850	1.85	1,572.50	471,750	485,903	500,480	515,494	530,959	546,888	563,294	580,193	597,599	615,527
2 Bedroom	25	1,100	1.85	2,035.00	610,500	628,815	647,679	667,110	687,123	707,737	728,969	750,838	773,363	796,564
Retail	20,000			20	400,000	412,000	424,360	437,091	450,204	463,710	477,621	491,950	506,708	521,909
Office	50,000			15	750,000	772,500	795,675	819,545	844,132	869,456	895,539	922,405	950,078	978,580
Parking	325		-	50	195,000	200,850	206,876	213,082	219,474	226,058	232,840	239,825	247,020	254,431
vacancy			5%	10%	(388,413)	(400,065)	(412,067)	(424,429)	(437,162)	(450,277)	(463,785)	(477,698)	(492,029)	(506,790)
TIF					1,281,518	1,281,518	1,281,518	1,281,518	1,281,518	1,281,518	1,281,518	1,281,518	1,281,518	1,281,518
Total Revenues	300				7,316,356	7,497,401	7,683,877	7,875,948	8,073,781	8,277,549	8,487,430	8,703,607	8,926,270	9,155,612
Operating Expenses														
Total Operating Expenses			35%		2,560,724	2,624,090	2,689,357	2,756,582	2,825,823	2,897,142	2,970,600	3,046,262	3,124,194	3,204,464
Cash Flow Available for Debt Service					4,755,631	4,873,310	4,994,520	5,119,366	5,247,958	5,380,407	5,516,829	5,657,345	5,802,075	5,951,148
Debt Service														
1st Mortgage Debt Service					(4,240,547)	(4,240,547)	(4,240,547)	(4,240,547)	(4,240,547)	(4,240,547)	(4,240,547)	(4,240,547)	(4,240,547)	(4,240,547)
Loan					(266,126)	(266,126)	(266,126)	(266,126)	(266,126)	(266,126)	(266,126)	(266,126)	(266,126)	(266,126)
Total Debt Service					(4,506,673)	(4,506,673)	(4,506,673)	(4,506,673)	(4,506,673)	(4,506,673)	(4,506,673)	(4,506,673)	(4,506,673)	(4,506,673)
Debt Coverage Ratio					1.06	1.08	1.11	1.14	1.16	1.19	1.22	1.26	1.29	1.32
Net Income					248,958	366,637	487,847	612,693	741,284	873,733	1,010,156	1,150,671	1,295,402	1,444,475
Deferred Fee Repayment														
Net Available Cash Flow					248,958	366,637	487,847	612,693	741,284	873,733	1,010,156	1,150,671	1,295,402	1,444,475
Hypothetical Sale														$50,210,765
Cash Flow				-16,457,000	248,958	366,637	487,847	612,693	741,284	873,733	1,010,156	1,150,671	1,295,402	1,444,475
				-16,457,000	248,958	615,595	487,847	612,693	741,284	873,733	1,010,156	1,150,671	1,295,402	51,655,240
Projected 10 Year IRR					**14.64%**									
Estimated Cash on Cash Return					1.51%	2.23%	2.96%	3.72%	4.50%	5.31%	6.14%	6.99%	7.87%	8.78%

Funding Tools

Innovative Funding Strategies and Tools

Components Driving Funding Gap

There are several components to this project scope that are anticipated to generate a funding gap. The site is close proximity to the Van White Station Area. The City desires to have infrastructure, affordable housing and mixed-use development that includes commercial retail/office space. Each of these project uses typically results in a financial gap for a project. Layering the costs will generally cause an increased funding gap similar to what has been generated for both Project 1 and 2. We made several assumptions in the enhanced financing scenarios as an illustration of closing the projected funding gap. We have assumed the projects will utilize available tools to facilitate mixed income housing that includes tax credits, loans and grants, low interest loans, community land trust and ground lease opportunities. To facilitate infrastructure needs, we have assumed value capture tools could be utilized. To facilitate the construction of mixed-use and first floor commercial, strategies to be considered include tax credits, community-owned businesses, business incubator, rent control, and community land trusts. Social impact investors, program related investments and direct grants/loans are also funding sources available for financing of extraordinary project costs related to all project components.

To follow is a listing of potential funding strategies and tools that could be considered for the City's proposed future projects. Whether a given tool will be applicable for each project will depend on what the actual development type and its specific use may be but could be a valuable resource to assist with project analysis. The list is intended to provide funding resources that could be used by the City and/or private investor to assist with project development. The purpose is to create and identify a list of resources that could be available to help businesses and residents get access to financing, especially to incentivize businesses that are in mixed use development (both commercial and residential use). More summary information and links to outside resources can be found in the TOD Funding Guide developed as part of the larger TOD study.

Commercial and Mixed-Use Project Strategies

Community-owned businesses (COBs)[1]:
Community-owned businesses (COBs) are financed and owned collectively by local residents. Community based enterprises use business to improve the life of a community. They are different from private enterprise because their business activity is undertaken as a means of achieving a community benefit, not private gain. They are based on assets belonging to the community that can't be sold off for private financial gain, benefiting stakeholders play a leading role in the enterprise, and have a goal of remaining financially self-sustaining. COBs can provide a vehicle to fill local needs including:

- Local media
- Affordable broadband
- Fresh groceries, household goods
- Provide affordable commercial spaces and other community voids

Business Incubators
A business incubator is a nonprofit corporation that assists start-up and developing businesses by providing services and support. The National Business Incubation Association (NBIA) defines business incubators as a catalyst tool for either regional or national economic development. Business incubators reduce the financial concerns many new companies face by offering:

- Office space
- Management training
- Access to shared equipment and meeting rooms
- Networking activities

[11] https://www.amiba.net/resources/community-ownership/

- Other ongoing business development services (legal, accounting, marketing, etc.)

Community-Land Trusts (CLTs)
A community land trust (CLT) is a nonprofit corporation that develops and stewards the following in order to balance the needs of individuals to access land and maintain security of tenure with a community's need to maintain affordability, economic diversity and local access to essential services. Examples of the types of development that may benefit from CLTs include the following:

- Affordable housing for low- and moderate-income people
- Community gardens
- Civic buildings
- Commercial spaces
- Other community assets developed on behalf of a community.

Employee-owned Cooperatives and Employee Stock Ownership Plan (ESOP)
Employee owned cooperative, also known as worker cooperatives, is a cooperative that is owned and self-managed by its workers. This control may mean a firm where every worker-owner participates in decision-making in a democratic fashion, or it may refer to one in which management is elected by every worker-owner who each have one vote. With a somewhat similar mission, the structure of an ESOP is one where stock is given to employees as part of their compensation and employees own the business.

CDFI
Community development financial institutions (CDFIs) provide credit and financial services to people and communities underserved by mainstream commercial banks and lenders. CDFIs encompass a range of nonprofit and for-profit entities including community development banks, community development credit unions, community development loan funds, community development venture capital funds, and microenterprise loan funds. The previously mentioned Denver Impact Fund is administered by a CDFI.

University and Community Partnerships
Institutions of higher education have an obvious vested interest in building strong relationships with the communities that surround their campuses. They do not have the option of relocating and thus are of necessity place-based anchors. While corporations, businesses, and residents often flee from economically depressed low-income urban and suburban edge-city neighborhoods, universities remain. At a time when foundations that help establish community-based projects are commonly unable to continue with ongoing involvement over long periods of time, universities can play an important role. Universities are inherently an important potential institutional base for helping community-based economic development in general, and civically engaged development in particular. (See also, "Anchor Institution" below.)

Anchor Institutions
Anchor institutions are large public or nonprofit organizations that once established tend not to move location. An important part of the local economies in which they reside, they can deliberately use their economic power to strengthen their community. Indeed, in many places, these anchor institutions have surpassed traditional manufacturing corporations to become their region's leading employers. This is particularly useful in neighborhoods where there are historic and other barriers to people accessing economic opportunity. Focused, well administered programs can foster community wealth building. The largest and most numerous of such nonprofit anchors are universities and non-profit hospitals (often called "eds and meds"). Other examples of anchor institutions include museums, faith-based institutions, libraries, and locally focused philanthropies.

Social Impact Investing
Impact investments are investments made into companies, organizations, and funds with the goal of generating positive, measurable social or environmental outcomes alongside a financial return. The term "impact investing" is relatively new, becoming popular in 2007. The practice of investing for social—and not merely economic—return itself has a much longer history and includes two key approaches:

- **Socially Responsible Investments (SRIs)** are investment strategies that *individuals* employ to generate financial returns while promoting social good. The most common form of socially responsible investment involves investment portfolios designed to exclude certain companies based on explicit social and/or environmental criteria. This is

known as “negative screening.” However, positive screening, investment in companies that achieve some positive social benefit, is another SRI strategy.

- **Mission-Related Investments** are investment strategies that *foundations* and *anchor institutions* use to generate financial returns as they promote mission-related goals. **Program-related investments (PRIs)** are one such strategy that has played a role in building wealth in low-income communities. Depositing money in community development financial institutions (CDFIs), such as community development credit unions or community loan funds, is another. In additions to PRIs and CDFIs, some foundations, such as the F.B. Heron Foundation, have dedicated their entire corpus in alignment with the Foundation’s mission. In each asset class (such as stocks, bonds, loans, and private equity placement), Heron seeks to ensure that investment priorities align with the Foundation’s social values.

Small Business Administration
The Small Business Administration is a governmental agency that ensures a percentage of the loan that is made by a local lender. These loans can be made on a real property for business use. These loans have many restrictions and usually take a long time to process but the interest rate is often lower than the current market because the government is guaranteeing a portion of the loan.

Resource center
A business resource center (“center”) can serve as a welcome center for the particular neighborhood for businesses. The center can provide a one-stop shop of resources for small businesses to gain access to financial, technological and marketing resources to help them compete with larger businesses in the area. The resource center can provide the following:

1. Start-up help – connecting business owners with consultants and developers
2. Marketing and promotion
3. Administrative assistance: legal, bookkeeping, taxes, etc.
4. Rent assistance and support

Strategies for Housing Projects

- Affordable Housing Trust Fund
- Revolving Loan Fund
- Inclusionary zoning
- Tax Credits
- Value Captured Tools
    - Tax Increment Financing
    - Tax Abatement
- Debt Financing
    - General Obligation
    - Special Assessments
    - Revenue Bonds
    - Conduit
- Loans/Grants
- HOME Investment Partnerships Program (HOME)
- Community Development Block Grant (CDBG)
- National Housing Trust Fund
- Capital Magnet Fund
- Housing rehabilitation
- Small site acquisitions
- Land banking for affordable housing
- Corridor-based Tax Increment Financing Districts
- Joint Development opportunities for affordable housing production

Potential Development Concepts for Commercial Components

Case Study: Sample community-owned business

Coffee Shop / Bike repair store

A 501(c)(3) organization owns a coffee shop that is connected with a bike repair store. The 501(c)(3) public charity operates a number of activities in the area and has a board that reflects the community. The coffee shop has a seating area and is operated by full-time employees. The bike repair shop has a full-time repair employee. The bike shop has very limited hours in the winter, but more robust hours the rest of the year.

In the summer, the bike repair shop will have two high school apprentices. The primary goal is to teach the apprentices a craft, but also help them learn about operating a business. This model could be done on a larger scale, or on a similar scale, but in multiple locations.

In this case, revenue is enhanced via the ability to raise funds through fundraising. There is also a strong community board and a close relationship with one of the churches in the neighborhood. The community board includes board members with a variety of skills that can provide "back office" support or oversight.

As a part of a larger organization, the coffee shop/bike shop is able to utilize the resources of the larger organization (bookkeeping, HR, etc.). The 501(c)(3) organization utilizes neighborhood and/or nearby resources for these services.

<u>Application to other areas</u>
While another public charity could operate this type of business, it would also be a candidate for a minority entrepreneur or a community owned business – both for-profit operations.

As for-profit organizations, there are a variety of funding options available to the organizations:

- Small Business Administration loans and other similar programs
- Angel investors (higher rate of return required)
- Social impact investors (lower rate of return required)
- Program Related Investments from foundation (lower rate of return required)
- Direct grants to assist in establishing the organization or employing low-income individuals

The organization could also avail itself of accounting, staffing, HR, etc. services from other neighborhood businesses and benefit from a business resource center for other types of governmental assistance. As a locally owned business, hopefully it would enjoy the patronage and support from local residents.

The business could also be a training location for minorities and low-income individuals to help them gain work skills. It could also be an entry into other work programs and/or apprenticeship programs offered by other businesses in partnership with a local community college.

Case study for business incubator sample project:
Business Incubator

A business incubator ("BI") is typically established as a non-profit 501(c)(3) organization that supports growth in a particular industry. The organization will provide the facility, office space and supportive programming for early-stage companies.

Funding sources for a BI
Business incubators are often sponsored by private companies, municipal entities and public institutions such as colleges or universities, so much of their funding may come from the sponsoring organization in addition to other private donors. Other companies and organizations in a similar industry may also contribute to the BI and could share their resources with the start-ups as needed. This may also include businesses who could provide administrative support to the start-ups residing in the BI, such as talent acquisition, accounting and tax, legal and marketing support, with the potential for a discounted rate.

Governance of a BI
As a non-profit organization, there will typically be a board of directors, which may be comprised of representatives/leaders all over the city or state in the particular industry. The board of directors can elect board officers to oversee operations of the BI. The board can also provide more opportunities for the BI and its start-ups to learn about other companies in the area, specifically industry trends, figures and what is new in the marketplace.

Criteria to apply for a BI
Many business incubators allow companies to apply online. Companies would typically need to provide their organizational information, space needs (e.g. offices, shared space and equipment needs), and current funding levels/sources. BIs conduct research on the company including browsing social media, the website and business plan from a sustainability and mission-alignment perspective.

Resources available while residing in a BI

1. Networking services: The BI can invest in and provide a number of services designed to help grow the start-up business. It can provide opportunities to network with other start-ups and offer training opportunities in different areas of business.
    a. Partnership opportunities: BIs are sometimes supported or funded by other larger organizations or companies, such as governments, colleges or universities. This connection can provide a myriad of resources to the start-up, including potential employees or apprentices, funding sources and access to research (depending on the industry).
2. Business libraries or journals: The BI can often subscribe to expensive knowledge tools such as libraries, journals and other articles that can assist start-ups with their own research, technology and development of materials.
3. Business services: The BI can offer shared spaces ad resources with the other start-up companies, to allow the start-up access without having to incur the expense outright. Examples of on-site business services could include shared conference spaces, shared IT and teleconference equipment and helpdesk, high-speed Wi-Fi connections, shared office equipment (printers, copiers, postage), secure sites for collecting and shipping packages and a shared loading dock for shipping and receiving needs.
    a. The BI can occupy a larger space to house start-up companies, so it can invest or expand rooms and conference centers for business use. For example, if start-ups want to hold networking or grand opening events, trainings or other presentations, they could have access to an appropriately sized room that may otherwise be too expensive to rent on its own.
4. Financial resources: Aside from offering trainings about business concepts, BIs can assist start-ups with obtaining and accessing financial support from governmental entities, private companies, the SBA or other reputable resources. It can also provide assistance with applications, processes and tracking/documenting funds upon receipt.
5. Logistical offerings: Typically for the below-market rental fee, the BI provides discounted or free guest and employee parking, a convenient location for businesses to start up and network and bike racks for convenient commute.

Next Steps

It is important to note the assumptions used to close the estimated financial gaps in each scenario will ultimately be subject to a variety of both controlled and uncontrolled variables including:

1. Project specifics (type, clientele served, etc.)
2. Policy
3. Market
4. Access to financial resources
5. Availability of funding

The purpose of the analysis of the two project sites was to review potential projects the City has identified as opportunities for redevelopment. We focused the project details for each site based on City staff feedback for desired and marketable uses.

Potential Barriers to Redevelopment that may be Identified:

- Existing businesses/tenants
- Relocation
- High acquisition cost
- Lack of support of future development
- Additional public improvements needs
    - Enhancements
    - TOD requirements
    - Public space/plaza/amenities
    - Sidewalks/trails
- Market demand
- Timing for anticipated phased development
- Availability of Funding Sources

Potential Next Steps for Consideration:

- RFQ – solicit developer interest
- Align development with market
    - Housing study – gap analysis
    - Commercial analysis
        - affordability

Policy Considerations

When private development efforts result in requests for public assistance, cities are faced with a number of policy considerations. These considerations often revolve around the desire to advance a project, the cost vs perceived benefit to the community at large, and the ability to treat all private parties equitably. This section addresses topics related to gap funding policy considerations.

Cities use different incentives for a variety of purposes that might include some or all of the following:

- Stimulate development where it would otherwise not occur (“but for” test)
- Retain existing tax base
- Encourage development of uses that would otherwise not occur, such as low-income housing
- Enhance tax base
- Facilitate infrastructure improvements
- Coordinate new developments with existing plans
- Demonstrate long-term benefits to the community
- Retain local jobs and/or increase the number and diversity of jobs that offer stable employment and/or attractive wages and benefits
- Encourage unsubsidized private development through “spin off” development
- Increase private investment (consequently market value) through:

- Increased employment
- Added housing units (Affordable or Market Rate)
- Attraction of visitors who contribute to the local economy
- Increased sales volume
- Elimination of negative or blighting influences effecting surrounding property (Blight Curve)
- Maximize land use (TOD)
- Addition of infrastructure (parking other public improvements)

An important thing to focus on when considering providing any financial consideration for a project is what is driving the gap and if the need for public financial assistance is driven by project specific needs and will result in reasonable financial outcomes for all parties involved. Sometimes extraordinary public improvements or amenities are being required by the City or community and a developer may reasonably request that public participation cover the extra costs that result. In every case, understanding why the City would consider participating (see above) needs to be coupled with a clear understanding of what is driving the need for public financing assistance is essential to assure that each party gets a return that is reasonable for the investment that they are making – whether that is the public participant or the private participant. Below are some of the reasons that a project may exhibit a financing gap:

- Extraordinary redevelopment costs
- Hold out by existing property owner, land price too high
- Development needs more than it can pay for
- “Oversizing” of utility and infrastructure needs for future growth
- Developer wants less risk/more return than typical market conditions dictate
- Market competition
- Achieve development on sites that would not develop “but for” the use of TIF
- Remove blight and/or encourage redevelopment of commercial and industrial areas resulting in high quality redevelopment and private reinvestment
- Offset redevelopment costs (i.e. contaminated site clean-up) over and above the costs normally incurred in development
- Housing types
  - Market rate
  - Affordable
  - Work force

Evaluating the Proper Role for the Public

When reviewing projects and understanding financial feasibility and potential tools that may be available to spur development and redevelopment, it may be helpful to understand what role your community may want to play to encourage development/redevelopment opportunities and what your risk level and/or cost is. They typically include the following:

Role	Risk Level
Grant the permit and zoning allowance	Lowest risk
Reimburse the project as benefits are completed	Low risk
Be the lender	Medium/high risk
Be the borrower	Higher risk
Be the developer	Highest risk

It is important to understand real estate development or engage a third party to help as needed when choosing the role to take. A good understanding of what is being asked for, why/if it is necessary, and if project returns are reasonable for each party will protect the public from over or under subsidizing projects. Understanding the communities’ interest or desire for a particular project or related public amenity is also important in shaping the long-range vision in which public investments are made.

Communities should keep the concept of measurable return in mind as they approach development involvement. What is the outcome that is desired? Who will benefit? Is the benefit reasonable and does it justify the cost? What guarantees the desired outcome is achieved if an investment is made? Contractual agreements can be developed that define who will do what, pay for what, and what will happen if those things do not happen. A local government that relies on property taxes might use an increase in the market value of real estate as the primary measure of whether the project has been successfully completed. Other measurable outcomes might include job production, affordable housing units produced, or timely completion of project or phases of the project.

The benefit that a party receives from public incentives should be measured and at a reasonable level. Return on Investment (ROI) to the developer or investor is a simple performance measure to evaluate the efficiency of an investment opportunity. It is calculated by subtracting the cost of the investment from the benefits of the investment and then dividing by the cost of the investment. The result is expressed as a ratio. A reasonable level for ROI will be different for different types of developments and developers and fluctuates over time. Understanding the dynamics that drive the calculation what a reasonable range of ROI is for the project under consideration is key in evaluating the level of assistance needed, if any.

We recommend all of these items be considered when reviewing project concepts and determining appropriate levels, if any, of public financial assistance.

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City of Crystal

Blue Line Extension Innovative Financing:

Real Estate Development

July 31, 2020

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July 31, 2020

City of Crystal

RE: Innovative Financing Strategies

The Metropolitan Council retained Baker Tilly to study financing tools available to assist Transit Oriented Development (TOD). Part of the study includes providing Real Estate Development Technical Assistance for ten projects that were selected by the Technical Assistance Committee (TAC). Two of the projects were identified by the City as potential TOD development/redevelopment opportunity sites adjacent to the Blue Line Extension.

The two projects provided for evaluation and coordination of technical assistance are both site specific and in the conceptual stage for development concepts. Certain assumptions were made regarding type, density and phasing of development. The projects are being evaluated based on the following criteria:

- Applicable Zoning
- Site Selection Criteria
- Site Planning Principals
- Financing/Funding Structure
- Financial Feasibility

Input provided by City staff assisted with updating and refining the development assumptions related to the above criteria. We appreciate the opportunity to have worked with the City on these exciting projects.

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Contents

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Introduction

Background on City of Crystal

The City of Crystal is a fully developed, first tier suburban community just west of Minneapolis in Hennepin County. The City has a population of more than 23,000 residents. The City's mission is to improve and promote the quality of life for all Crystal citizens and provide municipal services in a cost-effective, innovative, and professional manner.

The City is committed to redevelopment, updating its infrastructure, and maintaining the vitality and livability of its neighborhoods through proactive code enforcement. Crystal is one of five corridor cities along the METRO Blue Line Extension (Bottineau LRT) that is proposed to stretch from downtown Minneapolis through the cities of Golden Valley, Robbinsdale, Crystal, and Brooklyn Park where the line will terminate north of Hwy. 610. The Bottineau LRT will have 11 stations, one of which is located in the City of Crystal in the southwest quadrant of the County Rd. 10 (Bass Lake Rd.) and County Rd. 81 (Bottineau Blvd.) intersection. After several community meetings, a station area plan was completed in 2016. One of the concepts that emerged from those community meetings was the proposed reconstruction of the streetscape along Bass Lake Road including replacing some of the existing streetscape with parallel on-street parking to create a "main street" feel. The City completed the Bass Lake Road Streetscape Project between May-September 2018. Improvements included the following:

- New sidewalk, boulevard treatments, landscape beds and related features from Elmhurst Ave. to the former Hampshire Ave. (now the driveway between Nokomis Shoes and Crystal Town Center).
- Twelve on-street parallel parking spaces in front of the block of buildings between Elmhurst and Sherburne Ave. (no reduction in traffic lanes).
- Enhanced lighting:
    - Retrofit existing streetlights with LED luminaires on both sides of Bass Lake Rd./56th Ave. from the BNSF rail corridor to former Hampshire Ave.
    - Add LED luminaires to the two Sherburne signal poles currently without lights.
    - Install new light poles with LED luminaires in both city-owned parking lots.
- New benches, bike racks and trash/recycling receptacles at various points along the streetscape.
- Upgraded pedestrian crosswalks at the Sherburne intersection.

Bass Lake Road Station Area

The Bass Lake Road station area is located at the busiest crossroads in Crystal with a variety of development types in all directions. Crystal’s retail core is a short distance to the west of the station centered on Crystal Shopping Center. There are complementary retail centers and stores along West Broadway and Bass Lake Road and additional retailers that face Bottineau Boulevard.

Office uses and buildings are scattered through the area, including a medical office building at the northeast quadrant of the Bottineau Boulevard/Bass Lake Road intersection. Industrial properties are a dominant land use to the south of the station. The Crystal Airport takes up a large area of land in the northeast quadrant of the station area. The housing in the area is a mix of single-family homes and multi-family properties at different scales.

The Station Area Plan for the Bass Lake Road station area identifies a range of development opportunities, most of which are in close proximity to the future transit station or along West Broadway Avenue. In the areas that are identified as development opportunities, the existing development is mostly older commercial buildings.

The City is completing the Becker Park reconstruction project and the new park will open in summer 2020. Improvements include the following:

- 2.2-million-gallon underground stormwater infiltration facility
- Half-acre inclusive accessible playground
- Fountain/splash pad
- Performance stage and lawn

- Other park facilities to serve community gathering and recreation functions

  Two specific potential development sites within the Station Area are analyzed in this report.

Transit Oriented Development (TOD)

TOD is development that is typically located within a quarter- to half-mile radius of a transit station that will offer a mix of housing, employment, commercial/retail and transportation choices within a neighborhood and business district. Easier access to public transit should provide for lower household costs and less expensive alternatives to driving to and from destinations. It is also intended to provide people with better access to more job opportunities throughout a larger region. TOD often requires significant investments in infrastructure to create an environment for usable and accessible development and community facilities. Investments may include:

- Increasing the capacity of infrastructure including streets, roads, and utilities (sewer, water, storm drain) to support additional development.
- Enhancing pedestrian and bicycle access by the addition or improvement of sidewalks, crosswalks, bicycle lanes, bicycle storage, and streetscape enhancements such as lighting, landscaping, public plazas and benches.
- Creating or improving parks, plazas, and other open space.
- Building structured parking garages for park-and-drive transit riders, which allows surface parking lots to be redeveloped for TOD.

TOD infrastructure and additional development that occur are all intended to benefit the environment and economy by allowing people to walk, bicycle, or take transit that reduces pollution and provides affordable transportation options. TOD improvements can be challenging to finance due to the high upfront investments and lack of revenues available to support the costs.

Purpose of This Report

The purpose of this report is to provide the Metropolitan Council, the City of Crystal, other local leaders, and the development community with guidance on the feasibility of implementing Transit Oriented Development projects in the City of Crystal along the planned Bottineau LRT route. The City has identified two potential TOD sites. (Project 1: Elmhurst and Project 2: The Strip). The report provides background on the criteria that lead to the selection of these sites for TOD and analysis of the financial feasibility of TOD projects. For each project, the report looks at the planned development scale and uses and analyzes the financial feasibility. First, the analysis assesses the financial feasibility of each project using a traditional financing method (private debt and equity). For each project, the report continues to evaluate the financial performance of each project with an "enhanced" scenario using alternative financing tools.

Key Findings

For both projects, the analysis demonstrates that traditional financing alone will most likely not be sufficient and would result in financial gaps that will require public assistance and alternate funding sources to be feasible. For the City to implement TOD projects that align with the Comprehensive Plan and meet the goals of TOD, the City and its partners will need to work in partnership with developers to utilize the alternative financing tools such as those listed in the "Funding Tools" section of this report and may include loans, grants, tax credit programs and local incentives. The final section of this report provides additional information on potential programs and sources and policy considerations.

Development Criteria

The City of Crystal has identified two potential project sites within the City that could be considered TOD project sites in proximity to planned future Blue Line stations. The two sites are identified as:

1. Elmhurst (6200 56th Avenue North)
2. The Strip (north side of 56th Ave between 6306 and 6600 56th Ave N)

Table 1: Development Criteria and Considerations	
Current Primary Zoning	Town Center
Relationship to Comprehensive Plan	Guided as Mixed-Use
Building Considerations	4 stories traditional with maximum height 8 stories
Parking Considerations	Parking ratio for residential is 1:1

Applicable Zoning

Both project sites are zoned Town Center (TC), which allows for multi-family, offices, restaurants, retail, and personal services. Any proposed development must meet the zoning requirements, such as shallow front building setbacks, for this zoning district.

On the Comprehensive Plan's 2040 planned land use map, the properties are guided as "mixed use". This category includes a vertical or side-by-side mixture of multiple family residential, institutional, commercial and industrial uses within the town center zoning district. Residential uses may be not less than 25 units per gross acre nor more than 50 units per gross acre, but this density may be exceeded if certain performance standards are met.

Site Selection Criteria

City staff identified the two anticipated project sites in the City for potential development/redevelopment opportunities. Both are TOD opportunities. When evaluating a project, there are conditions of that project site that may be considered when evaluating viability. The following is a general listing of certain characteristics favorably associated with TOD projects.

- Reduced parking
- Bicycle access
- Pedestrian access and walkability
- Transit station access
- Codes that allow for higher density and mixed use
- Nearby amenities
- Affordable housing
- Access to jobs
- Supporting businesses

When analyzing the projects and potential TOD opportunities, it is important to understand which of the above characteristics may be incorporated into a particular site and define what potential barriers or constraints may exist that would cause a project not to be viable. Barriers may include location, financial, political, or market. Some of those constraints can more easily be controlled and mitigated, as compared to others. It is our understanding the sites chosen for the City Crystal include several of the characteristics listed above. An outcome for the project evaluations is to understand how the sites that were selected could be enhanced TOD projects by achieving additional measurements such as affordable housing, jobs, supporting businesses, bicycle and pedestrian access. The additional TOD enhancements do not typically generate revenue and instead increase costs for the project, creating financial gaps that require substantial levels of public and other funding sources.

Project Descriptions

Project 1: Elmhurst

Project 1 in the City of Crystal is located at 6200 56th Avenue North and referred to as Elmhurst. The site consists of two separate buildings under the same ownership with approximately 4 small businesses on the site. There are some unknowns regarding the ability of those businesses to remain onsite if the property is redeveloped but redevelopment could be a possibility due to zoning regulations that allow for a mix of commercial and residential uses. There are currently long-term leases with two of the tenants (15 and 10 years) and it is not known if there are any early termination provisions. This analysis assumes that the businesses would remain onsite and be located in the new commercial space. There may be additional costs related to the long-term leases which may contribute to the financial gap associated with redevelopment. City staff has had discussions with the property owner, who is interested in selling the property for redevelopment, as well as potential redevelopers that indicated the leases may be an issue.

Following Blue Line construction, the project site would be across 56th Avenue (Bass Lake Road) from the planned station. City staff envisions redevelopment of the site to incorporate a high-density residential building on the north side with a taller one-story retail building adjacent to it. Based on current size of the site, it may accommodate approximately 132 market rate apartment units with underground parking and approximately 12,000 square foot commercial building.

General Project Description	
Property Address	6200 56th Ave N Crystal, MN 55429 6230 56th Ave N Crystal, MN 55429
Parcel ID	0411821320105 0411821320106 0411921320107
Existing Market Value	(Assess 2020, Pay 2021) $637,000 $235,000 $1,035,000
Site Size	1.85 acres
Development Assumptions	Mixed Use Project is allowed and anticipated 132 units 12,000 square feet commercial 155 parking spaces (may not need this much) Parking not required for commercial, but they may want to have it

Financing/Funding Structure

Using the City's Comprehensive Plan as a guide for development of the project site, the analysis assumes development of the current property into a mixed-use concept with both commercial and residential rental units. The total development cost for the project has been estimated to be $34,672,000. This estimate includes housing building construction cost of $200,000/unit and commercial space of $200/square foot. The remaining costs of the project include site acquisition, demolition, abatement, developer fee, professional fees, financing costs, reserves and contingency. All costs have been estimated based on market ranges.

The operating revenues include rental rates assuming market rate apartments and commercial retail space. The projected operating cash flow proforma assumptions are consistent with industry standards for inflation and vacancy to include 3% annual increase in revenues and expenditures. With these assumptions and no additional funding sources, the project is not expected to be financially feasible.

Financial Feasibility using Baseline/Traditional Financing

We have assumed that a traditional project funding structure would include private financing of a first mortgage and owner equity as primary revenue sources. It is assumed the baseline/ traditional financing structure would not be sufficient for a proposed TOD project considered for this project site and that additional funding from other sources will be necessary for financing of certain extraordinary project costs related to redevelopment, TOD enhancements, infeasible commercial space, housing development, and additional public infrastructure improvements.

The projected operating revenues from each phase/building of the project would be used to finance operating expenses, support debt service payments and provide equity investor returns. The project cash flows incorporate operating revenues that include rental rates from the residential apartment units and commercial retail space, parking and any other related income. Operating expenses have been estimated as a percentage of annual revenues. Annual debt service payments have been amortized over 30 years assuming repayment of the first mortgage at 5%. Assumptions within the operating cash flow proforma are consistent with industry standards for annual revenue and expense inflators of 3% and annual vacancy rates of 5%. With the baseline assumptions as described assuming solely private financing and no additional public funding sources, the project is not expected to be financially feasible. The projected financial gap for this first funding structure is approximately $6,000,000. This is generally consistent for TOD projects that incorporate extraordinary public purpose costs that are not supported by the market. A traditional privately financed approach for this TOD project is not feasible.

For this project concept to be financially feasible, we can assume there will need to be an alternative financing structure that incorporate additional funding programs, strategies and sources to close the financial gap. The enhanced financing scenario illustrated in the next section will incorporate additional funding sources and programs as a means of providing an alternative funding structure(s) that could provide for the development of a financially feasible project.

Financial Feasibility using Enhanced Financing

As stated above, the projected financial gap assuming a traditionally financed redevelopment project financed solely with private investment could be expected to be approximately $6,000,000. Those funding sources alone would not support a financially feasible project based on current assumptions. Additional funding, either as upfront in the form of grant or lower-interest financing, or additional cashflow from other sources would be necessary to assist with financing of the project due to the higher development costs and reduced annual revenues available to support repayment of equity investment and debt obligations.

Annual operating revenues less operating expenses is the net operating income of the project. Net operating income is used to support annual debt service payments and provide equity investor returns within market ranges. In order to obtain adequate project funding, annual operating revenues are required to:

1) meet minimum debt coverage requirements of a lender
2) produce reasonable rates of return to the investors

The financial gap has been calculated based on the level of private financing and equity this project could expect to receive based on net operating income. Additional upfront funding sources that reduce the burden of annual operating revenues' ability to pay expenses and cash flow funding would allow the project to be financially feasible. It is assumed that additional upfront and annual operating funding sources would be necessary to establish and enhance financial feasibility.

Enhanced Financing Scenario

To understand how this project could achieve financial feasibility (increased debt coverage and/or investor returns), we started with the traditional funding structure and $6,000,000 gap. We targeted funding sources that could be used to reduce that gap. This could include some familiar funding sources such as tax increment financing, energy and sales tax rebates, tax credits, low-interest loans, deferred developer fee, Met Council, LCDA and Hennepin County TOD/AHIF funding.

The enhanced financing scenario has focused more on the inclusion of innovative funding strategies and programs that may not be as common but considered for certain project components. Components of this proposed project that contribute to the $6,000,000 funding gap and will need innovative funding sources include:

1. Commercial/retail space
2. Housing with mixed income
3. Infrastructure improvements

There are funding strategies and programs specific to each of the project components that would be used in combination on eligible pieces of the total project. There are certain programs that only work for commercial/retail space and those that work only for residential units. In certain cases, the funding sources would also be sufficient to support additional TOD infrastructure improvements. In other instances, additional funding sources above those for commercial or residential uses would need to be incorporated.

Utilizing public assistance that includes local participation, regional and state funding sources would provide additional resources for a financially feasible project that also includes TOD components. For a project of this type that incorporates multiple components all requiring public assistance, increased public participation may be considered reasonable. The availability of actual programs and funding sources will be based on developer investor resources, market demand, project performance, and project type. The project performance for the enhanced financing scenario has demonstrated returns that would be at the low end of minimum levels as necessary to create a financially feasible project.

Sources and Uses

The following table provides a summary of the preliminary sources and uses of funds assuming a baseline/traditional financing scenario. It includes an estimate of the total development costs related to acquisition and subsequent construction of the mixed-use project components. Given assumptions regarding the ability of the project to generate net operating revenues and the ability to capitalize those revenues, it also shows the assumption regarding equity, capital provided through borrowing (debt), and the resultant initial financing gap of $6,000,000.

Sources and Uses of Funds illustrating Financial Gap			
Sources		Uses	
Equity	5,634,400	Land	2,500,000
Debt)	22,37,600	Demolition	150,000
		Abatement	100,000
		Construction	28,400,000
		Developer Fee	1,136,000
		Professional Fees	1,136,000
		Financing Costs	500,000
		Reserves	250,000
Financial Gap	6,000,000		
Total	34,672,000	Total	34,672,000

Enhanced Financing Strategy

To illustrate how the financial gap of $6,000,000 could be resolved, we adjusted the upfront sources of funds to include additional revenues through grants and other mechanisms. The additional funding sources would be facilitated through the establishment and use of alternate funding sources. For example, if we were to assume the City and development team could incorporate a community owned business, business incubator, community land trust, and/or resource center to facilitate development and subsequent success of commercial retail and office space within the project, the assumption is that those strategies would attract the additional funding sources necessary for the project. Funding sources specific to the commercial project components could include:

- Opportunity Zone Funding
- Social impact investors
- Angel investors
- Small business administration

Many of the above funding sources have more favorable terms including lower interest rates, reduced equity returns, long-term investment and deferred funds. All of the above would provide the upfront financing needed for acquisition, construction and other related soft costs. The above funding sources could also be used in conjunction with some traditional funding sources available from local, regional and state sources. The housing components of the project are expected to utilize some of the City programs described under Funding strategies.

The purpose of the enhanced financing scenario is to illustrate how innovative financing strategies could be used to develop a project that meets the City's desired TOD project objectives including affordable commercial retail/office space, mixed-income housing and infrastructure improvements. The table that follows incorporates the alternative financing scenario that would fill the $6,000,000 financial gap with additional revenue sources supported by the alternate strategies.

The operating proforma on the following page illustrates the annual cash flow projections using the assumptions outlined under "Financing/Funding Structure" above and based on the total development costs of $34,672,000. The cash flow scenario described under "Financial Feasibility using Baseline/Traditional Structure" has been projected to achieve adequate debt coverage and rates of return to the developer but is $6,000,000 short of funding total development costs.

Operating Proforma: Baseline/Traditional Financing

City of Crystal, Minnesota
Elmhurst
Traditional Financing with Estimated Gap

Sources	Amount	Percent	Uses		Amount
Equity	5,634,400	16.49%	Land		2,500,000
Debt	22,537,600	65.95%	Demo		150,000
	-	0.00%	Abatement		100,000
	-	0.00%	Construction		28,400,000
	-	0.00%	Developer fee	4%	1,136,000
	-	0.00%	Professional Fee	4%	1,136,000
		0.00%	Financing Costs		500,000
Gap	6,000,000	17.56%	Reserves		250,000
			Fees		
Total	**34,172,000**		Total		**34,172,000**

Expense Inflation Rate	**3.00%**
Revenue Inflation Rate	**3.00%**

IRR	10.09%
FMV	$29,025,747
NOI Year 10	2,031,802
Cap Rate	7.00%
Mortgage	18,332,549
Cost of Sale	3%
Sale Proceeds	$9,822,426
Remaining TIF (PV)	
Yield on Cost	4.83%
Cash on Cash Return	2.70%

				Year	1	2	3	4	5	6	7	8	9	10
Revenues	Unit #	SF/Unit	Rent/SF	Rent/Unit										
Studio	33	500	1.95	975	386,100	397,683	409,613	421,902	434,559	447,596	461,024	474,854	489,100	503,773
1 bedroom	66	867	1.90	1,647	1,304,662	1,343,801	1,384,115	1,425,639	1,468,408	1,512,460	1,557,834	1,604,569	1,652,706	1,702,287
2 bedroom	33	1,000	1.90	1,900	752,400	774,972	798,221	822,168	846,833	872,238	898,405	925,357	953,118	981,711
					2,443,162	2,516,456	2,591,950	2,669,709	2,749,800	2,832,294	2,917,263	3,004,781	3,094,924	3,187,772
Commercial	12,000		15.00		180,000	185,400	190,962	196,691	202,592	208,669	214,929	221,377	228,019	234,859
Parking	155		50.00	7,750	93,000	95,790	98,664	101,624	104,672	107,812	111,047	114,378	117,810	121,344
vacancy			5%	10%	(140,458)	(144,672)	(149,012)	(153,482)	(158,087)	(162,829)	(167,714)	(172,746)	(177,928)	(183,266)
TIF					-	-	-	-	-	-	-	-	-	-
Total Revenues	132				2,395,704	2,467,575	2,541,602	2,617,850	2,696,385	2,777,277	2,860,595	2,946,413	3,034,806	3,125,850
Operating Expenses														
Total Operating Expenses			35%		838,496	863,651	889,561	916,247	943,735	972,047	1,001,208	1,031,245	1,062,182	1,094,047
Cash Flow Available for Debt Service					1,557,207	1,603,924	1,652,041	1,701,602	1,752,651	1,805,230	1,859,387	1,915,169	1,972,624	2,031,802
Debt Service														
1st Mortgage Debt Service					(1,451,841)	(1,451,841)	(1,451,841)	(1,451,841)	(1,451,841)	(1,451,841)	(1,451,841)	(1,451,841)	(1,451,841)	(1,451,841)
Total Debt Service					(1,451,841)	(1,451,841)	(1,451,841)	(1,451,841)	(1,451,841)	(1,451,841)	(1,451,841)	(1,451,841)	(1,451,841)	(1,451,841)
Debt Coverage Ratio					1.07	1.10	1.14	1.17	1.21	1.24	1.28	1.32	1.36	1.40
Net Income					105,367	152,083	200,201	249,762	300,810	353,390	407,546	463,328	520,783	579,962
Deferred Fee Repayment														
Net Available Cash Flow					105,367	152,083	200,201	249,762	300,810	353,390	407,546	463,328	520,783	579,962
Hypothetical Sale														$9,822,426
Cash Flow				-5,634,400	105,367	152,083	200,201	249,762	300,810	353,390	407,546	463,328	520,783	579,962
				-5,634,400	105,367	257,450	200,201	249,762	300,810	353,390	407,546	463,328	520,783	10,402,388
10 Year IRR					**10.09%**									

Project 2: The Strip

The second project, referred to by the City of Crystal as 'The Strip', includes a string of buildings located on the north side of 56th Avenue (Bass Lake Road) between 6306 (parking lot owned by the City's Economic Development Authority) and 6600 – 56th Avenue North (Nokomis Shoes). There are multiple property owners, including the City EDA. The site encompassing all the parcels is approximately 2.83 acres in size.

City staff has indicated there may be some concerns from residents related to redevelopment. The community is generally supportive, but there may be concerns about business displacement and existing neighborhood impacts. The majority of current City Council and Planning Commission members are likely to support redevelopment. During the creation of the Town Center district, there was robust discussion about allowing redevelopment of the site in a way that minimizes impacts on the single-family neighborhood to the north. We have also received input that although the maximum number of stories could be 8 within the Town Center district, the actual height of any new buildings constructed on this site would be limited to 4 stories.

General Project Description	
Property Address	Parcel ID
6600 56th Ave N Crystal, MN 6518 56th Ave N Crystal, MN 6514 56th Ave N Crystal, MN 6512 56th Ave N Crystal, MN 6438 56th Ave N Crystal, MN 6428 56th Ave N Crystal, MN 6422 56th Ave N Crystal, MN 6418 56th Ave N Crystal, MN 6408 56th Ave N Crystal, MN 6406 56th Ave N Crystal, MN 6404 56th Ave N Crystal, MN 6402 56th Ave N Crystal, MN 6316 56th Ave N Crystal, MN 6306 56th Ave N Crystal, MN	05-118-21-41-0096 05-118-21-41-0097 05-118-21-41-0098 05-118-21-41-0099 05-118-21-41-0100 05-118-21-41-0101 05-118-21-41-0103 05-118-21-41-0102 05-118-21-41-0104 05-118-21-41-0105 05-118-21-41-0111 05-118-21-41-0116 05-118-21-41-0121 05-118-21-41-0108
Existing Market Value	Assess 2020, Pay 2021 $3,529,000 estimated total that includes 6 tax-exempt EDA/City owned properties
Site Size	2.83 acres
Development Assumptions	Mixed Use Redevelopment 200 housing units 15,000 square feet commercial 30,000 square feet commercial (standalone) – 270 parking spaces – Not required for commercial but may be desired

Financing/Funding Structure

The analysis is based on assumptions regarding the anticipated site buildout and corresponding estimated total development costs and funding sources which are drawn from the City's Comprehensive Plan. The planned development for this project site would be the construction of a 200-unit market rate multi-story new apartment complex with supporting commercial space. The total development cost for the project including commercial is estimated to be $59,870,000. In this scenario, total all-in cost per housing unit is approximately $245,000 based on building construction cost of $200k/unit and related project costs that include site acquisition (multiple property owners anticipated to increase total costs), demolition, abatement, developer fee, professional fees, financing costs, reserves and contingency.

Financial Feasibility using Baseline/Traditional Financing

We have assumed that a traditional project funding structure would include private financing of a first mortgage and owner equity as primary revenue sources. It is assumed the baseline/ traditional financing structure would not be sufficient for a proposed TOD project considered for this project site and that additional funding from other sources will be necessary for financing of certain extraordinary project costs related to redevelopment, TOD enhancements, infeasible commercial space, mixed-income housing development, and additional public infrastructure improvements.

The projected operating revenues from each phase/building of the project would be used to finance operating expenses, support debt service payments and provide equity investor returns. The project cash flows incorporate operating revenues that include rental rates from the residential apartment units and commercial retail space, parking and any other related income. Operating expenses have been estimated as a percentage of annual revenues. Annual debt service payments have been amortized over 30 years assuming repayment of the first mortgage at 5%. Assumptions within the operating cash flow proforma are consistent with industry standards for annual revenue and expense inflators of 3% and annual vacancy rates of 5% with the baseline assumptions as described assuming solely private financing and no additional public funding sources, the project is not expected to be financially feasible. The projected financial gap for this first funding structure is approximately $14,000,000. This is generally consistent for TOD projects that incorporate extraordinary public purpose costs that are not supported by the market. A traditional privately financed approach for this TOD project is not feasible.

For this project concept to be financially feasible, we can assume there will need to be an alternative financing structure that incorporate additional funding programs, strategies and sources to close the financial gap. The enhanced financing scenario illustrated in the next section will incorporate additional funding sources and programs as a means of providing an alternative funding structure(s) that could provide for the development of a financially feasible project.

Financial Feasibility using Enhanced Financing

The traditionally financed redevelopment project financed solely through private investment is projected to generate a $14,000,000 gap meaning private investment funding sources alone would not support a financially feasible project. Additional funding, either as upfront in the form of grant or lower-interest financing, and/or additional cashflow from other sources would be necessary to assist with financing of the project due to the higher development costs and reduced annual revenues available to support repayment of equity investment and debt obligations.

Annual operating revenues less operating expenses is the net operating income of the project. Net operating income is used to support annual debt service payments and provide equity investor returns within market ranges. In order to obtain adequate project funding, annual operating revenues are required to:

1) meet minimum debt coverage requirements of a lender
2) produce reasonable rates of return to the investors

Enhanced Financing Strategy

To understand how this project could achieve financial feasibility (increased debt coverage and/or investor returns), we would start with the traditional funding structure and adjust, as possible, both the total development costs and sources of revenue. We anticipate multiple funding sources will be needed to close the financial gap including many familiar funding sources such as tax increment financing from the City of Crystal. We expect this would be in the form of pay-as-you-go assistance as reimbursement for eligible costs related to redevelopment and used to provide additional cash flow revenues.

Actual programs and funding sources will be based on developer investor resources, market demand, project performance, and project type. The project performance for the project is demonstrating returns that would be at the low end of minimum levels necessary to create a financially feasible project.

In addition to the above-identified funding sources, we reviewed possible ways to reduce upfront project costs that may include, but not be limited to, land cost, developer fee, and other soft costs. Subject to market and demand, the project may also require alternate funding sources that may include additional grants, deferred loans, patient capital, alternate equity investors, and low-interest loans.

Utilizing public assistance that may include TIF, regional or state funding sources would provide additional resources that allow the project to be financially feasible and support additional TOD components. For a project of this magnitude, where there is expected to be significant extraordinary costs that include acquisition and redevelopment costs, demolition, and city/developer relocation of existing commercial tenants, increased public participation may be considered reasonable in order to align the total cost structure with similar projects if located elsewhere in the City. Site challenges that add costs and no revenues generally require public and/or other financial resources.

Sources and Uses

The following table contains an estimate of the required costs to acquire the site and develop the proposed project. Given assumptions regarding the ability of the project to generate net operating revenues and the ability to capitalize those revenues, it also shows the assumption regarding equity, capital provided through borrowing (debt), and the resultant initial financing gap.

Sources and Uses of Funds illustrating Financial Gap

Sources		Uses	
Equity	9,174,000	Land	3,500,000
Debt	36,696.000	Demolition	250,000
		Abatement	0
		Construction	49,000,000
		Developer Fee	1,960,000
		Professional Fees	1,960,000
		Financing Costs	2,450,000
		Reserves	750,000
Financial Gap	14,000,000		
Total	59,870,000	Total	59,870,000

The financial gap of $14,000,000 could be resolved through a variety of methods including an adjustment to the upfront sources of funds with additional revenues provided through grants and other low-cost financing mechanisms. The City may also explore alternate funding programs as described further under “Funding Tools” to allow for project feasibility. We anticipate City staff could utilize this structure when reviewing potential redevelopment scenarios as such opportunities present themselves in the future and in conjunction with Blue Line development.

Potential strategies may include community-owned businesses, business incubators, resource centers, etc. as a means of attracting additional business types and/or funding sources to the project site. These types of programs may attract additional funding resources that do not require the same return on investment as private investment, thus reducing potential financing gaps. Community based enterprises use business to improve the life of a community. They are different from private enterprise because their business activity is undertaken as a means of achieving community benefit, not private gain. Business incubators assist start-up and develop businesses through reduced rental rates to provide opportunities for success and growth.

The operating proforma on the following page illustrates the annual cash flow projections using the assumptions outlined under “Financing/Funding Structure” above and based on the total development costs of $59,870,000. The cash flow scenario described under “Financial Feasibility using Baseline/Traditional Structure” has been projected to achieve adequate debt coverage and rates of return to the developer but is $14,000,000 short of funding total development costs.

Operating Proforma: Baseline/Traditional Financing

City of Crystal, Minnesota
The Strip
Traditional Financing with Estimated Gap

Sources	Amount	Percent	Uses		Amount
Equity	9,174,000	15.32%	Land		3,500,000
Debt	36,696,000	61.29%	Demo		250,000
	-	0.00%	Abatement		-
	-	0.00%	Construction		49,000,000
	-	0.00%	Developer fee	4%	1,960,000
	-	0.00%	Professional Fee	4%	1,960,000
		0.00%	Financing Costs		2,450,000
Gap	14,000,000	23.38%	Reserves		750,000
			Fees		
Total	**59,870,000**		Total		**59,870,000**

** TIF as paygo to support private financing*

Expense Inflation Rate	**3.00%**
Revenue Inflation Rate	**3.00%**

IRR	11.13%
FMV	$48,237,986
NOI Year 10	3,376,659
Cap Rate	7.00%
Mortgage	29,849,284
Cost of Sale	3%
Sale Proceeds	$16,941,563
Remaining TIF (PV)	
Yield on Cost	4.59%
Cash on Cash Return	3.29%

				Year	1	2	3	4	5	6	7	8	9	10
Revenues	Unit #	SF/Unit	Rent/SF	Rent/Unit										
Studio	60	600	1.95	1,170	842,400	867,672	893,702	920,513	948,129	976,572	1,005,870	1,036,046	1,067,127	1,099,141
1 bedroom	70	867	1.95	1,691	1,420,146	1,462,750	1,506,633	1,551,832	1,598,387	1,646,338	1,695,729	1,746,600	1,798,998	1,852,968
2 bedroom	70	1,100	1.95	2,145	1,801,800	1,855,854	1,911,530	1,968,876	2,027,942	2,088,780	2,151,443	2,215,987	2,282,466	2,350,940
					4,064,346	4,186,276	4,311,865	4,441,221	4,574,457	4,711,691	4,853,042	4,998,633	5,148,592	5,303,050
Commercial	30,000		17.00		510,000	525,300	541,059	557,291	574,009	591,230	608,967	627,236	646,053	665,434
Commercial	15,000		15.00		225,000	231,750	238,703	245,864	253,239	260,837	268,662	276,722	285,023	293,574
Parking	270		50.00	13,500	162,000	166,860	171,866	177,022	182,332	187,802	193,436	199,240	205,217	211,373
vacancy			5%	10%	(244,919)	(252,266)	(259,834)	(267,629)	(275,658)	(283,928)	(292,445)	(301,219)	(310,255)	(319,563)
TIF					-	-	-	-	-	-	-	-	-	-
Total Revenues	200				3,981,427	4,100,870	4,223,896	4,350,613	4,481,132	4,615,566	4,754,033	4,896,654	5,043,553	5,194,860
Operating Expenses														
Total Operating Expenses			35%		1,393,500	1,435,305	1,478,364	1,522,715	1,568,396	1,615,448	1,663,911	1,713,829	1,765,244	1,818,201
Cash Flow Available for Debt Service					2,587,928	2,665,566	2,745,533	2,827,899	2,912,736	3,000,118	3,090,121	3,182,825	3,278,310	3,376,659
Debt Service														
1st Mortgage Debt Service					(2,363,905)	(2,363,905)	(2,363,905)	(2,363,905)	(2,363,905)	(2,363,905)	(2,363,905)	(2,363,905)	(2,363,905)	(2,363,905)
Total Debt Service					(2,363,905)	(2,363,905)	(2,363,905)	(2,363,905)	(2,363,905)	(2,363,905)	(2,363,905)	(2,363,905)	(2,363,905)	(2,363,905)
Debt Coverage Ratio					1.09	1.13	1.16	1.20	1.23	1.27	1.31	1.35	1.39	1.43
Net Income					224,023	301,661	381,628	463,994	548,831	636,213	726,217	818,920	914,405	1,012,754
Deferred Fee Repayment														
Net Available Cash Flow					224,023	301,661	381,628	463,994	548,831	636,213	726,217	818,920	914,405	1,012,754
Hypothetical Sale														$16,941,563
Cash Flow				-9,174,000	224,023	301,661	381,628	463,994	548,831	636,213	726,217	818,920	914,405	1,012,754
				-9,174,000	224,023	525,684	381,628	463,994	548,831	636,213	726,217	818,920	914,405	17,954,317
10 Year IRR					**11.13%**									

Funding Tools

Innovative Funding Strategies and Tools

Components Driving Funding Gap

There are several components to this project scope that are anticipated to generate a funding gap. The site is close proximity to the Bass Lake Road Station Area. The City desires to have infrastructure, housing and mixed-use development that includes commercial retail/office space. Each of these project uses typically results in a financial gap for a project. Layering the costs will generally cause an increased funding gap similar to what has been generated for both Project 1 and 2. We made several assumptions in the enhanced financing scenarios as an illustration of closing the projected funding gap. We have assumed the projects will utilize available tools to facilitate housing that include tax credits, loans and grants, low interest loans, community land trust and ground lease opportunities. To facilitate infrastructure needs, we have assumed value capture tools could be utilized. To facilitate the construction of mixed-use and first floor commercial, strategies to be considered include tax credits, community-owned businesses, business incubator, rent control, and community land trusts. Social impact investors, program related investments and direct grants/loans are also funding sources available for financing of extraordinary project costs related to all project components.

To follow is a listing of potential funding strategies and tools that could be considered for the City's proposed future projects. Whether a given tool will be applicable for each project will depend on what the actual development type and its specific use may be but could be a valuable resource to assist with project analysis. The list is intended to provide funding resources that could be used by the City and/or private investor to assist with project development. The purpose is to create and identify a list of resources that could be available to help businesses and residents get access to financing, especially to incentivize businesses that are in mixed use development (both commercial and residential use). More summary information and links to outside resources can be found in the TOD Funding Guide developed as part of the larger TOD study.

Commercial and Mixed-Use Project Strategies

Community-owned businesses (COBs)[1]:
Community-owned businesses (COBs) are financed and owned collectively by local residents. Community based enterprises use business to improve the life of a community. They are different from private enterprise because their business activity is undertaken as a means of achieving a community benefit, not private gain. They are based on assets belonging to the community that can't be sold off for private financial gain, benefiting stakeholders play a leading role in the enterprise, and have a goal of remaining financially self-sustaining. COBs can provide a vehicle to fill local needs including:

- Local media
- Affordable broadband
- Fresh groceries, household goods
- Provide affordable commercial spaces and other community voids

Business Incubators
A business incubator is a nonprofit corporation that assists start-up and developing businesses by providing services and support. The National Business Incubation Association (NBIA) defines business incubators as a catalyst tool for either regional or national economic development. Business incubators reduce the financial concerns many new companies face by offering:

- Office space
- Management training
- Access to shared equipment and meeting rooms
- Networking activities

[11] https://www.amiba.net/resources/community-ownership/

- Other ongoing business development services (legal, accounting, marketing, etc.)

Community-Land Trusts (CLTs)
A community land trust (CLT) is a nonprofit corporation that develops and stewards the following in order to balance the needs of individuals to access land and maintain security of tenure with a community's need to maintain affordability, economic diversity and local access to essential services. Examples of the types of development that may benefit from CLTs include the following:

- Affordable housing for low- and moderate-income people
- Community gardens
- Civic buildings
- Commercial spaces
- Other community assets developed on behalf of a community.

Employee-owned Cooperatives and Employee Stock Ownership Plan (ESOP)
Employee owned cooperative, also known as worker cooperatives, is a cooperative that is owned and self-managed by its workers. This control may mean a firm where every worker-owner participates in decision-making in a democratic fashion, or it may refer to one in which management is elected by every worker-owner who each have one vote. With a somewhat similar mission, the structure of an ESOP is one where stock is given to employees as part of their compensation and employees own the business.

CDFI
Community development financial institutions (CDFIs) provide credit and financial services to people and communities underserved by mainstream commercial banks and lenders. CDFIs encompass a range of nonprofit and for-profit entities including community development banks, community development credit unions, community development loan funds, community development venture capital funds, and microenterprise loan funds. The previously mentioned Denver Impact Fund is administered by a CDFI.

University and Community Partnerships
Institutions of higher education have an obvious vested interest in building strong relationships with the communities that surround their campuses. They do not have the option of relocating and thus are of necessity place-based anchors. While corporations, businesses, and residents often flee from economically depressed low-income urban and suburban edge-city neighborhoods, universities remain. At a time when foundations that help establish community-based projects are commonly unable to continue with ongoing involvement over long periods of time, universities can play an important role. Universities are inherently an important potential institutional base for helping community-based economic development in general, and civically engaged development in particular. (See also, "Anchor Institution" below.)

Anchor Institutions
Anchor institutions are large public or nonprofit organizations that once established tend not to move location. An important part of the local economies in which they reside, they can deliberately use their economic power to strengthen their community. Indeed, in many places, these anchor institutions have surpassed traditional manufacturing corporations to become their region's leading employers. This is particularly useful in neighborhoods where there are historic and other barriers to people accessing economic opportunity. Focused, well administered programs can foster community wealth building. The largest and most numerous of such nonprofit anchors are universities and non-profit hospitals (often called "eds and meds"). Other examples of anchor institutions include museums, faith-based institutions, libraries, and locally focused philanthropies.

Social Impact Investing
Impact investments are investments made into companies, organizations, and funds with the goal of generating positive, measurable social or environmental outcomes alongside a financial return. The term "impact investing" is relatively new, becoming popular in 2007. The practice of investing for social—and not merely economic—return itself has a much longer history and includes two key approaches:

- **Socially Responsible Investments (SRIs)** are investment strategies that *individuals* employ to generate financial returns while promoting social good. The most common form of socially responsible investment involves investment portfolios designed to exclude certain companies based on explicit social and/or environmental criteria. This is

known as “negative screening.” However, positive screening, investment in companies that achieve some positive social benefit, is another SRI strategy.

- **Mission-Related Investments** are investment strategies that *foundations* and *anchor institutions* use to generate financial returns as they promote mission-related goals. **Program-related investments (PRIs)** are one such strategy that has played a role in building wealth in low-income communities. Depositing money in community development financial institutions (CDFIs), such as community development credit unions or community loan funds, is another. In additions to PRIs and CDFIs, some foundations, such as the F.B. Heron Foundation, have dedicated their entire corpus in alignment with the Foundation’s mission. In each asset class (such as stocks, bonds, loans, and private equity placement), Heron seeks to ensure that investment priorities align with the Foundation’s social values.

Small Business Administration
The Small Business Administration is a governmental agency that ensures a percentage of the loan that is made by a local lender. These loans can be made on a real property for business use. These loans have many restrictions and usually take a long time to process but the interest rate is often lower than the current market because the government is guaranteeing a portion of the loan.

Resource center
A business resource center (“center”) can serve as a welcome center for the particular neighborhood for businesses. The center can provide a one-stop shop of resources for small businesses to gain access to financial, technological and marketing resources to help them compete with larger businesses in the area. The resource center can provide the following:

1. Start-up help – connecting business owners with consultants and developers
2. Marketing and promotion
3. Administrative assistance: legal, bookkeeping, taxes, etc.
4. Rent assistance and support

Strategies for Housing Projects

- Affordable Housing Trust Fund
- Revolving Loan Fund
- Inclusionary zoning
- Tax Credits
- Value Captured Tools
    - Tax Increment Financing
    - Tax Abatement
- Debt Financing
    - General Obligation
    - Special Assessments
    - Revenue Bonds
    - Conduit
- Loans/Grants
- HOME Investment Partnerships Program (HOME)
- Community Development Block Grant (CDBG)
- National Housing Trust Fund
- Capital Magnet Fund
- Housing rehabilitation
- Small site acquisitions
- Land banking for affordable housing
- Corridor-based Tax Increment Financing Districts
- Joint Development opportunities for affordable housing production

Potential Development Concepts for Commercial Components

Case Study: Sample community-owned business

Coffee Shop / Bike repair store

A 501(c)(3) organization owns a coffee shop that is connected with a bike repair store. The 501(c)(3) public charity operates a number of activities in the area and has a board that reflects the community. The coffee shop has a seating area and is operated by full-time employees. The bike repair shop has a full-time repair employee. The bike shop has very limited hours in the winter, but more robust hours the rest of the year.

In the summer, the bike repair shop will have two high school apprentices. The primary goal is to teach the apprentices a craft, but also help them learn about operating a business. This model could be done on a larger scale, or on a similar scale, but in multiple locations.

In this case, revenue is enhanced via the ability to raise funds through fundraising. There is also a strong community board and a close relationship with one of the churches in the neighborhood. The community board includes board members with a variety of skills that can provide "back office" support or oversight.

As a part of a larger organization, the coffee shop/bike shop is able to utilize the resources of the larger organization (bookkeeping, HR, etc.). The 501(c)(3) organization utilizes neighborhood and/or nearby resources for these services.

<u>Application to other areas</u>
While another public charity could operate this type of business, it would also be a candidate for a minority entrepreneur or a community owned business – both for-profit operations.

As for-profit organizations, there are a variety of funding options available to the organizations:

- Small Business Administration loans and other similar programs
- Angel investors (higher rate of return required)
- Social impact investors (lower rate of return required)
- Program Related Investments from foundation (lower rate of return required)
- Direct grants to assist in establishing the organization or employing low-income individuals

The organization could also avail itself of accounting, staffing, HR, etc. services from other neighborhood businesses and benefit from a business resource center for other types of governmental assistance. As a locally owned business, hopefully it would enjoy the patronage and support from local residents.

The business could also be a training location for minorities and low-income individuals to help them gain work skills. It could also be an entry into other work programs and/or apprenticeship programs offered by other businesses in partnership with a local community college.

Case study for business incubator sample project:
Business Incubator

A business incubator ("BI") is typically established as a non-profit 501(c)(3) organization that supports growth in a particular industry. The organization will provide the facility, office space and supportive programming for early-stage companies.

Funding sources for a BI
Business incubators are often sponsored by private companies, municipal entities and public institutions such as colleges or universities, so much of their funding may come from the sponsoring organization in addition to other private donors. Other companies and organizations in a similar industry may also contribute to the BI and could share their resources with the start-ups as needed. This may also include businesses who could provide administrative support to the start-ups residing in the BI, such as talent acquisition, accounting and tax, legal and marketing support, with the potential for a discounted rate.

Governance of a BI
As a non-profit organization, there will typically be a board of directors, which may be comprised of representatives/leaders all over the city or state in the particular industry. The board of directors can elect board officers to oversee operations of the BI. The board can also provide more opportunities for the BI and its start-ups to learn about other companies in the area, specifically industry trends, figures and what is new in the marketplace.

Criteria to apply for a BI
Many business incubators allow companies to apply online. Companies would typically need to provide their organizational information, space needs (e.g. offices, shared space and equipment needs), and current funding levels/sources. BIs conduct research on the company including browsing social media, the website and business plan from a sustainability and mission-alignment perspective.

Resources available while residing in a BI

1. Networking services: The BI can invest in and provide a number of services designed to help grow the start-up business. It can provide opportunities to network with other start-ups and offer training opportunities in different areas of business.
    a. Partnership opportunities: BIs are sometimes supported or funded by other larger organizations or companies, such as governments, colleges or universities. This connection can provide a myriad of resources to the start-up, including potential employees or apprentices, funding sources and access to research (depending on the industry).
2. Business libraries or journals: The BI can often subscribe to expensive knowledge tools such as libraries, journals and other articles that can assist start-ups with their own research, technology and development of materials.
3. Business services: The BI can offer shared spaces ad resources with the other start-up companies, to allow the start-up access without having to incur the expense outright. Examples of on-site business services could include shared conference spaces, shared IT and teleconference equipment and helpdesk, high-speed Wi-Fi connections, shared office equipment (printers, copiers, postage), secure sites for collecting and shipping packages and a shared loading dock for shipping and receiving needs.
    a. The BI can occupy a larger space to house start-up companies, so it can invest or expand rooms and conference centers for business use. For example, if start-ups want to hold networking or grand opening events, trainings or other presentations, they could have access to an appropriately sized room that may otherwise be too expensive to rent on its own.
4. Financial resources: Aside from offering trainings about business concepts, BIs can assist start-ups with obtaining and accessing financial support from governmental entities, private companies, the SBA or other reputable resources. It can also provide assistance with applications, processes and tracking/documenting funds upon receipt.
5. Logistical offerings: Typically for the below-market rental fee, the BI provides discounted or free guest and employee parking, a convenient location for businesses to start up and network and bike racks for convenient commute.

Next Steps

It is important to note the assumptions used to close the estimated financial gaps in each scenario will ultimately be subject to a variety of both controlled and uncontrolled variables including:

1. Project specifics (type, clientele served, etc.)
2. Policy
3. Market
4. Access to financial resources
5. Availability of funding

The purpose of the analysis of the two project sites was to review potential projects the City has identified as opportunities for redevelopment. We focused the project details for each site based on City staff feedback for desired and marketable uses.

Potential Barriers to Redevelopment that may be Identified:

- Existing businesses/tenants
- Relocation
- High acquisition cost
- Lack of support of future development
- Additional public improvements needs
    - Enhancements
    - TOD requirements
    - Public space/plaza/amenities
    - Sidewalks/trails
- Market demand
- Timing for anticipated phased development
- Availability of Funding Sources

Potential Next Steps for Consideration:

- RFQ – solicit developer interest
- Parking considerations
- Align development with market
    - Housing study – gap analysis
    - Commercial analysis
        - affordability

Policy Considerations

When private development efforts result in requests for public assistance, cities are faced with a number of policy considerations. These considerations often revolve around the desire to advance a project, the cost vs perceived benefit to the community at large, and the ability to treat all private parties equitably. This section addresses topics related to gap funding policy considerations.

Cities use different incentives for a variety of purposes that might include some or all of the following:

- Stimulate development where it would otherwise not occur (“but for” test)
- Retain existing tax base
- Encourage development of uses that would otherwise not occur, such as low-income housing
- Enhance tax base
- Facilitate infrastructure improvements
- Coordinate new developments with existing plans
- Demonstrate long-term benefits to the community
- Retain local jobs and/or increase the number and diversity of jobs that offer stable employment and/or attractive wages and benefits
- Encourage unsubsidized private development through “spin off” development

- Increase private investment (consequently market value) through:
  - Increased employment
  - Added housing units (Affordable or Market Rate)
  - Attraction of visitors who contribute to the local economy
  - Increased sales volume
  - Elimination of negative or blighting influences effecting surrounding property (Blight Curve)
  - Maximize land use (TOD)
  - Addition of infrastructure (parking other public improvements)

An important thing to focus on when considering providing any financial consideration for a project is what is driving the gap and if the need for public financial assistance is driven by project specific needs and will result in reasonable financial outcomes for all parties involved. Sometimes extraordinary public improvements or amenities are being required by the City or community and a developer may reasonably request that public participation cover the extra costs that result. In every case, understanding why the City would consider participating (see above) needs to be coupled with a clear understanding of what is driving the need for public financing assistance. It is essential to assure that each party gets a return that is reasonable for the investment that they are making – whether that is the public participant or the private participant. Below are some of the reasons that projects may exhibit financing gaps:

- Extraordinary redevelopment costs
- Hold out by existing property owner, land price too high
- Development needs more than it can pay for (not financially feasible)
- “Oversizing” of utility and infrastructure needs for future growth
- Developer wants less risk/more return than typical market conditions dictate
- Market competition
- Achieve development on sites that would not develop “but for” the use of TIF
- Remove blight and/or encourage redevelopment of commercial and industrial areas resulting in high quality redevelopment and private reinvestment
- Offset redevelopment costs (i.e. contaminated site clean-up) over and above the costs normally incurred in development
- Type of housing
  - Market rate
  - Affordable
  - Work force

Evaluating the Proper Role for the Public

When reviewing projects and understanding financial feasibility and potential tools that may be available to spur development and redevelopment, it may be helpful to understand what role your community may want to play to encourage development/redevelopment opportunities and what your risk level and/or cost is. They typically include the following:

Public Sector Role	Risk Level
Grant the permit and zoning allowance	Lowest risk
Reimburse the project as benefits are completed	Low risk
Be the lender	Medium/high risk
Be the borrower	Higher risk
Be the developer	Highest risk

It is important to understand real estate development or engage a third party to help as needed when choosing the role to take. A good understanding of what is being asked for, why/if it is necessary, and if project returns are reasonable for each party will protect the public from over or under subsidizing projects. Understanding the communities’ interest or desire for a particular project or related public amenity is also important in shaping the long-range vision in which public investments are made.

Communities should keep the concept of measurable return in mind as they approach development involvement. What is the outcome that is desired? Who will benefit? Is the benefit reasonable and does it justify the cost? What guarantees the desired outcome is achieved if an investment is made? Contractual agreements can be developed that define who will do what, pay for what, and what will happen if those things do not happen. A local government that relies on property taxes might use an increase in the market value of real estate as the primary measure of whether the project has been successfully completed. Other measurable outcomes might include job production, affordable housing units produced, or timely completion of project or phases of the project.

The benefit that a party receives from public incentives should be measured and at a reasonable level. Return on Investment (ROI) to the developer or investor is a simple performance measure to evaluate the efficiency of an investment opportunity. It is calculated by subtracting the cost of the investment from the benefits of the investment and then dividing by the cost of the investment. The result is expressed as a ratio. A reasonable level for ROI will be different for different types of developments and developers and fluctuates over time. Understanding the dynamics that drive the calculation what a reasonable range of ROI is for the project under consideration is key in evaluating the level of assistance needed, if any.

We recommend all of these items be considered when reviewing project concepts and determining appropriate levels, if any, of public financial assistance.

bakertilly

City of Golden Valley

Blue Line Extension Innovative Financing:

Real Estate Development

July 31, 2020

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July 31, 2020

City of Golden Valley

RE: Innovative Financing Strategies

The Metropolitan Council retained Baker Tilly to study financing tools available to assist Transit Oriented Development (TOD). Part of the study includes providing Real Estate Development Technical Assistance for ten projects that were selected by the Technical Assistance Committee (TAC). Two of the projects were identified by the City as potential TOD development/redevelopment opportunity sites adjacent to the Blue Line Extension.

The two projects provided for evaluation and coordination of technical assistance are both site specific and in the conceptual stage for development concepts. Certain assumptions were made regarding type, density and phasing of development. The projects are being evaluated based on the following criteria:

- Applicable Zoning
- Site Selection Criteria
- Site Planning Principals
- Financing/Funding Structure
- Financial Feasibility

Input provided by City staff assisted with updating and refining the development assumptions related to the above criteria. We appreciate the opportunity to have worked with the City on these exciting projects.

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Contents

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Introduction

Background on City of Golden Valley

Golden Valley Station

Transit Oriented Development (TOD)

TOD is development that is typically located within a quarter- to half-mile radius of a transit station that will offer a mix of housing, employment, commercial/retail and transportation choices within a neighborhood and business district. Easier access to public transit should provide for lower household costs and less expensive alternatives to driving to and from destinations. It is also intended to provide people with better access to more job opportunities throughout a larger region. TOD often requires significant investments in infrastructure to create an environment for usable and accessible development and community facilities. Investments may include:

- Increasing the capacity of infrastructure including streets, roads, and utilities (sewer, water, storm drain) to support additional development.
- Enhancing pedestrian and bicycle access by the addition or improvement of sidewalks, crosswalks, bicycle lanes, bicycle storage, and streetscape enhancements such as lighting, landscaping, public plazas and benches.
- Creating or improving parks, plazas, and other open space.
- Building structured parking garages for park-and-drive transit riders, which allows surface parking lots to be redeveloped for TOD.

TOD infrastructure and additional development that occur are all intended to benefit the environment and economy by allowing people to walk, bicycle, or take transit that reduces pollution and provides affordable transportation options. TOD improvements can be challenging to finance due to the high upfront investments and lack of revenues available to support the costs.

Purpose of This Report

The purpose of this report is to provide the Metropolitan Council, the City of Golden Valley, other local leaders, and the development community with guidance on the feasibility of implementing Transit Oriented Development projects in the City of Golden Valley along the planned Bottineau LRT route. The City has identified one potential TOD site. (St. Margaret Mary site). The report provides background on the criteria that led to the selection of this sites for TOD and analysis of the financial feasibility of the TOD project. For the project, the report looks at the planned development scale and uses and analyzes the financial feasibility. First, the analysis assesses the financial feasibility of the project using a traditional financing method (private debt and equity). The report then continues to evaluate the financial performance of the project with an "enhanced" scenario using alternative financing tools.

Key Findings

For the analyzed project, the analysis demonstrates that traditional financing alone will most likely not be sufficient and would result in financial gaps absent public assistance and alternate funding sources. For the City to implement TOD projects that align with the Comprehensive Plan and meet the goals of TOD, the City and its partners will need to work in partnership with developers to utilize alternative financing tools such as those listed in the "Funding Tools" section of this report and may include loans, grants, tax credit programs, and local incentives. The final section of this report provides additional information on these tools.

Development Criteria

The City of Golden Valley has identified a potential project site within the City that could be considered a TOD project site in proximity to planned future Blue Line stations. The site is identified as:

Project 1: St. Margaret Mary site

Development Criteria and Considerations	
Current Primary Zoning	Institutional
Relationship to Comprehensive Plan	Guided as Mixed-Use

Applicable Zoning

Currently zoned Institutional but guided for Mixed Use with rezoning expected in 2020.

Site Selection Criteria

City staff identified the potential project site in the City for potential development/redevelopment opportunities. Both are TOD opportunities. When evaluating a project, there are conditions of that project site that may be considered when evaluating viability. The following is a general listing of certain characteristics favorably associated with TOD projects.

- Reduced Parking
- Bicycle Access
- Pedestrian access and walkability
- Transit station access
- Codes that allow for higher density and mixed use
- Nearby amenities
- Affordable housing
- Access to jobs
- Supporting businesses

When analyzing the projects and potential TOD opportunities, we need it is important to understand which of the above characteristics may be incorporated into a particular site and define what potential barriers or constraints may exist that would cause a project not to be viable. Barriers may include location, financial, political, or market. Some of those constraints can more easily be controlled and mitigated, as compared to others. It is our understanding the sites chosen for the City of Golden Valley include several of the characteristics listed above. An outcome for the project evaluations is to understand how the sites that were selected could be enhanced TOD projects by achieving additional measurements such as affordable housing, jobs, supporting businesses, bicycle and pedestrian access. The additional TOD enhancements do not typically generate revenue and instead increase costs for the project, creating financial gaps that require substantial levels of public and other funding sources.

Project Descriptions

Project 1: St. Margaret Mary site

The potential development site as identified by City staff is an approximate 10-acre site referred to as St. Margaret Mary, and currently owned by the church. It is in close proximity to the Golden Valley Station Area. Previous research and market analysis found that there is no established retail market in the area, so it is presumed that any new retail would be pioneering. Because of its low traffic counts, the absence of an existing retail anchor, and neighborhood presence of large parks, lakes, and other public land, the area has few of the locational assets that would attract traditional retail stores. Any retail development pursued would be nothing more than that of a small footprint. The area is underserved by retail amenities and the distinctive environment could attract nontraditional markets such as bicyclists and park visitors. According to the Bottineau Community Works Station Area Housing Gaps Analysis[1], this may result in market support for the introduction of a small amount of retail as a character- and identity-building element of a new housing development. There is an estimated 100-200 new housing units projected to be in demand through 2040. Specific new types include senior housing – both market rate and affordable and affordable rental apartments ranging from 30% - 80% area median income (AMI).

The entire site is almost 10 acres. Due to many unknowns involving site control, demand for new development (retail, office, residential) and access to amenities, we are focusing solely on the development of a senior housing development – with a portion as affordable – as well as some supporting required infrastructure improvements. In addition to analysis of the specific development component of senior living, we are including potential funding strategies and sources for consideration as to how the remaining area of the site may develop.

General Project Description	
Property Address	2225 Zenith Ave, Golden Valley, MN 55422
Parcel ID	1702924240001
Existing Market Value	$0 (assess 2020, pay 2021) Tax-exempt
Site Size	9.92 acres
Development Assumptions	Mixed Use Project is allowed and anticipated

Financing/Funding Structure

The analysis assumes the anticipated development for this project site would start with the construction of a mixed income 178-unit senior housing complex with underground parking. The total development cost for the senior project is estimated to be $49,722,000. This equates to a per unit housing cost of approximately $279,000 based on starting building construction cost of $200,000/unit. The remaining costs of the project include site acquisition, site improvements, contingency, developer fee, professional fees, financing costs and TOD-related infrastructure improvements. There are typically ranges for certain cost items, and we may see developer fees ranging 3-5%.

The operating revenues include rental rates assuming a mix of market rate and affordable senior housing units – with a mix of independent, assisted living and memory care. The projected operating cash flow proforma assumptions are consistent with industry standards including annual inflator of 3% (operating revenues and expenses) and 5% annual vacancy. Utilizing the baseline financing assumptions with no additional funding sources, the project is not expected to be financially feasible.

[11] https://www.hennepin.us/-/media/hennepinus/residents/transportation/bottineau/bottineau-housing-gaps-analysis.pdf?la=en&hash=C52492B22BD010CC44A86EC7E07E9F45B76084E6

Financial Feasibility using Baseline/Traditional Financing

We have assumed that a traditional project funding structure would include private financing of a first mortgage and owner equity as primary revenue sources. It is assumed the baseline/ traditional financing structure would not be sufficient for a proposed TOD project considered for this project site and that additional funding from other sources will be necessary for financing of certain extraordinary project costs related to redevelopment, TOD enhancements, infeasible commercial space, mixed-income/affordable housing development, and additional public infrastructure improvements.

The projected operating revenues from the project would be used to finance operating expenses, support debt service payments and provide equity investor returns. The project cash flows incorporate operating revenues that include rental rates from the senior apartment units and any other related income. Operating expenses have been estimated as a percentage of annual revenues. Annual debt service payments have been amortized over 30 years assuming repayment of the first mortgage at 5%. Assumptions within the operating cash flow proforma are consistent with industry standards for annual revenue and expense inflators of 3% and annual vacancy rates of 5%. With the baseline assumptions as described assuming solely private financing and no additional public funding sources, the project is not expected to be financially feasible. The projected financial gap for this first funding structure is approximately $9,000,000. This is generally consistent for TOD projects that incorporate extraordinary public purpose costs that are not supported by the market. A traditional privately financed approach for this TOD project is not feasible.

For this project concept to be financially feasible, we can assume there will need to be an alternative financing structure that incorporate additional funding programs, strategies and sources to close the financial gap. The enhanced financing scenario illustrated in the next section will incorporate additional funding sources and programs as a means of providing an alternative funding structure(s) that could provide for the development of a financially feasible project.

Financial Feasibility using Enhanced Financing

As stated above, the projected financial gap assuming a traditionally financed redevelopment project financed solely with private investment could be expected to be approximately $9,000,000. Those funding sources alone would not support a financially feasible project based on current assumptions. Additional funding, either as upfront in the form of grant or lower-interest financing, or additional cashflow from other sources would be necessary to assist with financing of the project due to the higher development costs and reduced annual revenues available to support repayment of equity investment and debt obligations.

Annual operating revenues less operating expenses is the net operating income of the project. Net operating income is used to support annual debt service payments and provide equity investor returns within market ranges. In order to obtain adequate project funding, annual operating revenues are required to:

1) meet minimum debt coverage requirements of a lender
2) pay deferred developer fee
3) produce reasonable rates of return to the investors (when privately invested)

The financial gap has been calculated based on the level of private financing and equity this project could expect to receive based on net operating income. Additional upfront funding sources that reduce the burden of annual operating revenues' ability to pay expenses and cash flow funding would allow the project to be financially feasible. It is assumed that additional upfront and annual operating funding sources would be necessary to establish and enhance financial feasibility.

Enhanced Financing Scenario

To understand how this project could achieve financial feasibility (increased debt coverage and/or investor returns), we started with the traditional funding structure and $9,000,000 gap. We targeted funding sources that could be used to reduce that gap. This could include some familiar funding sources such as tax increment financing, energy and sales tax rebates, tax credits, low-interest loans, deferred developer fee, Met Council, LCDA and Hennepin County TOD/AHIF funding.

The enhanced financing scenario has focused more on the inclusion of innovative funding strategies and programs that may not be as common but considered for certain project components. Components of this proposed project that contribute to the $9,000,000 funding gap and will need innovative funding sources include:

1. Affordable housing
2. Infrastructure improvements
3. Potential for future phases of development

There are funding strategies and programs specific to each of the project components that would be used in combination on eligible pieces of the total project. There are certain programs that only work for commercial/retail space and those that work only for residential units. In certain cases, the funding sources would also be sufficient to support additional TOD infrastructure improvements. In other instances, additional funding sources above those for commercial or residential uses would need to be incorporated.

Utilizing public assistance that includes local participation, regional and state funding sources would provide additional resources for a financially feasible project that also includes TOD components. For a project of this type that incorporates multiple components all requiring public assistance, increased public participation may be considered reasonable. The availability of actual programs and funding sources will be based on developer investor resources, market demand, project performance, and project type. The project performance for the enhanced financing scenario has demonstrated returns that would be at the low end of minimum levels as necessary to create a financially feasible project.

Sources and Uses

The following table provides a summary of the preliminary sources and uses of funds assuming a baseline/traditional financing scenario. It includes an estimate of the total development costs related to acquisition and subsequent construction of the mixed-use project components. Given assumptions regarding the ability of the project to generate net operating revenues and the ability to capitalize those revenues, it also shows the assumption regarding equity, capital provided through borrowing (debt), and the resultant initial financing gap of $9,000,000.

Sources and Uses of Funds illustrating Financial Gap

Sources		Uses	
Equity	9,555,500	Land	2,500,000
Debt	28,666,500	Construction	35,600,000
		Site Work	850,000
		Soft Costs	1,068,000
		Financing Costs	1,780,000
Financial Gap	9,000,000	Developer Fees	1,424,000
		Infrastructure	4,000,000
Total	47,222,000	Total	47,222,000

Enhanced Financing Strategy

To illustrate how the financial gap of $9,000,000 could be resolved, we adjusted the upfront sources of funds to include additional revenues through grants and other mechanisms. The additional funding sources would be facilitated through the establishment and use of alternate funding sources. The property to be developed is currently owned by the church. For purposes of closing the financial gap, we could assume an established partnership between the church and private developer in the form of land donation, ground lease or land trust concepts. Alternate approaches would all be explored as a method of closing the projected financial gap.

The purpose of the enhanced financing scenario is to illustrate how innovative financing strategies could be used to develop a project that meets the additional TOD project objectives that may include affordable commercial retail/office space, affordable and moderate-income housing and infrastructure improvements. The table that follows incorporates the alternative financing scenario that would fill the $9,000,000 financial gap with additional revenue sources supported by the alternate strategies.

The project incorporated in this preliminary analysis would only encompass a portion of the site with some enhanced infrastructure improvements. Development on the remaining site may include supporting commercial, retail, and/or housing. Potential strategies to develop the remainder of the site may include community-owned businesses, business incubators, resource centers, etc. as a means of attracting additional business types and potential funding sources to the project site. These types of programs may attract additional funding resources that do not require the same return on investment as private investment, thus reducing potential financing gaps. Community based enterprises use business to improve the life of a community. They are different from private enterprise because their business activity is undertaken as a means of achieving community benefit, not private gain. Business incubators assist start-up and developing businesses through reduced rental rates to provide opportunities for success and growth. There may also be social impact investors that share the same vision as community leaders. The City may also create local tools including various loans or grants that provide gap or mezzanine financing.

If we were to assume the City and future development team could incorporate a community owned business, business incubator, community land trust, and/or resource center to facilitate development and subsequent success of commercial retail and office space within the project, the assumption is that those strategies would attract the additional funding sources necessary for the project. Funding sources specific to the commercial project components could include:

- Opportunity Zone Funding
- Social impact investors
- Angel investors
- Small business administration

Many of the above funding sources have more favorable terms including lower interest rates, reduced equity returns, long-term investment and deferred funds. All of the above would provide the upfront financing needed for acquisition, construction and other related soft costs. The above funding sources could also be used in conjunction with some traditional funding sources available from local, regional and state sources. The housing components of the project could utilize some of the programs described under funding tools.

Sources and Uses of Funds Illustrating how Enhanced Financing can Fill Gap

Sources		Uses	
Equity	9,244,400	Land	2,500,000
Debt	32,977,600	Construction	35,600,000
Grants	2,500,000	Site Work	850,000
Land Contribution	2,500,000	Soft Costs	1,068,000
		Financing Costs	1,780,000
		Developer Fees	1,424,000
		Infrastructure	4,000,000
Total	47,222,000	Total	47,222,000

The operating proformas on the following pages show the annual cash flow projections using the assumptions outlined under “Financing/Funding Structure” above and based on the total development costs of $47,222,000. The first schedule as further described under “Financial Feasibility using Baseline/Traditional Structure” appears to achieve adequate debt coverage and return to the developer but is $9,000,000 short of funding total development costs. The second schedule as described under “Financial Feasibility using Enhanced Structure” appears to have similar coverage and developer return results but uses higher rental income and additional debt and non-debt sources to provide full funding for the project.

Operating Proforma: Baseline/Traditional Financing

City of Golden Valley
St. Margaret Mary Site
Financing Scenario Illustrating Financial Gap

Sources			Uses	
Equity	9,555,500	20.24%	Land Acquisition	2,500,000
Private Financing	28,666,500	60.71%	Construction	35,600,000
	-	0.00%	Site Work	850,000
	-	0.00%	Soft Costs	1,068,000
	-	0.00%	Financing Costs	1,780,000
		0.00%	Developer Fees	1,424,000
Financing Gap	9,000,000	19.06%	Infrastructure	4,000,000
Total	**47,222,000**		Total	**47,222,000**

Expense Inflation Rate	**3.00%**
Revenue Inflation Rate	**3.00%**

IRR	13.27%
FMV	$45,199,335
NOI Year 10	$3,163,953
Cap Rate	7.00%
Mortgage	21,544,604
Cost of Sale	3%
Sale Proceeds	$22,298,752
Remaining TIF (PV)	
Yield on Cost	5.45%
Cash on Cash Return	4.03%

	Rent/Month	Unit Area	Avg Rent/SF	# of Units	Year	1	2	3	4	5	6	7	8	9	10
Rental Income															
IL/AL															
Subtotal Independent	33,311			79		1,883,227	1,939,724	1,997,915	2,057,853	2,119,588	2,183,176	2,248,671	2,316,131	2,385,615	2,457,184
AL															
Subtotal AL	39,163			63		2,757,743	2,840,476	2,925,690	3,013,461	3,103,864	3,196,980	3,292,890	3,391,676	3,493,427	3,598,229
Memory Care															
Subtotal MC	34,910			24		1,209,618	1,245,907	1,283,284	1,321,783	1,361,436	1,402,279	1,444,347	1,487,678	1,532,308	1,578,277
Care Suite															
Subtotal Care	18,379			12		370,075	381,177	392,613	404,391	416,523	429,019	441,889	455,146	468,800	482,864
Subtotal Revenues				178		4,640,970	4,780,199	4,923,605	5,071,313	5,223,453	5,380,156	5,541,561	5,707,808	5,879,042	6,055,413
Vacancy			5%			(232,049)	(239,010)	(246,180)	(253,566)	(261,173)	(269,008)	(277,078)	(285,390)	(293,952)	(302,771)
Net Income						4,408,922	4,541,189	4,677,425	4,817,748	4,962,280	5,111,149	5,264,483	5,422,417	5,585,090	5,752,643
Net Rental Income						4,408,922	4,541,189	4,677,425	4,817,748	4,962,280	5,111,149	5,264,483	5,422,417	5,585,090	5,752,643
TIF assistance (paygo)															
Total Revenue						4,408,922	4,541,189	4,677,425	4,817,748	4,962,280	5,111,149	5,264,483	5,422,417	5,585,090	5,752,643
Operating Expenses															
Total Expenses			45%			1,984,015	2,043,535	2,104,841	2,167,986	2,233,026	2,300,017	2,369,017	2,440,088	2,513,290	2,588,689
									-	-	-	-	-	-	-
Net Operational Income						2,424,907	2,497,654	2,572,584	2,649,761	2,729,254	2,811,132	2,895,466	2,982,330	3,071,799	3,163,953
Debt Service															
1st Mortgage Debt Service						(2,112,449)	(2,112,449)	(2,112,449)	(2,112,449)	(2,112,449)	(2,112,449)	(2,112,449)	(2,112,449)	(2,112,449)	(2,112,449)
Total Debt Service						(2,112,449)	(2,112,449)	(2,112,449)	(2,112,449)	(2,112,449)	(2,112,449)	(2,112,449)	(2,112,449)	(2,112,449)	(2,112,449)
Debt Coverage Ratio						1.15	1.18	1.22	1.25	1.29	1.33	1.37	1.41	1.45	1.50
Net Income						312,458	385,205	460,135	537,313	616,805	698,683	783,017	869,881	959,351	1,051,505
Hypothetical Sale															$22,298,752
Cash Flow					-9,555,500	312,458	385,205	460,135	537,313	616,805	698,683	783,017	869,881	959,351	1,051,505
					-9,555,500	312,458	385,205	460,135	537,313	616,805	698,683	783,017	869,881	959,351	23,350,257
10 Year IRR						**13.27%**									

Operating Proforma: Enhanced Financing

City of Golden Valley
St. Margaret Mary Site
Financing Scenario Illustrating Enhanced Financing

Sources			Uses	
Equity	9,244,400	19.58%	Land Acquisition	2,500,000
Private Financing	32,977,600	69.84%	Construction	35,600,000
	-	0.00%	Site Work	850,000
Grants	2,500,000	5.29%	Soft Costs	1,068,000
Land Contribution	2,500,000	5.29%	Financing Costs	1,780,000
		0.00%	Developer Fees	1,424,000
		0.00%	Infrastructure	4,000,000
Total	47,222,000		Total	47,222,000

Expense Inflation Rate	**3.00%**
Revenue Inflation Rate	**3.00%**

IRR	11.96%
FMV	$48,105,967
NOI Year 10	$3,367,418
Cap Rate	7.00%
Mortgage	24,378,518
Cost of Sale	3%
Sale Proceeds	$22,284,270
Remaining TIF (PV)	2,902,073
Yield on Cost	5.99%
Cash on Cash Return	3.82%

				Year	1	2	3	4	5	6	7	8	9	10
Rental Income	Rent/Month	Unit Area	Avg Rent/SF	# of Units										
IL/AL														
Subtotal Independent				79	1,883,227	1,939,724	1,997,915	2,057,853	2,119,588	2,183,176	2,248,671	2,316,131	2,385,615	2,457,184
AL														
Subtotal AL	39,163			63	2,757,743	2,840,476	2,925,690	3,013,461	3,103,864	3,196,980	3,292,890	3,391,676	3,493,427	3,598,229
Memory Care														
Subtotal MC	34,910			24	1,209,618	1,245,907	1,283,284	1,321,783	1,361,436	1,402,279	1,444,347	1,487,678	1,532,308	1,578,277
Care Suite														
Subtotal Care	18,379			12	370,075	381,177	392,613	404,391	416,523	429,019	441,889	455,146	468,800	482,864
Subtotal Revenues				178	4,640,970	4,780,199	4,923,605	5,071,313	5,223,453	5,380,156	5,541,561	5,707,808	5,879,042	6,055,413
Vacancy			5%		(232,049)	(239,010)	(246,180)	(253,566)	(261,173)	(269,008)	(277,078)	(285,390)	(293,952)	(302,771)
Net Income					4,408,922	4,541,189	4,677,425	4,817,748	4,962,280	5,111,149	5,264,483	5,422,417	5,585,090	5,752,643
Net Rental Income					4,408,922	4,541,189	4,677,425	4,817,748	4,962,280	5,111,149	5,264,483	5,422,417	5,585,090	5,752,643
TIF assistance (paygo)					492,826	492,826	492,826	492,826	492,826	492,826	492,826	492,826	492,826	492,826
Total Revenue					4,901,748	5,034,015	5,170,251	5,310,574	5,455,106	5,603,975	5,757,309	5,915,243	6,077,916	6,245,469
Operating Expenses														
Total Expenses			45%		2,205,786	2,271,960	2,340,119	2,410,322	2,482,632	2,557,111	2,633,824	2,712,839	2,794,224	2,878,051
								-	-	-	-	-	-	-
Net Operational Income					2,695,961	2,762,055	2,830,132	2,900,251	2,972,474	3,046,864	3,123,485	3,202,404	3,283,692	3,367,418
Debt Service														
1st Mortgage Debt Service					(2,313,405)	(2,313,405)	(2,313,405)	(2,313,405)	(2,313,405)	(2,313,405)	(2,313,405)	(2,313,405)	(2,313,405)	(2,313,405)
Total Debt Service					(2,313,405)	(2,313,405)	(2,313,405)	(2,313,405)	(2,313,405)	(2,313,405)	(2,313,405)	(2,313,405)	(2,313,405)	(2,313,405)
Debt Coverage Ratio					1.17	1.19	1.22	1.25	1.28	1.32	1.35	1.38	1.42	1.46
Net Income					382,556	448,650	516,727	586,846	659,069	733,458	810,079	888,999	970,287	1,054,013
Hypothetical Sale														$25,186,343
Cash Flow				-11,744,400	382,556	448,650	516,727	586,846	659,069	733,458	810,079	888,999	970,287	1,054,013
				-11,744,400	382,556	448,650	516,727	586,846	659,069	733,458	810,079	888,999	970,287	26,240,356
10 Year IRR					11.96%									

Funding Tools

Innovative Funding Strategies and Tools

To follow is a listing of potential funding strategies and tools that could be considered for the City's proposed future projects. Whether a given tool will be applicable for each project will depend on what the actual development type and its specific use may be, but could be a valuable resource to assist with project analysis. The list is intended to provide funding resources that could be used by the City and/or private investor to assist with project development. The purpose is to create and identify a list of resources that could be available to help businesses and residents get access to financing, especially to incentivize businesses that are in mixed use development (both commercial and residential use). More summary information and links to outside resources can be found in the TOD Funding Guide developed as part of the larger TOD study. Potential funding sources that could be utilized include:

Components Driving Funding Gap

There are several components to this project scope that are anticipated to generate a funding gap. The site is close proximity to the Golden Valley Station Area. The City may desire for this site to have infrastructure, mixed-income housing and mixed-use development that includes commercial retail/office space. Each of these project uses would typically result in a financial gap due to the extraordinary nature. Layering the costs will generally cause an increased funding gap similar to what has been generated for Project 1. We made several assumptions in the enhanced financing scenario as an illustration of potential ways of closing the projected funding gap. We have assumed the projects will utilize available tools to facilitate housing that include tax credits, loans and grants, low interest loans, community land trust and ground lease opportunities. To facilitate infrastructure needs, value capture tools may be utilized. To facilitate the construction of mixed-use and first floor construction, strategies to be considered include tax credits, community-owned businesses, business incubator, rent control, and community land trusts. Social impact investors, program related investments and direct grants/loans are also funding sources available for financing of extraordinary project costs related to all project components.

To follow is a listing of potential funding strategies and tools that could be considered for the City's proposed future projects. Whether a given tool will be applicable for each project will depend on what the actual development type and its specific use may be but could be a valuable resource to assist with project analysis. The list is intended to provide funding resources that could be used by the City and/or private investor to assist with project development. The purpose is to create and identify a list of resources that could be available to help businesses and residents get access to financing, especially to incentivize businesses that are in mixed use development (both commercial and residential use). More summary information and links to outside resources can be found in the TOD Funding Guide developed as part of the larger TOD study.

Commercial and Mixed-Use Project Strategies

Community-owned businesses (COBs)[2]:
Community-owned businesses (COBs) are financed and owned collectively by local residents. Community based enterprises use business to improve the life of a community. They are different from private enterprise because their business activity is undertaken as a means of achieving a community benefit, not private gain. They are based on assets belonging to the community that can't be sold off for private financial gain, benefiting stakeholders play a leading role in the enterprise, and have a goal of remaining financially self-sustaining. COBs can provide a vehicle to fill local needs including:

- Local media
- Affordable broadband
- Fresh groceries, household goods
- Provide affordable commercial spaces and other community voids

Business Incubators

[22] https://www.amiba.net/resources/community-ownership/

A business incubator is a nonprofit corporation that assists start-up and developing businesses by providing services and support. The National Business Incubation Association (NBIA) defines business incubators as a catalyst tool for either regional or national economic development. Business incubators reduce the financial concerns many new companies face by offering:

- Office space
- Management training
- Access to shared equipment and meeting rooms
- Networking activities
- Other ongoing business development services (legal, accounting, marketing, etc.)

Community-Land Trusts (CLTs)
A community land trust (CLT) is a nonprofit corporation that develops and stewards the following in order to balance the needs of individuals to access land and maintain security of tenure with a community's need to maintain affordability, economic diversity and local access to essential services. Examples of the types of development that may benefit from CLTs include the following:

- Affordable housing for low- and moderate-income people
- Community gardens
- Civic buildings
- Commercial spaces
- Other community assets developed on behalf of a community.

Employee-owned Cooperatives and Employee Stock Ownership Plan (ESOP)
Employee owned cooperative, also known as worker cooperatives, is a cooperative that is owned and self-managed by its workers. This control may mean a firm where every worker-owner participates in decision-making in a democratic fashion, or it may refer to one in which management is elected by every worker-owner who each have one vote. With a somewhat similar mission, the structure of an ESOP is one where stock is given to employees as part of their compensation and employees own the business.

CDFI
Community development financial institutions (CDFIs) provide credit and financial services to people and communities underserved by mainstream commercial banks and lenders. CDFIs encompass a range of nonprofit and for-profit entities including community development banks, community development credit unions, community development loan funds, community development venture capital funds, and microenterprise loan funds. The previously mentioned Denver Impact Fund is administered by a CDFI.

University and Community Partnerships
Institutions of higher education have an obvious vested interest in building strong relationships with the communities that surround their campuses. They do not have the option of relocating and thus are of necessity place-based anchors. While corporations, businesses, and residents often flee from economically depressed low-income urban and suburban edge-city neighborhoods, universities remain. At a time when foundations that help establish community-based projects are commonly unable to continue with ongoing involvement over long periods of time, universities can play an important role. Universities are inherently an important potential institutional base for helping community-based economic development in general, and civically engaged development in particular. (See also, "Anchor Institution" below.)

Anchor Institutions
Anchor institutions are large public or nonprofit organizations that once established tend not to move location. An important part of the local economies in which they reside, they can deliberately use their economic power to strengthen their community. Indeed, in many places, these anchor institutions have surpassed traditional manufacturing corporations to become their region's leading employers. This is particularly useful in neighborhoods where there are historic and other barriers to people accessing economic opportunity. Focused, well administered programs can foster community wealth building. The largest and most numerous of such nonprofit anchors are universities and non-profit hospitals (often called "eds and meds"). Other examples of anchor institutions include museums, faith-based institutions, libraries, and locally focused philanthropies.

Social Impact Investing

Impact investments are investments made into companies, organizations, and funds with the goal of generating positive, measurable social or environmental outcomes alongside a financial return. The term "impact investing" is relatively new, becoming popular in 2007. The practice of investing for social—and not merely economic—return itself has a much longer history and includes two key approaches:

- **Socially Responsible Investments (SRIs)** are investment strategies that *individuals* employ to generate financial returns while promoting social good. The most common form of socially responsible investment involves investment portfolios designed to exclude certain companies based on explicit social and/or environmental criteria. This is known as "negative screening." However, positive screening, investment in companies that achieve some positive social benefit, is another SRI strategy.
- **Mission-Related Investments** are investment strategies that *foundations* and *anchor institutions* use to generate financial returns as they promote mission-related goals. **Program-related investments (PRIs)** are one such strategy that has played a role in building wealth in low-income communities. Depositing money in community development financial institutions (CDFIs), such as community development credit unions or community loan funds, is another. In additions to PRIs and CDFIs, some foundations, such as the F.B. Heron Foundation, have dedicated their entire corpus in alignment with the Foundation's mission. In each asset class (such as stocks, bonds, loans, and private equity placement), Heron seeks to ensure that investment priorities align with the Foundation's social values.

Small Business Administration
The Small Business Administration is a governmental agency that ensures a percentage of the loan that is made by a local lender. These loans can be made on a real property for business use. These loans have many restrictions and usually take a long time to process but the interest rate is often lower than the current market because the government is guaranteeing a portion of the loan.

Resource center
A business resource center ("center") can serve as a welcome center for the particular neighborhood for businesses. The center can provide a one-stop shop of resources for small businesses to gain access to financial, technological and marketing resources to help them compete with larger businesses in the area. The resource center can provide the following:

1. Start-up help – connecting business owners with consultants and developers
2. Marketing and promotion
3. Administrative assistance: legal, bookkeeping, taxes, etc.
4. Rent assistance and support

Strategies for Housing Projects

- Affordable Housing Trust Fund
- Revolving Loan Fund
- Inclusionary zoning
- Tax Credits
- Value Captured Tools
    - Tax Increment Financing
    - Tax Abatement
- Debt Financing
    - General Obligation
    - Special Assessments
    - Revenue Bonds
    - Conduit
- Loans/Grants
- HOME Investment Partnerships Program (HOME)
- Community Development Block Grant (CDBG)
- National Housing Trust Fund
- Capital Magnet Fund
- Housing rehabilitation
- Small site acquisitions

- Land banking for affordable housing
- Joint Development opportunities for affordable housing production

Value Capture Tools
- Tax Increment Financing
- Tax Abatement

Acquisition by Agreement (Contract for Deed)
Ground Lease
Revolving Loan Fund
Equity (Public or Private)
- Public/Private partnerships
- Angel investors
- Social impact investors

Grants
Philanthropic sources
- Foundations, such as the McKnight Foundation, offer grants to eligible organizations who meet program goals: focusing on advancing climate solutions in the Midwest, building an equitable and inclusive Minnesota and supporting the arts.

Program related investments (e.g. Venn Foundation)
Fees
Credit Assistance
Debt Financing
Equity Financing
- Small Business Administration (SBA)
- Opportunity Zones
- National Cooperative Bank (NOB)
- National Association for the Self-employed (NASE)

Community-owned businesses
Resource center
- Feature a funding resource to provide small flexible investments at low interest rates accessible to communities.
- Include financial rating criteria that reflects a racial equity approach.
- Ensure investment/loan guarantees by trusted entities: Some community members don't trust traditional banks, but still want a way to invest while also having investments backed by government entities to guarantee their investment.

Business Incubators
University and Community Partnerships
Employee owned cooperative (COOP)
Employee stock ownership plan (ESOP)

Potential Development Concepts for Remaining Portion of the Site

The project concept includes the construction of a senior housing mixed income with adjacent commercial/business space on the remaining space. The following case study project could be a considered concept for a portion of the remaining site.

Case Study: Sample community-owned business

Coffee Shop / Bike repair store

A 501(c)(3) organization owns a coffee shop that is connected with a bike repair store. The 501(c)(3) public charity operates a number of activities in the area and has a board that reflects the community. The coffee shop has a seating area and is operated by full-time employees. The bike repair shop has a full-time repair employee. The bike shop has very limited hours in the winter, but more robust hours the rest of the year.

In the summer, the bike repair shop will have two high school apprentices. The primary goal is to teach the apprentices a craft, but also help them learn about operating a business. This model could be done on a larger scale, or on a similar scale, but in multiple locations.

In this case, revenue is enhanced via the ability to raise funds through fundraising. There is also a strong community board and a close relationship with one of the churches in the neighborhood. The community board includes board members with a variety of skills that can provide "back office" support or oversight.

As a part of a larger organization, the coffee shop/bike shop is able to utilize the resources of the larger organization (bookkeeping, HR, etc.). The 501(c)(3) organization utilizes neighborhood and/or nearby resources for these services.

Application to other areas

While another public charity could operate this type of business, it would also be a candidate for a minority entrepreneur or a community owned business – both for-profit operations.

As for-profit organizations, there are a variety of funding options available to the organizations:

- Small Business Administration loans and other similar programs
- Angel investors (higher rate of return required)
- Social impact investors (lower rate of return required)
- Program Related Investments from foundation (lower rate of return required)
- Direct grants to assist in establishing the organization or employing low-income individuals

The organization could also avail itself of accounting, staffing, HR, etc. services from other neighborhood businesses and benefit from a business resource center for other types of governmental assistance. As a locally owned business, hopefully it would enjoy the patronage and support from local residents.

The business could also be a training location for minorities and low-income individuals to help them gain work skills. It could also be an entry into other work programs and/or apprenticeship programs offered by other businesses in partnership with a local community college.

Case study for business incubator sample project:

Business Incubator

A business incubator ("BI") is typically established as a non-profit 501(c)(3) organization that supports growth in a particular industry. The organization will provide the facility, office space and supportive programming for early-stage companies.

Funding sources for a BI

Business incubators are often sponsored by private companies, municipal entities and public institutions such as colleges or universities, so much of their funding may come from the sponsoring organization in addition to other private donors.

Other companies and organizations in a similar industry may also contribute to the BI and could share their resources with the start-ups as needed. This may also include businesses who could provide administrative support to the start-ups residing in the BI, such as talent acquisition, accounting and tax, legal and marketing support, with the potential for a discounted rate.

Governance of a BI
As a non-profit organization, there will typically be a board of directors, which may be comprised of representatives/leaders all over the city or state in the particular industry. The board of directors can elect board officers to oversee operations of the BI. The board can also provide more opportunities for the BI and its start-ups to learn about other companies in the area, specifically industry trends, figures and what is new in the marketplace.

Criteria to apply for a BI
Many business incubators allow companies to apply online. Companies would typically need to provide their organizational information, space needs (e.g. offices, shared space and equipment needs), and current funding levels/sources. BIs conduct research on the company including browsing social media, the website and business plan from a sustainability and mission-alignment perspective.

Resources available while residing in a BI

1. Networking services: The BI can invest in and provide a number of services designed to help grow the start-up business. It can provide opportunities to network with other start-ups and offer training opportunities in different areas of business.
    a. Partnership opportunities: BIs are sometimes supported or funded by other larger organizations or companies, such as governments, colleges or universities. This connection can provide a myriad of resources to the start-up, including potential employees or apprentices, funding sources and access to research (depending on the industry).
2. Business libraries or journals: The BI can often subscribe to expensive knowledge tools such as libraries, journals and other articles that can assist start-ups with their own research, technology and development of materials.
3. Business services: The BI can offer shared spaces ad resources with the other start-up companies, to allow the start-up access without having to incur the expense outright. Examples of on-site business services could include: shared conference spaces, shared IT and teleconference equipment and helpdesk, high-speed Wi-Fi connections, shared office equipment (printers, copiers, postage), secure sites for collecting and shipping packages and a shared loading dock for shipping and receiving needs.
    a. The BI can occupy a larger space to house start-up companies, so it can invest or expand rooms and conference centers for business use. For example, if start-ups want to hold networking or grand opening events, trainings or other presentations, they could have access to an appropriately sized room that may otherwise be too expensive to rent on its own.
4. Financial resources: Aside from offering trainings about business concepts, BIs can assist start-ups with obtaining and accessing financial support from governmental entities, private companies, the SBA or other reputable resources. It can also provide assistance with applications, processes and tracking/documenting funds upon receipt.
5. Logistical offerings: Typically for the below-market rental fee, the BI provides discounted or free guest and employee parking, a convenient location for businesses to start up and network and bike racks for convenient commute.

Next Steps

It is important to note the assumptions used to close the estimated financial gaps in each scenario will ultimately be subject to a variety of both controlled and uncontrolled variables including:

1. Project specifics (type, clientele served, etc.)
2. Policy
3. Market
4. Access to financial resources
5. Availability of funding

The purpose of the analysis of the two project sites was to review potential projects the City has identified as opportunities for redevelopment. We focused the project details for each site based on City staff feedback for desired and marketable uses.

Potential Barriers to Redevelopment that may be Identified:

- Existing businesses/tenants
- Relocation
- High acquisition cost
- Lack of support of future development
- Additional public improvements needs
    - Enhancements
    - TOD requirements
    - Public space/plaza/amenities
    - Sidewalks/trails
- Market demand
- Timing for anticipated phased development
- Availability of Funding Sources

Potential Next Steps for Consideration:

- RFQ – solicit developer interest
- Align development with market
    - Housing study – gap analysis
    - Commercial analysis
        - affordability

Policy Considerations

When private development efforts result in requests for public assistance, cities are faced with a number of policy considerations. These considerations often revolve around the desire to advance a project, the cost vs perceived benefit to the community at large, and the ability to treat all private parties equitably. This section addresses topics related to gap funding policy considerations.

Cities use different incentives for a variety of purposes that might include some or all of the following:

- Stimulate development where it would otherwise not occur ("but for" test)
- Retain existing tax base
- Encourage development of uses that would otherwise not occur, such as low-income housing
- Enhance tax base
- Facilitate infrastructure improvements
- Coordinate new developments with existing plans
- Demonstrate long-term benefits to the community
- Retain local jobs and/or increase the number and diversity of jobs that offer stable employment and/or attractive wages and benefits
- Encourage unsubsidized private development through "spin off" development
- Increase private investment (consequently market value) through:

- o Increased employment
- o Added housing units (Affordable or Market Rate)
- o Attraction of visitors who contribute to the local economy
- o Increased sales volume
- o Elimination of negative or blighting influences effecting surrounding property (Blight Curve)
- o Maximize land use (TOD)
- o Addition of infrastructure (parking other public improvements)

An important thing to focus on when considering providing any financial consideration for a project is what is driving the gap and if the need for public financial assistance is driven by project specific needs and will result in reasonable financial outcomes for all parties involved. Sometimes extraordinary public improvements or amenities are being required by the City or community and a developer may reasonably request that public participation cover the extra costs that result. In every case, understanding why the City would consider participating (see above) needs to be coupled with a clear understanding of what is driving the need for public financing assistance is essential to assure that each party gets a return that is reasonable for the investment that they are making – whether that is the public participant or the private participant. Below are some of the reasons that a project may exhibit a financing gap:

- Extraordinary redevelopment costs
- Hold out by existing property owner, land price too high
- Development needs more than it can pay for
- “Oversizing” of utility and infrastructure needs for future growth
- Developer wants less risk/more return than typical market conditions dictate
- Market competition
- Achieve development on sites that would not develop “but for” the use of TIF
- Remove blight and/or encourage redevelopment of commercial and industrial areas resulting in high quality redevelopment and private reinvestment
- Offset redevelopment costs (i.e. contaminated site clean-up) over and above the costs normally incurred in development
- Housing types
  - o Market rate
  - o Affordable
  - o Work force

Evaluating the Proper Role for the Public

When reviewing projects and understanding financial feasibility and potential tools that may be available to spur development and redevelopment, it may be helpful to understand what role your community may want to play to encourage development/redevelopment opportunities and what your risk level and/or cost is. They typically include the following:

Public Sector Role	Risk Level
Grant the permit and zoning allowance	Lowest risk
Reimburse the project as benefits are completed	Low risk
Be the lender	Medium/high risk
Be the borrower	Higher risk
Be the developer	Highest risk

It is important to understand real estate development or engage a third party to help as needed when choosing the role to take. A good understanding of what is being asked for, why/if it is necessary, and if project returns are reasonable for each party will protect the public from over or under subsidizing projects. Understanding the communities’ interest or desire for a particular project or related public amenity is also important in shaping the long-range vision in which public investments are made.

Real estate development encompasses activities that range from the renovation and re-lease of existing buildings to the purchase of raw land and the sale of improved parcels. Developers are the coordinators of the activities, converting ideas on paper into real property. They create, imagine, fund, control and orchestrate the process of development from the beginning to end. Developers usually take the greatest risk in the creation or renovation of real estate—and receive the greatest rewards. They often incur expenditures to advance projects prior to the availability of outside financing. Typically, developers purchase a tract of land, determine the marketing of the property, develop the building program and design, obtain the necessary public approvals and project financing, build the structure, and lease, manage, and ultimately sell it. Developers work with many different counterparts along each step of this process, including architects, city planners, engineers, surveyors, inspectors, contractors, leasing agents, lenders and more.

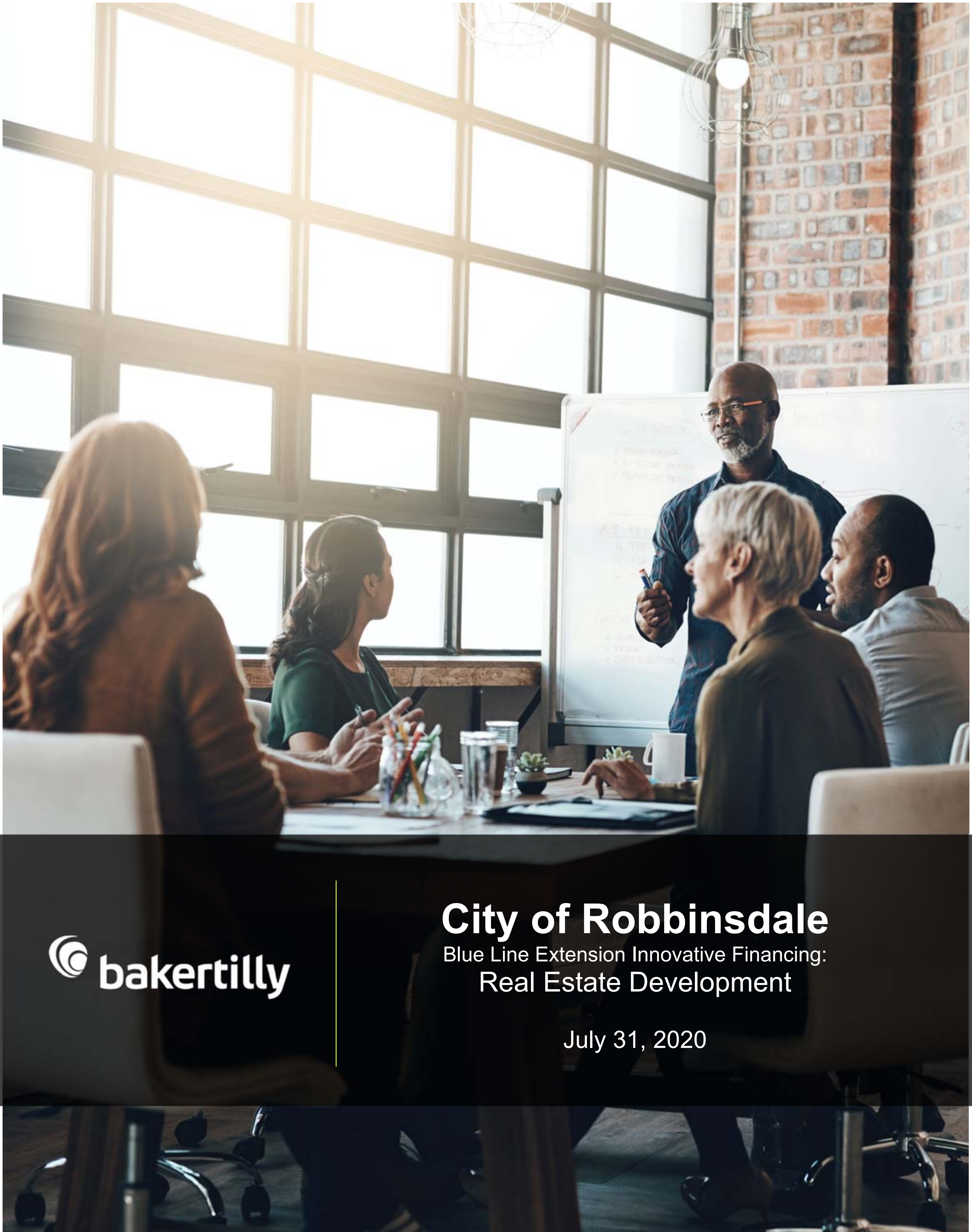
Development is a team effort. The development process requires skills of many professionals: architects, landscape architects, and site planners to address project design; market consultants to determine demand and a project's economics; attorneys to handle agreements and government approvals; environmental consultants and soils engineers to analyze a site's physical limitations and environmental impacts; surveyors and title companies to provide legal descriptions of a property; and lenders to provide financing. The strength of the formal and informal team involved in a project can be a key factor in its ability to be successful. Are the right talents being applied to the right things to effectively plan and implement a project?

Some communities participate directly by purchasing and holding land for development. Purchasing unused land for an undesignated potential development is a highly speculative activity. In general, land development is the most profitable but riskiest element of development as it is so dependent on the public sector for approvals and infrastructure, the market for development opportunities and it involves a long investment period with no positive cash flow. However, some communities have the capacity to tolerate land development risk, have cash flow patience and will gauge their direct involvement accordingly.

Communities should keep the concept of measurable return in mind as they approach development involvement. What is the outcome that is desired? Who will benefit? Is the benefit reasonable and does it justify the cost? What guarantees the desired outcome is achieved if an investment is made? Contractual agreements can be developed that define who will do what, pay for what, and what will happen if those things do not happen. A local government that relies on property taxes might use an increase in the market value of real estate as the primary measure of whether the project has been successfully completed. Other measurable outcomes might include job production, affordable housing units produced, or timely completion of project or phases of the project.

The benefit that a party receives from public incentives should be measured and at a reasonable level. Return on Investment (ROI) to the developer or investor is a simple performance measure to evaluate the efficiency of an investment opportunity. It is calculated by subtracting the cost of the investment from the benefits of the investment and then dividing by the cost of the investment. The result is expressed as a ratio. A reasonable level for ROI will be different for different types of developments and developers and fluctuates over time. Understanding the dynamics that drive the calculation what a reasonable range of ROI is for the project under consideration is key in evaluating the level of assistance needed, if any.

We recommend all of these items be considered when reviewing project concepts and determining appropriate levels, if any, of public financial assistance.



bakertilly

City of Robbinsdale

Blue Line Extension Innovative Financing:

Real Estate Development

July 31, 2020

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July 31, 2020

City of Robbinsdale

RE: Innovative Financing Strategies

The Metropolitan Council retained Baker Tilly to study financing tools available to assist transit-oriented development. Part of the study includes providing Real Estate Development Technical Assistance for ten projects that were selected by the Technical Assistance Committee (TAC). Two of the projects were identified by the City as potential TOD development/redevelopment opportunity sites adjacent to the Blue Line Extension.

The two projects provided for evaluation and coordination of technical assistance are both site specific and in the conceptual stage for development concepts. Certain assumptions were made regarding type, density and phasing of development. The projects are being evaluated based on the following criteria:

- Applicable Zoning
- Site Selection Criteria
- Site Planning Principals
- Financing/funding Structure
- Financial Feasibility

Input provided by City staff assisted with updating and refining the development assumptions related to the above criteria. We appreciate the opportunity to have worked with the City on these exciting projects.

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Contents

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Introduction

Robbinsdale Station Area

The Robbinsdale station is proposed to be located between 41st and 42nd Avenues on the western edge of Robbinsdale's downtown commercial area. The Bottineau LRT alignment forms a boundary between residential property to the west and downtown Robbinsdale to the east. The western residential area includes a higher density residential development located within one third of a mile to the station. The downtown area also contains higher density residential rental property. Planning for the station area includes improved access to the station area from the western residential area as well as transit circulation in the station area to include other transit alternatives. Bus access, circulation, and traffic congestion are current concerns including existing operation of the intersection of West Broadway and County Road 9.

The 42nd Avenue Station area is generally dense within a half mile radius. There is a relatively high concentration of workers at the Hy-Vee and North Memorial Hospital campus to the south along West Broadway (2,300+ workers). 791 units of existing market rate and publicly assisted rental housing is also within a half mile radius. The City has identified future redevelopment opportunities; however, there may be challenges due to many small parcels with individual ownership. Investment of both time and money will be necessary for land aggregation and acquisition.

Beyond the downtown to the north and east are additional residential neighborhoods. The downtown area is a mix of retail stores, restaurants, offices, and housing of different kinds. The retail development is located in a variety of sub-districts and retail formats, including:

- Fine-grained storefront retail along West Broadway, most of it in original storefront buildings
- Retail strip malls along West Broadway and Bottineau Boulevard
- Stand-alone retail buildings along West Broadway and Bottineau Boulevard

The Station Area Plan for the Robbinsdale station area encourages intensification of development around the station, particularly in the downtown area and along West Broadway. Multi-family housing development is encouraged throughout the area where there is opportunity. New retail is proposed at a few locations near the station and as a complement to some of the new housing development. Some of the identified development opportunities are existing retail developments, the redevelopment of which may result in a net reduction of retail floor area in the station area. Two specific potential development sites within the Station Area are analyzed in this report.

Transit Oriented Development (TOD)

TOD is development that is typically located within a quarter- to half-mile radius of a transit station that will offer a mix of housing, employment, commercial/retail and transportation choices within a neighborhood and business district. Easier access to public transit should provide for lower household costs and less expensive alternatives to driving to and from destinations. It is also intended to provide people with better access to more job opportunities throughout a larger region. TOD often requires significant investments in infrastructure to create an environment for usable and accessible development and community facilities. Investments may include:

- Increasing the capacity of infrastructure including streets, roads, and utilities (sewer, water, storm drain) to support additional development.
- Enhancing pedestrian and bicycle access by the addition or improvement of sidewalks, crosswalks, bicycle lanes, bicycle storage, and streetscape enhancements such as lighting, landscaping, public plazas and benches.
- Creating or improving parks, plazas, and other open space.
- Building structured parking garages for park-and-drive transit riders, which allows surface parking lots to be redeveloped for TOD.

TOD infrastructure and additional development that occur are all intended to benefit the environment and economy by allowing people to walk, bicycle, or take transit that reduces pollution and provides affordable transportation options. TOD improvements can be challenging to finance due to the high upfront investments and lack of revenues available to support the costs.

Purpose of This Report

The purpose of this report is to provide the Metropolitan Council, the City of Robbinsdale, other local leaders, and the development community with guidance on the feasibility of implementing Transit Oriented Development projects in Robbinsdale along the planned Bottineau LRT route. The City has identified two potential TOD sites. (Project 1: Robin Center and Project 2: Town Center). The report provides background on the criteria that lead to the selection of these sites for TOD and analysis of the financial feasibility of TOD projects. For each project, the report looks at the planned development scale and uses and analyzes the financial feasibility. First, the analysis assesses the financial feasibility of each project using a traditional financing method (private debt and equity). For each project, the report goes on to evaluate the financial performance of each project if in an “enhanced” scenario using alternative financing tools.

Key Findings

For both projects, the analysis demonstrates that traditional financing alone will most likely not be sufficient and would result in financial gaps that will require public assistance and alternate funding sources to be feasible. For the City to implement TOD projects that align with the Comprehensive Plan and meet the goals of TOD, the City and its partners will need to work in partnership with developers to utilize alternative financing tools such as those listed in the “Funding Tools” section of this report and may include loans, grants, tax credit programs, and local incentives. The final section of this report provides additional information on these tools.

Development Criteria

Applicable Zoning

The property sites are zoned B-4, community commercial within the TOD overlay district.

The city has adopted zoning development standards that support transit-oriented development (TOD) promoting higher density uses served by light rail and other transit services. The TOD zoning initiative extends beyond the traditional downtown and apply to those commercial areas of the city that anticipate redevelopment along the West Broadway corridor in addition to those within a half mile of the planned Robbinsdale Blue Line Extension LRT station. The TOD zoning will promote a higher intensity of development which can be measured by Floor Area Ratio (FAR).

Relationship to Comprehensive Plan

Residential mixed-use: Residential is the dominant land use with limited examples of multi-family over street level commercial exemplified by Broadway Court. Mixed-use multi-family over retail/service commercial is envisioned as a potential redevelopment template in the core downtown (41st Ave. to 42nd Ave. N.) redevelopment scenarios and within the station area. However, it has been difficult to lease street level commercial in mixed-use buildings, even on West Broadway in the downtown between 41st and 42nd Ave. N. As well, community values identified during the station area planning process recommended that the 4100 block of West Broadway be preserved for small scale 2-story development to preserve its main street character. Therefore, Commercial use is preferred as a street-level land use below multi-family residential, but it is not mandated. Commercial can also exist on adjacent properties.

Residential use: Street level will generally need some buffering from the street in the form of building design, additional setbacks, differential in floor levels, or building amenity common space.

Commercial mixed use: Commercial and office are the dominant uses consisting primarily of multiple tenant commercial buildings on street level and office above with commercial uses mixed laterally. Multiple family residential uses are allowed as a conditional use. The traditional mixed-use example of a street level store front commercial use with one or more apartments on the second level is no longer economically feasible because of the need for accessibility. A property designated for commercial mixed use will be expected to have some commercial or office uses as well as residential, even if residential becomes the primary use of the area or property.

Site Selection Criteria

City staff has identified two anticipated project sites in the City for potential development/redevelopment opportunities. Both are TOD opportunities. When evaluating a project, there are conditions of that project site that may be considered when evaluating viability. The following is a general listing of certain characteristics favorably associated with TOD projects.

- Reduced Parking
- Bicycle Access
- Pedestrian access and walkability
- Transit station access
- Codes that allow for higher density and mixed use
- Nearby amenities
- Affordable housing
- Jobs
- Supporting businesses

When analyzing the projects and potential TOD opportunities, it is important to understand which of the above characteristics may be incorporated into a particular site and define what potential barriers or constraints may exist that would cause a project not to be viable. Barriers may include location, financial, political, or market. Some of those constraints can more easily be controlled and mitigated, as compared to others. It is our understanding the sites chosen for Robbinsdale include several of the characteristics listed above. An outcome for the project evaluations is to understand how the sites that were selected could be enhanced TOD projects by achieving additional measurements such as affordable housing, jobs, supporting businesses, bicycle and pedestrian access. The additional TOD enhancements do not typically generate revenue and instead increase costs for the project, creating financial gaps that require substantial levels of public and other funding sources.

Project Descriptions

Project 1: Robin Center

The location of the first project site for review in the City of Robbinsdale is the Robin Center and surrounding properties. The site currently consists of five parcels and two separate owners.

Table 2: General Project Description	
Property Addresses	4030 Lakeland Ave N Robbinsdale, MN 4044 Lakeland Ave N Robbinsdale, MN 4048 Lakeland Ave N Robbinsdale, MN 4050-4098 Lakeland Ave N Robbinsdale, MN
Parcel IDs	06-029-24-13-0077 06-029-24-13-0078 06-029-24-13-0127 06-029-24-13-0128 06-029-24-13-0129
Existing Market Value	Assess 2020/Pay 2021 $48,000 $257,000 $636,000 $5,938,000 $591,000 $7,470,000 (total)
Site Size	5.83 acres
Conceptual Development (Estimates)	Mixed Use Redevelopment 50-70 housing units 200-450 additional housing units 15,000-25,000 square feet commercial – 420 parking spaces

Financing/Funding Structure

Based on the City's Comprehensive plan, the analysis assumes the planned development for this project site could be the construction of a mixed use residential and commercial project with owner-occupied and rental homes and supporting retail space. The total development costs for the project are estimated to be $112,628,065 based on construction cost estimates for each of the project components. The total costs include land, construction interest, developer fee, legal fees, architect fees, reserves, other soft costs and construction contingency. Generally, there are ranges for certain costs, including land, construction, and developer fees, as estimated. We may see developer fees around 3-5% for privately financed projects. The table on the following page provides a summary of the preliminary sources and uses of funds for this financing structure with an estimated funding gap.

The operating revenues include rental rates assuming market rate apartments and commercial retail space. The projected operating cash flow proforma assumptions are consistent with industry standards for inflation and vacancy to include 3% annual increase in revenues and expenditures. With these assumptions and no additional funding sources, the project is not expected to be financially feasible.

Financial Feasibility using Baseline/Traditional Financing

The proposed funding structure for this project assumes a privately financed project with a first mortgage and owner equity as primary sources of revenue to finance construction costs. Sales proceeds from the for-sale units will also be used to finance upfront costs as they are received. The projected operating revenues incorporate lease revenues from the apartments, retail space, parking and other related income. Annual lease revenues are used to finance operating expenses, support debt service payments and provide equity investor returns. It is the expectation that additional funding from other sources will be necessary for financing of certain project costs that may include extraordinary redevelopment, TOD enhancements, commercial/housing development, and public infrastructure improvements.

The projected financial gap for this first funding structure is approximately $14,500,000. There will need to be alternate funding structures that incorporate additional funding programs, strategies and sources to close the financial gap for this project. Those programs and sources were used to develop and analyze potential alternate funding structure(s) to allow for a financially feasible project.

Financial Feasibility Using Enhanced Financing

As stated above, the projected financial gap assuming a traditionally financed redevelopment project financed solely with private investment could be expected to be approximately $14,500,000. Those funding sources alone would not support a financially feasible project based on current assumptions. Additional funding, either as upfront in the form of grant or lower-interest financing, or additional cashflow from other sources would be necessary to assist with financing of the project due to the higher development costs and reduced annual revenues available to support repayment of equity investment and debt obligations.

Annual operating revenues less operating expenses is the net operating income of the project. Net operating income is used to support annual debt service payments and provide equity investor returns within market ranges. In order to obtain adequate project funding, annual operating revenues are required to:

1) meet minimum debt coverage requirements of a lender
2) produce reasonable rates of return to the investors

The financial gap has been calculated based on the level of private financing and equity this project could expect to receive based on net operating income. Additional upfront funding sources that reduce the burden of annual operating revenues' ability to pay expenses and cash flow funding would allow the project to be financially feasible. It is assumed that additional upfront and annual operating funding sources would be necessary to establish and enhance financial feasibility.

Enhanced Financing Scenario

To understand how this project could achieve financial feasibility (increased debt coverage and/or investor returns), we used the traditional funding structure and adjusted both the total development costs and sources of revenue. We anticipate multiple funding sources will be needed to close the financial gap include many familiar ones. The primary funding sources would still be private debt and equity, up to the levels that could be supported by the project. Alternate funding sources may include public assistance from multiple sources such as tax increment financing from the City of Robbinsdale, and would ultimately be subject to public policy, purpose, project qualifications and actual need for assistance. We anticipate this may be in the form of pay-as-you-go assistance as reimbursement for eligible costs related to redevelopment that would be used by a developer to provide additional cash flow revenues for the project. The additional cash flow revenues would allow the project to obtain an increased level of supportable debt.

Additional funding sources beyond tax increment would need to include other forms of revenue including grants, deferred loans, patient capital, alternate equity investors or low-interest loan. In addition to the potential identified funding sources, we reviewed possible ways to reduce upfront project costs that may include, but not be limited to, land, developer fee, and other soft costs.

Actual programs and funding sources will be based on developer investor resources, market demand, project performance, and project type. The project performance for the alternate project is demonstrating returns that would be at the low end of minimum levels as necessary to create a financially feasible project.

Utilizing public assistance that may include TIF, regional or state funding sources would provide additional resources that would allow the project to be financially feasible and support additional TOD components. For a project of this magnitude, where there is expected to be significant extraordinary costs that include acquisition and redevelopment costs, demolition, city/developer relocation of existing commercial tenants, increased public participation may be considered reasonable in order to align the total cost structure with similar projects if located elsewhere in the City. Site challenges that add costs and no revenues will require public and/or other financial resources. The required purchase of developed property with existing businesses is a key component to allowing the project to proceed and maximize site potential.

Sources and Uses

The following table contains an estimate of the required costs to acquire the site and develop the proposed project. Given assumptions regarding the ability of the project to generate net operating revenues and the ability to capitalize those revenues, it also shows the assumption regarding equity, capital provided through borrowing (debt), and the resultant initial financing gap.

Sources and Uses of Funds illustrating Financial Gap			
Sources		Uses	
Debt	52,502,452	Land	7,500,000
Equity	13,125,613	Construction Commercial	5,062,500
Land Sale Proceeds	32,500,000	Construction Apartments	60,000,000
		Contingency	3,253,125
		Interest	1,356,038
		Relocation	193,200
		Developer Fee	3,185,000
		Legal Fees	175,000
		Architect	615,000
		Other	2,177,017
		Reserves	611,185
Financing Gap	14,500,000	Construction For-Sale Units	28,500,000
Total	112,628,065	Total	112,628,065

To illustrate how the financial gap of $14,500,000 could be resolved, we adjusted the upfront sources of funds to include additional revenues through grants and other mechanisms. For this illustration we assumed $2,000,000 in grant funds could be received to offset a portion of the extraordinary costs. The city may also consider the establishment of a tax increment financing district and using tax increment revenues as an additional source of annual funds to support both increased equity and debt proceeds. Additional cash flow remedies could be an increase in the annual lease rates to generate additional cash flow to support a higher level of debt service and investor returns. Achieving these rates will be subject to market and desired affordability levels for residential housing, based on needs of the City. Recently completed market analysis indicated a focus on market rate apartments, but the needs and market demand may change subject to timing for redevelopment.

The City may also explore alternate funding programs as described further under “Funding Tools” to allow for project feasibility. The sources and uses listed below are intended to illustrate a potential financial structure of how the gap could be closed. We anticipate City staff could utilize these structures as a potential baseline when reviewing redevelopment scenarios as such opportunities present themselves in the future and in conjunction with Blue Line development.

Sources and Uses of Funds illustrating How Alternate Financing can fill Gap			
Sources		Uses	
Debt *	65,128,065	Land	0
Equity	18,000,000	Construction Commercial	5,062,500
		Construction Apartments	60,000,000
		Contingency	3,253,125
		Interest	1,356,038
		Relocation	193,200
Grants	2,000,000	Developer Fee	3,185,000
		Legal Fees	175,000
Land Sale Proceeds	27,500,000	Architect	615,000
		Other	2,177,017
		Reserves	611,185
		Construction For-Sale Units	28,500,000
Total	112,628,065	Total	112,628,065

** would include annual tax increment revenues as additional cashflow to support debt service payments*

The operating proformas on the following pages show the annual cash flow projections using the assumptions outlined above under “Financing/Funding Structure” and based on the project described with total development costs of $112,628,065. The first schedule appears to achieve adequate debt coverage and return to the developer but is $14,500,000 short of funding total development costs. The second schedule appears to have similar coverage and developer return results but uses higher rental income and additional debt and non-debt sources to provide full funding for the project.

Operating Proforma using Baseline/Traditional Financing

City of Robbinsdale, Minnesota
Robin Center Redevelopment
Operating Proforma Illustrating Financing Gap

Sources	Amount	Percent	Uses	Amount
		0.00%	Land	7,500,000
		0.00%	Construction	5,062,500
		0.00%	Construction	60,000,000
First Mortgage	52,502,452	46.62%	Contingency	3,253,125
Equity	13,125,613	11.65%	Interest	1,356,038
		0.00%	Relocation	193,200
Land	-	0.00%	Developer fee	3,185,000
		0.00%	Legal fees	175,000
		0.00%	Architect	615,000
Sales Proceeds	32,500,000	28.86%	Other	2,177,017
		0.00%	Reserves	611,185
Financial Gap	14,500,000	12.87%	Construction	28,500,000
		0.00%		
Total	**112,628,065**		Total	**112,628,065**

Revenue Inflation Rate	**3.00%**
Expense Inflation Rate	**3.00%**

IRR	14.64%
FMV	$80,813,892
NOI Year 10	4,848,833
Cap Rate	6.00%
Mortgage	42,706,578
Cost of Sale	3%
Sale Proceeds	$35,682,897
Remaining TIF (PV)	
Yield on Cost	3.50%
Cash on Cash Return	3.39%

				Year	1	2	3	4	5	6	7	8	9	10
Operating Revenues	Unit #	SF/Unit	Rent/SF	Rent/Unit										
Apartments														
Studio	75	600	1.75	1,050.00	945,000	973,350	1,002,551	1,032,627	1,063,606	1,095,514	1,128,379	1,162,231	1,197,098	1,233,011
1 bedroom	150	867	1.75	1,517.25	2,731,050	2,812,982	2,897,371	2,984,292	3,073,821	3,166,035	3,261,017	3,358,847	3,459,612	3,563,401
2 bedroom	75	1,100	1.75	1,925.00	1,732,500	1,784,475	1,838,009	1,893,150	1,949,944	2,008,442	2,068,696	2,130,756	2,194,679	2,260,520
Retail	12,500			15	187,500	193,125	198,919	204,886	211,033	217,364	223,885	230,601	237,519	244,645
Retail	4,500			18	81,000	83,430	85,933	88,511	91,166	93,901	96,718	99,620	102,608	105,687
Retail	5,500			15	82,500	84,975	87,524	90,150	92,854	95,640	98,509	101,465	104,509	107,644
Parking	325		-	75	292,500	301,275	310,313	319,623	329,211	339,088	349,260	359,738	370,530	381,646
vacancy			5%	10%	(334,778)	(344,821)	(355,165)	(365,820)	(376,795)	(388,099)	(399,742)	(411,734)	(424,086)	(436,809)
TIF					-	-	-	-	-	-	-	-	-	-
Total Revenues	300				5,717,273	5,888,791	6,065,454	6,247,418	6,434,841	6,627,886	6,826,722	7,031,524	7,242,470	7,459,744
Operating Expenses														
Total Operating Expenses			35%		2,001,045	2,061,077	2,122,909	2,186,596	2,252,194	2,319,760	2,389,353	2,461,033	2,534,864	2,610,910
Cash Flow Available for Debt Service					3,716,227	3,827,714	3,942,545	4,060,822	4,182,646	4,308,126	4,437,370	4,570,491	4,707,605	4,848,833
Debt Service														
1st Mortgage Debt Service					(3,382,134)	(3,382,134)	(3,382,134)	(3,382,134)	(3,382,134)	(3,382,134)	(3,382,134)	(3,382,134)	(3,382,134)	(3,382,134)
Total Debt Service					(3,382,134)	(3,382,134)	(3,382,134)	(3,382,134)	(3,382,134)	(3,382,134)	(3,382,134)	(3,382,134)	(3,382,134)	(3,382,134)
Debt Coverage Ratio					1.10	1.13	1.17	1.20	1.24	1.27	1.31	1.35	1.39	1.43
Net Income					334,093	445,580	560,411	678,688	800,512	925,992	1,055,235	1,188,356	1,325,471	1,466,699
Net Available Cash Flow					334,093	445,580	560,411	678,688	800,512	925,992	1,055,235	1,188,356	1,325,471	1,466,699
Hypothetical Sale														$35,682,897
Cash Flow				-13,125,613	334,093	445,580	560,411	678,688	800,512	925,992	1,055,235	1,188,356	1,325,471	1,466,699
				-13,125,613	334,093	779,673	560,411	678,688	800,512	925,992	1,055,235	1,188,356	1,325,471	37,149,596
10 Year IRR					**14.64%**									

Operating Proforma using Enhanced Financing

City of Robbinsdale, Minnesota
Robin Center Redevelopment
Operating Proforma Illustrating Alternative Financing for Filling Gap

Sources	Amount	Percent	Uses	Amount
First Mortgage *	65,128,065	57.83%	Land	7,500,000
Equity	18,000,000	15.98%	Construction	5,062,500
		0.00%	Construction	60,000,000
Grants	2,000,000	1.78%	Contingency	3,253,125
		0.00%	Interest	1,356,038
TIF *		0.00%	Relocation	193,200
Land	-	0.00%	Developer fee	3,185,000
		0.00%	Legal fees	175,000
Sales Proceeds	27,500,000	24.42%	Architect	615,000
		0.00%	Other	2,177,017
		0.00%	Reserves	611,185
			Construction	28,500,000
Total	**112,628,065**		Total	**112,628,065**

Revenue Inflation Rate	**3.00%**
Expense Inflation Rate	**3.00%**

IRR	14.57%
FMV	$98,506,795
NOI Year 10	5,910,408
Cap Rate	6.00%
Mortgage	50,097,069
Cost of Sale	3%
Sale Proceeds	$45,454,522
Remaining TIF (PV)	5,105,508
Yield on Cost	4.36%
Cash on Cash Return	3.27%

** TIF as paygo to support private financing*

			0	Year	1	2	3	4	5	6	7	8	9	10
Revenues	Unit #	SF/Unit	Rent/SF	Rent/Unit										
Apartments														
Studio	75	600	1.95	1,170.00	1,053,000	1,084,590	1,117,128	1,150,642	1,185,161	1,220,716	1,257,337	1,295,057	1,333,909	1,373,926
1 bedroom	150	867	1.95	1,690.65	3,043,170	3,134,465	3,228,499	3,325,354	3,425,115	3,527,868	3,633,704	3,742,715	3,854,997	3,970,647
2 bedroom	75	1,100	1.95	2,145.00	1,930,500	1,988,415	2,048,067	2,109,509	2,172,795	2,237,979	2,305,118	2,374,271	2,445,500	2,518,865
Retail	12,500			15	187,500	193,125	198,919	204,886	211,033	217,364	223,885	230,601	237,519	244,645
Retail	4,500			18	81,000	83,430	85,933	88,511	91,166	93,901	96,718	99,620	102,608	105,687
Retail	5,500			15	82,500	84,975	87,524	90,150	92,854	95,640	98,509	101,465	104,509	107,644
Parking	325		-	75	292,500	301,275	310,313	319,623	329,211	339,088	349,260	359,738	370,530	381,646
vacancy			5%	10%	(365,684)	(376,654)	(387,954)	(399,592)	(411,580)	(423,927)	(436,645)	(449,745)	(463,237)	(477,134)
TIF					867,010	867,010	867,010	867,010	867,010	867,010	867,010	867,010	867,010	867,010
Total Revenues	300				7,171,497	7,360,631	7,555,440	7,756,093	7,962,765	8,175,638	8,394,897	8,620,733	8,853,345	9,092,935
Operating Expenses														
Total Operating Expenses			35%		2,510,024	2,576,221	2,644,404	2,714,632	2,786,968	2,861,473	2,938,214	3,017,257	3,098,671	3,182,527
Cash Flow Available for Debt Service					4,661,473	4,784,410	4,911,036	5,041,460	5,175,797	5,314,165	5,456,683	5,603,477	5,754,674	5,910,408
Debt Service														
1st Mortgage Debt Service					(4,195,458)	(4,195,458)	(4,195,458)	(4,195,458)	(4,195,458)	(4,195,458)	(4,195,458)	(4,195,458)	(4,195,458)	(4,195,458)
Total Debt Service					(4,195,458)	(4,195,458)	(4,195,458)	(4,195,458)	(4,195,458)	(4,195,458)	(4,195,458)	(4,195,458)	(4,195,458)	(4,195,458)
Debt Coverage Ratio					1.11	1.14	1.17	1.20	1.23	1.27	1.30	1.34	1.37	1.41
Net Income					466,014	588,952	715,577	846,002	980,339	1,118,706	1,261,224	1,408,018	1,559,216	1,714,949
Net Available Cash Flow					466,014	588,952	715,577	846,002	980,339	1,118,706	1,261,224	1,408,018	1,559,216	1,714,949
Hypothetical Sale														$50,560,030
Cash Flow				-18,000,000	466,014	588,952	715,577	846,002	980,339	1,118,706	1,261,224	1,408,018	1,559,216	1,714,949
				-18,000,000	466,014	1,054,966	715,577	846,002	980,339	1,118,706	1,261,224	1,408,018	1,559,216	52,274,979
10 Year IRR					**14.57%**									

Project 2: Town Center Redevelopment Site

The second project site for review in the City of Robbinsdale is the Town Center Shopping Center located at 4080 West Broadway and 4000 West Broadway. The properties include US Bank and a shopping center which combines retail, service, office and restaurant uses that was built in the late 1980's in a suburban, auto-oriented pattern and does not contribute to the main street character of the downtown. TOD planning concepts are being studied to encourage pedestrian oriented redevelopment scenarios that could facilitate redevelopment. Subject to market, the site could accommodate up to 300-400 new multiple family dwelling units with supporting commercial space and parking.

Table 2: General Project Description	
Property Addresses	4080 West Broadway 4000 West Broadway
Parcel IDs	0602924130122 0602924130123
Existing Market Value	Assess 2020/Pay 2021 $7,600,000 $2,710,000 $10,310,000 total
Site Size	3.89 acres 2.33 acres 6.32 acres total
Possible Redevelopment	Mixed Use 235-300 housing units 140-200 additional housing units 15,000-25,000 square feet commercial retail 20,000 square foot possible business incubator – 455 parking spaces

Financing/Funding Structure

The analysis is based on assumptions regarding the anticipated site buildout and corresponding estimated total development costs and funding sources which are drawn from the City's Comprehensive Plan. The planned development for this project site is the construction of a market rate multi-story new apartment complex. The total development cost for the project including commercial is estimated to be $126,257,500. Total cost per unit is as follows:

- $200/square foot for commercial
- $200,000/unit for apartments
- $300,000/unit for condos/rowhomes

The remaining costs of the project that comprise the $126M listed above include site acquisition, demolition, abatement, developer fee, professional fees, financing costs and reserves. The project costs do not include a separate line item for contingency amounts and those costs have been included within specific line items. There are typically ranges for certain cost items, and we may see developer fees ranging 3-5%.

Financial Feasibility using Baseline/Traditional Financing

We have assumed that a traditional project funding structure would include private financing of a first mortgage and owner equity as primary revenue sources. It is assumed the baseline/ traditional financing structure would not be sufficient for a proposed TOD project considered for this project site and that additional funding from other sources will be necessary for financing of certain extraordinary project costs related to redevelopment, TOD enhancements, affordable commercial space, mixed-income housing construction, and additional public infrastructure improvements.

The projected operating revenues from each phase/building of the project would be used to finance operating expenses, support debt service payments and provide equity investor returns. The project cash flows incorporate operating revenues will include rental rates from the residential apartment units and commercial retail space, parking and any other related income. Operating expenses have been estimated as a percentage of annual revenues. Annual debt service payments have been amortized over 30 years assuming repayment of the first mortgage at 5%. Assumptions within the operating cash flow proforma are consistent with industry standards for annual revenue and expense inflators of 3% and annual vacancy rates of 5%. With the baseline assumptions as described assuming solely private financing and no additional public funding sources, the project is not expected to be financially feasible. The projected financial gap for this first funding structure is approximately $30,000,000. This is generally consistent for TOD projects that incorporate extraordinary public purpose costs that are not supported by the market. A traditional privately financed approach for this TOD project is not feasible.

For this project concept to be financially feasible, we can assume there will need to be an alternative financing structure that incorporate additional funding programs, strategies and sources to close the financial gap. The enhanced financing scenario illustrated in the next section will incorporate additional funding sources and programs as a means of providing an alternative funding structure(s) that could provide for the development of a financially feasible project.

Financial Feasibility using Enhanced Financing

As stated above, the projected financial gap assuming a traditionally financed redevelopment project financed solely with private investment could be expected to be approximately $30,000,000. Those funding sources alone would not support a financially feasible project based on current assumptions. Additional funding, either as upfront in the form of grant or lower-interest financing, or additional cashflow from other sources would be necessary to assist with financing of the project due to the higher development costs and reduced annual revenues available to support repayment of equity investment and debt obligations.

Annual operating revenues less operating expenses is the net operating income of the project. Net operating income is used to support annual debt service payments and provide equity investor returns within market ranges. In order to obtain adequate project funding, annual operating revenues are required to:

1) meet minimum debt coverage requirements of a lender
2) produce reasonable rates of return to the investors

The financial gap has been calculated based on the level of private financing and equity this project could expect to receive based on net operating income. Additional upfront funding sources that reduce the burden of annual operating revenues' ability to pay expenses and cash flow funding would allow the project to be financially feasible. It is assumed that additional upfront and annual operating funding sources would be necessary to establish and enhance financial feasibility.

Enhanced Financing Scenario

To understand how this project could achieve financial feasibility (increased debt coverage and/or investor returns), we used the traditional funding structure and adjusted both the total development costs and sources of revenue. We anticipate multiple funding sources will be needed to close the financial gap include many familiar ones. The primary funding sources would still be private debt and equity, up to the levels that could be supported by the project. Alternate funding sources may include public assistance from multiple sources such as tax increment financing from the City of Robbinsdale, and would ultimately be subject to public policy, purpose, project qualifications and actual need for assistance. We anticipate tax increment assistance, if provided, would be in the form of pay-as-you-go assistance as reimbursement for eligible costs related to redevelopment that would be used by a developer to provide additional cash flow revenues for the project. The additional cash flow revenues would allow the project to obtain an increased level of supportable debt, as illustrated in an increased level of debt and decreased financial gap.

Additional funding sources beyond tax increment would need to include other forms of revenue including grants, deferred loans, patient capital, alternate equity investors or low-interest loan. In addition to the potential identified funding sources, we reviewed possible ways to reduce upfront project costs that may include, but not be limited to, land, developer fee, and other soft costs.

Actual programs and funding sources will be based on developer investor resources, market demand, project performance, and project type. The project performance for the alternate project is demonstrating returns that would be at the low end of minimum levels as necessary to create a financially feasible project.

Utilizing public assistance that may include TIF, regional or state funding sources would provide additional resources that may allow the project to be financially feasible and support additional TOD components. For a project of this magnitude, where there is expected to be significant extraordinary costs that include acquisition and redevelopment costs, demolition, possible relocation of existing commercial tenants, increased public participation may be considered reasonable due to those costs that will require additional funding sources. Site challenges that add costs and no revenues will require public and/or other financial resources. The ability to purchase fully developed properties that include existing businesses is both costly and a key component in allowing the project to proceed and maximize site potential. Conversations with City staff have indicated the current property owner may choose to be included in the long-term redevelopment plan. Becoming an equity partner through land contribution could eliminate a portion or all of the significant upfront acquisition costs, as well as provide a source of equity that contributes to the project's financial feasibility.

Sources and Uses

The following table contains an estimate of the required costs to acquire the site and develop the proposed project. Given assumptions regarding the ability of the project to generate net operating revenues and the ability to capitalize those revenues, it also shows the assumption regarding equity, capital provided through borrowing (debt), and the resultant initial financing gap.

Sources and Uses of Funds Illustrating Financial Gap

Sources		Uses	
Equity	10,313,625	Land	10,000,000
Debt	58,443,875	Demolition	400,000
Housing Sales	27,500,000	Abatement	100,000
		Construction	107,000,000
		Developer Fee	3,210,000
		Professional Fees	3,210,000
		Financing Costs	1,337,500
		Reserves	1,000,000
Financial Gap	30,000,000		
Total	126,257,500	Total	126,257,500

Enhanced Financing Strategy

To illustrate how the financial gap of $30,000,000 could be resolved, we adjusted the upfront sources of funds to include additional revenues through grants and other mechanisms. For this illustration we assumed $2,750,000 in grant funds could be received to offset a portion of the extraordinary costs. The city may also consider the establishment of a tax increment financing district and using tax increment revenues as an additional source of annual funds to support both increased equity and debt proceeds. Additional cash flow remedies could be an increase in the annual lease rates to generate additional cash flow to support a higher level of debt service and investor returns. Achieving these rates will be subject to market and desired affordability levels for residential housing, based on needs of the City. Recently completed market analysis indicated a focus on market rate apartments, but the needs and market demand may change subject to timing for redevelopment.

The City may also explore alternate funding programs as described further under "Funding Tools" to allow for project feasibility. The sources and uses listed below are intended to illustrate a potential financial structure of how the gap could be closed. Included as additional revenue sources are deferred developer fee, current landowner as equity investor, sponsor equity through one of the identified programs, and low-interest financing from the City or other source. We anticipate City staff could utilize these structures as a potential baseline when reviewing redevelopment scenarios as such opportunities present themselves in the future and in conjunction with Blue Line development.

Potential strategies may include community-owned businesses, business incubators, resource centers, etc. as a means of attracting additional business types and potential funding sources to the project site. These types of programs may attract additional funding resources that do not require the same return on investment as private investment, thus reducing potential financing gaps. Community based enterprises use business to improve the life of a community. They are different from private enterprise because their business activity is undertaken as a means of achieving community benefit, not private gain. Business incubators assist start-up and developing businesses through reduced rental rates to provide opportunities for success and growth. There may also be social impact investors that share the same vision as community leaders. The City may choose to consider the establishment of a revolving loan fund to provide lower-interest mezzanine financing.

Sources and Uses of Funds illustrating how Enhanced Financing can fill Gap

Sources		Uses	
Equity	14,407,500	Land	10,000,000
Private Financing *	61,000,000	Demolition	400,000
Grants	2,750,000	Abatement	100,000
Sponsor Equity	3,000,000	Construction	107,000,000
Deferred Developer Fee	1,600,000	Developer Fee	3,210,000
Land Equity	10,000,000	Professional Fees	3,210,000
Low Interest Loan	6,000,000	Financing Costs	1,337,500
Sales Proceeds	27,500,000	Reserves	1,000,000
Total	126,257,500	Total	126,257,500

** would include annual tax increment revenues as additional cashflow to support debt service payments*

The operating proformas on the following pages show the annual cash flow projections using the assumptions outlined above under "Financing/Funding Structure" and based on the project described with total development costs of $126,257,500. The first schedule appears to achieve adequate debt coverage and return to the developer but is $30,000,000 short of funding total development costs. The second schedule appears to have similar coverage and developer return results but uses higher rental income and additional debt and non-debt sources to fill the gap and provide full funding for the project.

Operating Proforma with Baseline/Traditional Financing

City of Robbinsdale
Town Center Redevelopment
Operating Proforma Illustrating Financing Gap

Sources	Amount	Percent	Uses	Amount
Equity	10,313,625	8.17%	Land	10,000,000
Private Financing	58,443,875	46.29%	Demo	400,000
County TOD		0.00%	Abatement	100,000
DEED		0.00%	Construction	107,000,000
Deferred Developer Fee		0.00%	Developer fee	3,210,000
TIF *		0.00%	Professional Fees	3,210,000
Land Equity		0.00%	Financing Costs	1,337,500
Low Interest Loan		0.00%	Reserves	1,000,000
Housing Sales	27,500,000	21.78%	Fees	
Gap	30,000,000	23.76%		
Total	**126,257,500**	**100%**	Total	**126,257,500**

** TIF as paygo to support private financing*

Expense Inflation Rate	**3.00%**
Revenue Inflation Rate	**3.00%**

IRR	8.55%
FMV	$74,843,085
NOI Year 10	5,239,016
Cap Rate	7.00%
Mortgage	60,775,537
Cost of Sale	3%
Sale Proceeds	$11,822,255
Remaining TIF (PV)	
Yield on Cost	3.37%
Cash on Cash Return	3.60%

				Year	1	2	3	4	5	6	7	8	9	10
Revenues	Unit #	SF/Unit	Rent/SF	Rent/Unit										
Studio	100	500	1.85	925	1,110,000	1,143,300	1,177,599	1,212,927	1,249,315	1,286,794	1,325,398	1,365,160	1,406,115	1,448,298
1 bedroom	175	867	1.85	1,604	3,368,295	3,469,344	3,573,424	3,680,627	3,791,046	3,904,777	4,021,920	4,142,578	4,266,855	4,394,861
2 bedroom	75	1,000	1.85	1,850	1,665,000	1,714,950	1,766,399	1,819,390	1,873,972	1,930,191	1,988,097	2,047,740	2,109,172	2,172,447
					6,143,295	6,327,594	6,517,422	6,712,944	6,914,333	7,121,763	7,335,416	7,555,478	7,782,142	8,015,607
Parking	455		75.00	34,128	409,536	421,822	434,477	447,511	460,936	474,764	489,007	503,678	518,788	534,352
Commercial	22,500		15.00	337,500	337,500	347,625	358,054	368,795	379,859	391,255	402,993	415,082	427,535	440,361
Commercial	7,500		18.00	135,000	135,000	139,050	143,222	147,518	151,944	156,502	161,197	166,033	171,014	176,144
Commercial	5,000		15.00	75,000	75,000	77,250	79,568	81,955	84,413	86,946	89,554	92,241	95,008	97,858
vacancy			5%	10%	(375,493)	(386,758)	(398,361)	(410,312)	(422,621)	(435,300)	(448,359)	(461,809)	(475,664)	(489,934)
TIF					-	-	-	-	-	-	-	-	-	-
	35,000													
Total Revenues	350				6,177,338	6,362,658	6,553,538	6,750,144	6,952,648	7,161,227	7,376,064	7,597,346	7,825,267	8,060,025
Operating Expenses														
Total Operating Expenses			35%		2,162,068	2,226,930	2,293,738	2,362,550	2,433,427	2,506,430	2,581,622	2,659,071	2,738,843	2,821,009
Cash Flow Available for Debt Service					4,015,269	4,135,728	4,259,799	4,387,593	4,519,221	4,654,798	4,794,442	4,938,275	5,086,423	5,239,016
Debt Service														
1st Mortgage Debt Service					(3,764,872)	(3,764,872)	(3,764,872)	(3,764,872)	(3,764,872)	(3,764,872)	(3,764,872)	(3,764,872)	(3,764,872)	(3,764,872)
Other Debt Service						0	0	0	0	0	0	0	0	0
Total Debt Service					(3,764,872)	(3,764,872)	(3,764,872)	(3,764,872)	(3,764,872)	(3,764,872)	(3,764,872)	(3,764,872)	(3,764,872)	(3,764,872)
Debt Coverage Ratio					1.07	1.10	1.13	1.17	1.20	1.24	1.27	1.31	1.35	1.39
Net Income					250,397	370,855	494,927	622,721	754,349	889,926	1,029,569	1,173,403	1,321,551	1,474,144
Deferred Fee Repayment														
Net Available Cash Flow					250,397	370,855	494,927	622,721	754,349	889,926	1,029,569	1,173,403	1,321,551	1,474,144
Hypothetical Sale														$11,822,255
Cash Flow				-10,313,625	250,397	370,855	494,927	622,721	754,349	889,926	1,029,569	1,173,403	1,321,551	1,474,144
				-10,313,625	250,397	621,252	494,927	622,721	754,349	889,926	1,029,569	1,173,403	1,321,551	13,296,399
10 Year IRR					**8.55%**									

Operating Proforma with Enhanced Financing

City of Robbinsdale
Town Center Redevelopment
Operating Proforma Illustrating Enhanced Financing to fill Gap

Sources	Amount	Percent	Uses	Amount
Equity	14,407,500	11.41%	Land	10,000,000
Private Financing *	61,000,000	48.31%	Demo	400,000
Grants	2,750,000	2.18%	Abatement	100,000
Sponsor Equity	3,000,000	2.38%	Construction	107,000,000
Deferred Developer Fee	1,600,000	1.27%	Developer fee	3,210,000
TIF *	-	0.00%	Professional Fees	3,210,000
Land Equity	10,000,000	7.92%	Financing Costs	1,337,500
Low Interest Loan *	6,000,000	4.75%	Reserves	1,000,000
Housing Sales	27,500,000	21.78%	Fees	
Total	**126,257,500**	**100%**	Total	**126,257,500**

** TIF as paygo to support private financing*

Expense Inflation Rate	**3.00%**
Revenue Inflation Rate	**3.00%**

IRR	9.37%
FMV	$85,257,154
NOI Year 10	5,968,001
Cap Rate	7.00%
Mortgage	60,775,537
Cost of Sale	3%
Sale Proceeds	$21,923,902
Remaining TIF (PV)	
Yield on Cost	4.27%
Cash on Cash Return	3.08%

				Year	1	2	3	4	5	6	7	8	9	10
Revenues	Unit #	SF/Unit	Rent/SF	Rent/Unit										
Studio	100	500	1.90	950	1,140,000	1,174,200	1,209,426	1,245,709	1,283,080	1,321,572	1,361,220	1,402,056	1,444,118	1,487,441
1 bedroom	175	867	1.90	1,647	3,459,330	3,563,110	3,670,003	3,780,103	3,893,506	4,010,312	4,130,621	4,254,540	4,382,176	4,513,641
2 bedroom	75	1,000	1.90	1,900	1,710,000	1,761,300	1,814,139	1,868,563	1,924,620	1,982,359	2,041,829	2,103,084	2,166,177	2,231,162
					6,309,330	6,498,610	6,693,568	6,894,375	7,101,207	7,314,243	7,533,670	7,759,680	7,992,470	8,232,245
Parking	455		75.00	34,128	409,536	421,822	434,477	447,511	460,936	474,764	489,007	503,678	518,788	534,352
Commercial	22,500		15.00	337,500	337,500	347,625	358,054	368,795	379,859	391,255	402,993	415,082	427,535	440,361
Commercial	7,500		18.00	135,000	135,000	139,050	143,222	147,518	151,944	156,502	161,197	166,033	171,014	176,144
Commercial	5,000		15.00	75,000	75,000	77,250	79,568	81,955	84,413	86,946	89,554	92,241	95,008	97,858
vacancy			5%	10%	(383,795)	(395,309)	(407,168)	(419,383)	(431,965)	(444,924)	(458,271)	(472,020)	(486,180)	(500,766)
TIF					915,709	915,709	915,709	915,709	915,709	915,709	915,709	915,709	915,709	915,709
	35,000													
Total Revenues	350				7,250,780	7,440,832	7,636,586	7,838,212	8,045,887	8,259,792	8,480,115	8,707,047	8,940,787	9,181,540
Operating Expenses														
Total Operating Expenses			35%		2,537,773	2,604,291	2,672,805	2,743,374	2,816,060	2,890,927	2,968,040	3,047,466	3,129,276	3,213,539
Cash Flow Available for Debt Service					4,713,007	4,836,541	4,963,781	5,094,838	5,229,827	5,368,865	5,512,075	5,659,581	5,811,512	5,968,001
Debt Service														
1st Mortgage Debt Service					(3,929,534)	(3,929,534)	(3,929,534)	(3,929,534)	(3,929,534)	(3,929,534)	(3,929,534)	(3,929,534)	(3,929,534)	(3,929,534)
Other Debt Service					(463,326)	(463,326)	(463,326)	(463,326)	(463,326)	(463,326)	(463,326)	(463,326)	(463,326)	(463,326)
Total Debt Service					(4,392,861)	(4,392,861)	(4,392,861)	(4,392,861)	(4,392,861)	(4,392,861)	(4,392,861)	(4,392,861)	(4,392,861)	(4,392,861)
Debt Coverage Ratio					1.07	1.10	1.13	1.16	1.19	1.22	1.25	1.29	1.32	1.36
Net Income					320,146	443,680	570,920	701,977	836,966	976,005	1,119,214	1,266,720	1,418,651	1,575,140
Deferred Fee Repayment														
Net Available Cash Flow					320,146	443,680	570,920	701,977	836,966	976,005	1,119,214	1,266,720	1,418,651	1,575,140
Hypothetical Sale														$21,923,902
Cash Flow				-14,407,500	320,146	443,680	570,920	701,977	836,966	976,005	1,119,214	1,266,720	1,418,651	1,575,140
				-14,407,500	320,146	763,827	570,920	701,977	836,966	976,005	1,119,214	1,266,720	1,418,651	23,499,042
10 Year IRR					**9.37%**									

Funding Tools

Innovative Funding Strategies and Tools

Components Driving Funding Gap

There are several components to this project scope that are anticipated to generate a funding gap. The site is close proximity to the 42nd Avenue Station Area. The City desires to have infrastructure, housing and mixed-use development that includes commercial retail/office space. Each of these project uses typically results in a financial gap for a project. Layering the costs will generally cause an increased funding gap similar to what has been generated for both Project 1 and 2. We made several assumptions in the enhanced financing scenarios as an illustration of closing the projected funding gap. We have assumed the projects will utilize available tools to facilitate mixed income housing that includes tax credits, loans and grants, low interest loans, community land trust and ground lease opportunities. To facilitate infrastructure needs, we have assumed value capture tools could be utilized. To facilitate the construction of mixed-use and first floor commercial, strategies to be considered include tax credits, community-owned businesses, business incubator, rent control, and community land trusts. Social impact investors, program related investments and direct grants/loans are also funding sources available for financing of extraordinary project costs related to all project components.

To follow is a listing of potential funding strategies and tools that could be considered for the City's proposed future projects. Whether a given tool will be applicable for each project will depend on what the actual development type and its specific use may be but could be a valuable resource to assist with project analysis. The list is intended to provide funding resources that could be used by the City and/or private investor to assist with project development. The purpose is to create and identify a list of resources that could be available to help businesses and residents get access to financing, especially to incentivize businesses that are in mixed use development (both commercial and residential use). More summary information and links to outside resources can be found in the TOD Funding Guide developed as part of the larger TOD study.

Commercial and Mixed-Use Project Strategies

Community-owned businesses (COBs)[1]:
Community-owned businesses (COBs) are financed and owned collectively by local residents. Community based enterprises use business to improve the life of a community. They are different from private enterprise because their business activity is undertaken as a means of achieving a community benefit, not private gain. They are based on assets belonging to the community that can't be sold off for private financial gain, benefiting stakeholders play a leading role in the enterprise, and have a goal of remaining financially self-sustaining. COBs can provide a vehicle to fill local needs including:

- Local media
- Affordable broadband
- Fresh groceries, household goods
- Provide affordable commercial spaces and other community voids

Business Incubators
A business incubator is a nonprofit corporation that assists start-up and developing businesses by providing services and support. The National Business Incubation Association (NBIA) defines business incubators as a catalyst tool for either regional or national economic development. Business incubators reduce the financial concerns many new companies face by offering:

- Office space
- Management training
- Access to shared equipment and meeting rooms
- Networking activities

[11] https://www.amiba.net/resources/community-ownership/

- Other ongoing business development services (legal, accounting, marketing, etc.)

Community-Land Trusts (CLTs)

A community land trust (CLT) is a nonprofit corporation that develops and stewards the following in order to balance the needs of individuals to access land and maintain security of tenure with a community's need to maintain affordability, economic diversity and local access to essential services. Examples of the types of development that may benefit from CLTs include the following:

- Affordable housing for low- and moderate-income people
- Community gardens
- Civic buildings
- Commercial spaces
- Other community assets developed on behalf of a community.

Employee-owned Cooperatives and Employee Stock Ownership Plan (ESOP)

Employee owned cooperative, also known as worker cooperatives, is a cooperative that is owned and self-managed by its workers. This control may mean a firm where every worker-owner participates in decision-making in a democratic fashion, or it may refer to one in which management is elected by every worker-owner who each have one vote. With a somewhat similar mission, the structure of an ESOP is one where stock is given to employees as part of their compensation and employees own the business.

CDFI

Community development financial institutions (CDFIs) provide credit and financial services to people and communities underserved by mainstream commercial banks and lenders. CDFIs encompass a range of nonprofit and for-profit entities including community development banks, community development credit unions, community development loan funds, community development venture capital funds, and microenterprise loan funds. The previously mentioned Denver Impact Fund is administered by a CDFI.

University and Community Partnerships

Institutions of higher education have an obvious vested interest in building strong relationships with the communities that surround their campuses. They do not have the option of relocating and thus are of necessity place-based anchors. While corporations, businesses, and residents often flee from economically depressed low-income urban and suburban edge-city neighborhoods, universities remain. At a time when foundations that help establish community-based projects are commonly unable to continue with ongoing involvement over long periods of time, universities can play an important role. Universities are inherently an important potential institutional base for helping community-based economic development in general, and civically engaged development in particular. (See also, "Anchor Institution" below.)

Anchor Institutions

Anchor institutions are large public or nonprofit organizations that once established tend not to move location. An important part of the local economies in which they reside, they can deliberately use their economic power to strengthen their community. Indeed, in many places, these anchor institutions have surpassed traditional manufacturing corporations to become their region's leading employers. This is particularly useful in neighborhoods where there are historic and other barriers to people accessing economic opportunity. Focused, well administered programs can foster community wealth building. The largest and most numerous of such nonprofit anchors are universities and non-profit hospitals (often called "eds and meds"). Other examples of anchor institutions include museums, faith-based institutions, libraries, and locally focused philanthropies.

Social Impact Investing

Impact investments are investments made into companies, organizations, and funds with the goal of generating positive, measurable social or environmental outcomes alongside a financial return. The term "impact investing" is relatively new, becoming popular in 2007. The practice of investing for social—and not merely economic—return itself has a much longer history and includes two key approaches:

- **Socially Responsible Investments (SRIs)** are investment strategies that *individuals* employ to generate financial returns while promoting social good. The most common form of socially responsible investment involves investment portfolios designed to exclude certain companies based on explicit social and/or environmental criteria. This is

known as “negative screening.” However, positive screening, investment in companies that achieve some positive social benefit, is another SRI strategy.

- **Mission-Related Investments** are investment strategies that *foundations* and *anchor institutions* use to generate financial returns as they promote mission-related goals. **Program-related investments (PRIs)** are one such strategy that has played a role in building wealth in low-income communities. Depositing money in community development financial institutions (CDFIs), such as community development credit unions or community loan funds, is another. In additions to PRIs and CDFIs, some foundations, such as the F.B. Heron Foundation, have dedicated their entire corpus in alignment with the Foundation’s mission. In each asset class (such as stocks, bonds, loans, and private equity placement), Heron seeks to ensure that investment priorities align with the Foundation’s social values.

Small Business Administration
The Small Business Administration is a governmental agency that ensures a percentage of the loan that is made by a local lender. These loans can be made on a real property for business use. These loans have many restrictions and usually take a long time to process but the interest rate is often lower than the current market because the government is guaranteeing a portion of the loan.

Resource center
A business resource center (“center”) can serve as a welcome center for the particular neighborhood for businesses. The center can provide a one-stop shop of resources for small businesses to gain access to financial, technological and marketing resources to help them compete with larger businesses in the area. The resource center can provide the following:

1. Start-up help – connecting business owners with consultants and developers
2. Marketing and promotion
3. Administrative assistance: legal, bookkeeping, taxes, etc.
4. Rent assistance and support

Strategies for Housing Projects

- Affordable Housing Trust Fund
- Revolving Loan Fund
- Inclusionary zoning
- Tax Credits
- Value Captured Tools
    - Tax Increment Financing
    - Tax Abatement
- Debt Financing
    - General Obligation
    - Special Assessments
    - Revenue Bonds
    - Conduit
- Loans/Grants
- HOME Investment Partnerships Program (HOME)
- Community Development Block Grant (CDBG)
- National Housing Trust Fund
- Capital Magnet Fund
- Housing rehabilitation
- Small site acquisitions
- Land banking for affordable housing
- Corridor-based Tax Increment Financing Districts
- Joint Development opportunities for affordable housing production

Potential Development Concepts for Commercial Components

Case Study: Sample community-owned business

Coffee Shop / Bike repair store

A 501(c)(3) organization owns a coffee shop that is connected with a bike repair store. The 501(c)(3) public charity operates a number of activities in the area and has a board that reflects the community. The coffee shop has a seating area and is operated by full-time employees. The bike repair shop has a full-time repair employee. The bike shop has very limited hours in the winter, but more robust hours the rest of the year.

In the summer, the bike repair shop will have two high school apprentices. The primary goal is to teach the apprentices a craft, but also help them learn about operating a business. This model could be done on a larger scale, or on a similar scale, but in multiple locations.

In this case, revenue is enhanced via the ability to raise funds through fundraising. There is also a strong community board and a close relationship with one of the churches in the neighborhood. The community board includes board members with a variety of skills that can provide “back office” support or oversight.

As a part of a larger organization, the coffee shop/bike shop is able to utilize the resources of the larger organization (bookkeeping, HR, etc.). The 501(c)(3) organization utilizes neighborhood and/or nearby resources for these services.

<u>Application to other areas</u>
While another public charity could operate this type of business, it would also be a candidate for a minority entrepreneur or a community owned business – both for-profit operations.

As for-profit organizations, there are a variety of funding options available to the organizations:

- Small Business Administration loans and other similar programs
- Angel investors (higher rate of return required)
- Social impact investors (lower rate of return required)
- Program Related Investments from foundation (lower rate of return required)
- Direct grants to assist in establishing the organization or employing low-income individuals

The organization could also avail itself of accounting, staffing, HR, etc. services from other neighborhood businesses and benefit from a business resource center for other types of governmental assistance. As a locally owned business, hopefully it would enjoy the patronage and support from local residents.

The business could also be a training location for minorities and low-income individuals to help them gain work skills. It could also be an entry into other work programs and/or apprenticeship programs offered by other businesses in partnership with a local community college.

Case study for business incubator sample project:
Business Incubator

A business incubator ("BI") is typically established as a non-profit 501(c)(3) organization that supports growth in a particular industry. The organization will provide the facility, office space and supportive programming for early-stage companies.

Funding sources for a BI
Business incubators are often sponsored by private companies, municipal entities and public institutions such as colleges or universities, so much of their funding may come from the sponsoring organization in addition to other private donors. Other companies and organizations in a similar industry may also contribute to the BI and could share their resources with the start-ups as needed. This may also include businesses who could provide administrative support to the start-ups residing in the BI, such as talent acquisition, accounting and tax, legal and marketing support, with the potential for a discounted rate.

Governance of a BI
As a non-profit organization, there will typically be a board of directors, which may be comprised of representatives/leaders all over the city or state in the particular industry. The board of directors can elect board officers to oversee operations of the BI. The board can also provide more opportunities for the BI and its start-ups to learn about other companies in the area, specifically industry trends, figures and what is new in the marketplace.

Criteria to apply for a BI
Many business incubators allow companies to apply online. Companies would typically need to provide their organizational information, space needs (e.g. offices, shared space and equipment needs), and current funding levels/sources. BIs conduct research on the company including browsing social media, the website and business plan from a sustainability and mission-alignment perspective.

Resources available while residing in a BI

1. Networking services: The BI can invest in and provide a number of services designed to help grow the start-up business. It can provide opportunities to network with other start-ups and offer training opportunities in different areas of business.
    a. Partnership opportunities: BIs are sometimes supported or funded by other larger organizations or companies, such as governments, colleges or universities. This connection can provide a myriad of resources to the start-up, including potential employees or apprentices, funding sources and access to research (depending on the industry).
2. Business libraries or journals: The BI can often subscribe to expensive knowledge tools such as libraries, journals and other articles that can assist start-ups with their own research, technology and development of materials.
3. Business services: The BI can offer shared spaces ad resources with the other start-up companies, to allow the start-up access without having to incur the expense outright. Examples of on-site business services could include shared conference spaces, shared IT and teleconference equipment and helpdesk, high-speed Wi-Fi connections, shared office equipment (printers, copiers, postage), secure sites for collecting and shipping packages and a shared loading dock for shipping and receiving needs.
    a. The BI can occupy a larger space to house start-up companies, so it can invest or expand rooms and conference centers for business use. For example, if start-ups want to hold networking or grand opening events, trainings or other presentations, they could have access to an appropriately sized room that may otherwise be too expensive to rent on its own.
4. Financial resources: Aside from offering trainings about business concepts, BIs can assist start-ups with obtaining and accessing financial support from governmental entities, private companies, the SBA or other reputable resources. It can also provide assistance with applications, processes and tracking/documenting funds upon receipt.
5. Logistical offerings: Typically for the below-market rental fee, the BI provides discounted or free guest and employee parking, a convenient location for businesses to start up and network and bike racks for convenient commute.

Next Steps

It is important to note the assumptions used to close the estimated financial gaps in each scenario will ultimately be subject to a variety of both controlled and uncontrolled variables including:

1. Project specifics (type, clientele served, etc.)
2. Policy
3. Market
4. Access to financial resources
5. Availability of funding

The purpose of the analysis of the two project sites was to review potential projects the City has identified as opportunities for redevelopment. We focused the project details for each site based on City staff feedback for desired and marketable uses.

Potential Barriers to Redevelopment that were identified:

- Existing businesses/tenants
- Relocation
- High acquisition cost
- Lack of support for future development
- Additional public improvements needs
  - Enhancements
  - TOD requirements
  - Public space/plaza/amenities
  - Sidewalks/trails
- Market demand
- Timing for anticipated phased development
- Availability of Funding Sources

Potential Next Steps for Consideration:

- RFQ – solicit developer interest
- Align development with market
  - Housing study – gap analysis
  - Commercial analysis
    - affordability

Policy Considerations

When private development efforts result in requests for public assistance, cities are faced with a number of policy considerations. These considerations often revolve around the desire to advance a project, the cost vs perceived benefit to the community at large, and the ability to treat all private parties equitably. This section addresses topics related to gap funding policy considerations.

Cities use different incentives for a variety of purposes that might include some or all of the following:

- Stimulate development where it would otherwise not occur ("but for" test)
- Retain existing tax base
- Encourage development of uses that would otherwise not occur, such as low-income housing
- Enhance tax base
- Facilitate infrastructure improvements
- Coordinate new developments with existing plans
- Demonstrate long-term benefits to the community
- Retain local jobs and/or increase the number and diversity of jobs that offer stable employment and/or attractive wages and benefits
- Encourage unsubsidized private development through "spin off" development
- Increase private investment (consequently market value) through:

- Increased employment
- Added housing units (Affordable or Market Rate)
- Attraction of visitors who contribute to the local economy
- Increased sales volume
- Elimination of negative or blighting influences effecting surrounding property (Blight Curve)
- Maximize land use (TOD)
- Addition of infrastructure (parking other public improvements)

An important thing to focus on when considering providing any financial consideration for a project is what is driving the gap and if the need for public financial assistance is driven by project specific needs and will result in reasonable financial outcomes for all parties involved. Sometimes extraordinary public improvements or amenities are being required by the City or community and a developer may reasonably request that public participation cover the extra costs that result. In every case, understanding why the City would consider participating (see above) needs to be coupled with a clear understanding of what is driving the need for public financing assistance is essential to assure that each party gets a return that is reasonable for the investment that they are making – whether that is the public participant or the private participant. Below are some of the reasons that a project may exhibit a financing gap:

- Extraordinary redevelopment costs
- Hold out by existing property owner, land price too high
- Development needs more than it can pay for
- “Oversizing” of utility and infrastructure needs for future growth
- Developer wants less risk/more return than typical market conditions dictate
- Market competition
- Achieve development on sites that would not develop “but for” the use of TIF
- Remove blight and/or encourage redevelopment of commercial and industrial areas resulting in high quality redevelopment and private reinvestment
- Offset redevelopment costs (i.e. contaminated site clean-up) over and above the costs normally incurred in development
- Type of housing
  - Market rate
  - Affordable
  - Work force

Evaluating the Proper Role for the Public

When reviewing projects and understanding financial feasibility and potential tools that may be available to spur development and redevelopment, it may be helpful to understand what role your community may want to play to encourage development/redevelopment opportunities and what your risk level and/or cost is. They typically include the following:

Potential Public Sector Roles	Risk Level
Grant the permit and zoning allowance	Lowest risk
Reimburse the project as benefits are completed	Low risk
Be the lender	Medium/high risk
Be the borrower	Higher risk
Be the developer	Highest risk

It is important to understand real estate development or engage a third party to help as needed when choosing the role to take. A good understanding of what is being asked for, why/if it is necessary, and if project returns are reasonable for each party will protect the public from over or under subsidizing projects. Understanding the communities’ interest or desire for a particular project or related public amenity is also important in shaping the long-range vision in which public investments are made.

Real estate development encompasses activities that range from the renovation and re-lease of existing buildings to the purchase of raw land and the sale of improved parcels. Developers are the coordinators of the activities, converting ideas on paper into real property. They create, imagine, fund, control and orchestrate the process of development from the beginning to end. Developers usually take the greatest risk in the creation or renovation of real estate—and receive the greatest rewards. They often incur expenditures to advance projects prior to the availability of outside financing. Typically, developers purchase a tract of land, determine the marketing of the property, develop the building program and design, obtain the necessary public approvals and project financing, build the structure, and lease, manage, and ultimately sell it. Developers work with many different counterparts along each step of this process, including architects, city planners, engineers, surveyors, inspectors, contractors, leasing agents, lenders and more.

Development is a team effort. The development process requires skills of many professionals: architects, landscape architects, and site planners to address project design; market consultants to determine demand and a project's economics; attorneys to handle agreements and government approvals; environmental consultants and soils engineers to analyze a site's physical limitations and environmental impacts; surveyors and title companies to provide legal descriptions of a property; and lenders to provide financing. The strength of the formal and informal team involved in a project can be a key factor in its ability to be successful. Are the right talents being applied to the right things to effectively plan and implement a project?

Some communities participate directly by purchasing and holding land for development. Purchasing unused land for an undesignated potential development is a highly speculative activity. In general, land development is the most profitable but riskiest element of development as it is so dependent on the public sector for approvals and infrastructure, the market for development opportunities and it involves a long investment period with no positive cash flow. However, some communities have the capacity to tolerate land development risk, have cash flow patience and will gauge their direct involvement accordingly.

Communities should keep the concept of measurable return in mind as they approach development involvement. What is the outcome that is desired? Who will benefit? Is the benefit reasonable and does it justify the cost? What guarantees the desired outcome is achieved if an investment is made? Contractual agreements can be developed that define who will do what, pay for what, and what will happen if those things do not happen. A local government that relies on property taxes might use an increase in the market value of real estate as the primary measure of whether the project has been successfully completed. Other measurable outcomes might include job production, affordable housing units produced, or timely completion of project or phases of the project.

The benefit that a party receives from public incentives should be measured and at a reasonable level. Return on Investment (ROI) to the developer or investor is a simple performance measure to evaluate the efficiency of an investment opportunity. It is calculated by subtracting the cost of the investment from the benefits of the investment and then dividing by the cost of the investment. The result is expressed as a ratio. A reasonable level for ROI will be different for different types of developments and developers and fluctuates over time. Understanding the dynamics that drive the calculation what a reasonable range of ROI is for the project under consideration is key in evaluating the level of assistance needed, if any.

We recommend all of these items be considered when reviewing project concepts and determining appropriate levels, if any, of public financial assistance.

City of Minneapolis

Blue Line Extension Innovative Financing:

Real Estate Development

July 31, 2020

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July 31, 2020

City of Minneapolis

RE: Innovative Financing Strategies

The Metropolitan Council retained Baker Tilly to study financing tools available to assist Transit Oriented Development (TOD). Part of the study includes providing Real Estate Development Technical Assistance for ten projects that were selected by the Technical Assistance Committee (TAC). Two of the projects were identified by the City as potential TOD development/redevelopment opportunity sites adjacent to the Blue Line Extension.

The two projects provided for evaluation and coordination of technical assistance are both site specific and in the conceptual stage for development concepts. Certain assumptions were made regarding type, density and phasing of development. The projects are being evaluated based on the following criteria:

- Applicable Zoning
- Site Selection Criteria
- Site Planning Principals
- Financing/funding Structure
- Financial Feasibility

Input provided by City staff assisted with updating and refining the development assumptions related to the above criteria. We appreciate the opportunity to have worked with the City on these exciting projects.

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Contents

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Introduction

Bottineau Corridor LRT

The METRO Blue Line Extension (Blue Line Extension) Light Rail Transit (LRT), also known as the Bottineau Transitway or Bottineau LRT, is a 13-mile addition to the existing Blue Line and will extend from downtown Minneapolis through north Minneapolis, Golden Valley, Robbinsdale, Crystal, and Brooklyn Park, serving the northwest Twin Cities metro area. The Blue Line Extension will link to local and express bus routes at its stations and connect to the region's LRT system at Target Field Station in downtown Minneapolis (Figure 1-1). There will be two stations in Minneapolis on Olson Memorial Highway: one at Van White Memorial Boulevard (Van White station area) and the other at Penn Avenue North. There are also two other stations adjacent to the west boundary of Minneapolis in the rail corridor at Plymouth Avenue North and Golden Valley Road.

Van White Station Area Plan

The Van White Memorial Boulevard Station Area Plan (Van White SAP) is a station (small) area plan prepared for the Metro Blue Line Extension LRT station located at Van White Memorial Boulevard and Olson Memorial Highway. This plan was created by CPED staff in conjunction with Public Works. The Bottineau Project office provided technical support in regard to the LRT line design and engineering.

The Van White station area covers the area roughly within a ½ mile radius of the LRT station, or what is typically a ten-minute walk to the station. The boundaries of the station area were expanded outward from this ½ mile radius to include the jobs park along Plymouth Avenue North on the north end and parts of the Bassett Creek Valley at the south end. The ½ mile radius was reduced on the east side along I-94 as that area is covered by the North Loop Small Area Plan.

The projects identified by the City of Minneapolis for Real Estate Development Technical Assistance are within the Van White station area.

Transit Oriented Development (TOD)

TOD is development that is typically located within a quarter- to half-mile radius of a transit station that will offer a mix of housing, employment, commercial/retail and transportation choices within a neighborhood and business district. Easier access to public transit should provide for lower household costs and less expensive alternatives to driving to and from destinations. It is also intended to provide people with better access to more job opportunities throughout a larger region. TOD often requires significant investments in infrastructure to create an environment for usable and accessible development and community facilities. Investments may include:

- Increasing the capacity of infrastructure including streets, roads, and utilities (sewer, water, storm drain) to support additional development.
- Enhancing pedestrian and bicycle access by the addition or improvement of sidewalks, crosswalks, bicycle lanes, bicycle storage, and streetscape enhancements such as lighting, landscaping, public plazas and benches.
- Creating or improving parks, plazas, and other open space.
- Building structured parking garages for park-and-drive transit riders, which allows surface parking lots to be redeveloped for TOD.

TOD infrastructure and additional development that occur are all intended to benefit the environment and economy by allowing people to walk, bicycle, or take transit that reduces pollution and provides affordable transportation options. TOD improvements can be challenging to finance due to the high upfront investments and lack of revenues available to support the costs.

Purpose of This Report

The purpose of this report is to provide the Metropolitan Council, the City of Minneapolis, other local leaders, and the development community with guidance on the feasibility of implementing Transit Oriented Development projects in the City of Minneapolis along the planned Bottineau LRT route. The City has identified two potential TOD sites. (Project 1:

461 Girard and Project 2: 555 Girard). The report provides background on the criteria that lead to the selection of these sites for TOD and analysis of the financial feasibility of TOD projects. For each project, the report looks at the planned development scale and uses and analyzes the financial feasibility. First, the analysis assesses the financial feasibility of each project using a traditional financing method (private debt and equity). For each project, the report continues to evaluate the financial performance of each project with an “enhanced” scenario using alternative financing tools.

Key Findings

For both identified project sites the analysis has found that traditional financing alone would not be sufficient to generate a feasible project resulting in a financial gap absent public assistance and alternate funding sources. For the City to implement TOD projects that align with the Comprehensive Plan and meet the goals of TOD, the City and its partners will need to work in partnership with developers to utilize alternative financing tools such as those listed in the “Funding Tools” section of this report and may include loans, grants, tax credit programs, and local incentives. The final section of this report provides additional information on these tools.

Development Criteria

Table 1: Development Criteria and Considerations	
TOD Overlay District(s) Present	
Current Primary Zoning	461 Girard Terrace: Two/Multi-Family District (R5) 555 Girard Terrace: Light Industrial District (I1)
Current Overlay Zoning	NA with Pedestrian Oriented (Nearby)
Mixed Use Development Zoning Code	Future Designation – Community Mixed Use – Designation Mixed Use
Existing Zoning Code Requirements	To be updated in 2020 to reflect policy guidance of Minneapolis 2040.
2040 Comprehensive Plan	Yes
Pedestrian/Bike Plan	Connects to existing and proposed Minneapolis bikeways
Building Considerations	– Building Height: 4-15 stories – Maximum Height: 15 stories (to be created) – Building Placement/Setback The placement of buildings shall reinforce the street wall, maximize natural surveillance and visibility, and facilitate pedestrian access and circulation. The first floor of buildings shall be located not more than eight (8) feet from the front lot line, except where a greater yard is required by this zoning ordinance. In the case of a corner lot, the building wall abutting each street shall be located not more than eight (8) feet from the lot line, except where a greater yard is required by this zoning ordinance. The area between the building and the lot line shall include amenities such as landscaping, tables and seating. Buildings shall be oriented so that at least one (1) principal entrance faces the public street rather than the interior of the site. In the case of a corner lot, the principal entrance shall face the front lot line.
Parking Considerations	– Parking Spaces (Res.): Dwellings: Minimum 1 space per dwelling unit, except an accessory dwelling unit shall not be required to provide off-street parking; No maximum except as regulated by Article VIII, Special Parking Provisions for Specific Zoning Districts – Parking Spaces (Com.): General retail sales and services: Minimum 1 space per 500 sq. ft. of GFA in excess of 4,000 sq. ft.; Maximum 1 space per 200 sq. ft. of GFA.
Impervious Surface Considerations	– Reduction of impervious surface: To the extent possible, site plans shall minimize the use of impervious surfaces. The use of interlocking pavers capable of carrying a wheel load of four thousand (4,000) pounds is encouraged for areas that serve low impact parking needs such as remote parking lots, parking facilities for periodic uses and parking in natural amenity areas

Applicable Zoning

Additional information for each of the anticipated future land use designations for both projects are further defined below and on the following pages.

Project 1: 461 Girard Terrace is anticipated to have a Community Mixed Use designation upon redevelopment.

Community Mixed Use

Large-scale mixed use development is encouraged throughout these areas, with commercial uses fronting on major streets. Commercial retail spaces are typically smaller in order to generate pedestrian activity, and are often a destination for customers coming from outside of the market area. Active uses that are accessible to the general public such as office, food service, retail, or medical establishments are required at the street level; therefore single-use residential development is not permitted. Contiguous expansion of commercial zoning is allowed.

Related policies:

Policy 1: Access to Housing

Policy 2: Access to Employment

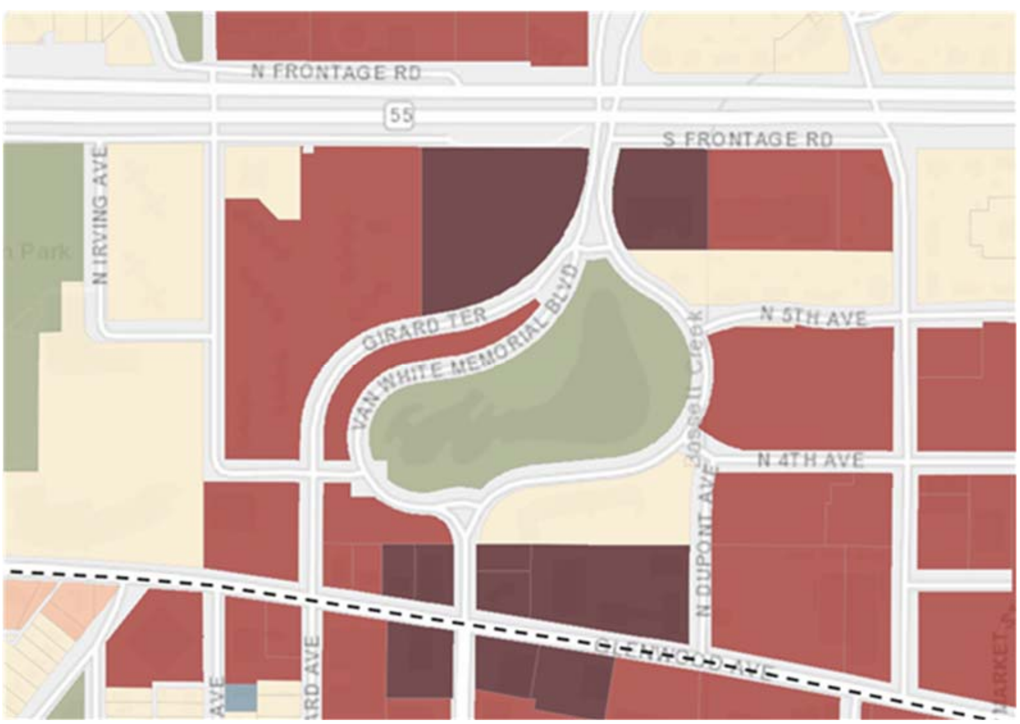
Policy 4: Access to Commercial Goods and Services

Map color:

	RESIDENTIAL / RESIDENTIAL / RESIDENTIAL	ACTIVE USE / ACTIVE USE / ACTIVE USE	RESIDENTIAL / RESIDENTIAL / ACTIVE USE	RESIDENTIAL / RESIDENTIAL / RETAIL	ACTIVE USE / ACTIVE USE / RETAIL
NEIGHBORHOOD MIXED USE	O	O	O	O	O
CORRIDOR MIXED USE	O	O	O	O	O
COMMUNITY MIXED USE	X	O	O	O	O
DESTINATION MIXED USE	X	X	X	O	O

O Allowed

X Not Allowed



Project 2: 555 Girard Terrace is anticipated to have a Destination Mixed Use designation upon redevelopment, which is illustrated in the map on the previous page distinguished by the identified color.

Destination Mixed Use

Commercial retail uses are required at the street level of all development in this category to encourage pedestrian activity beyond the typical daytime business hours. Multi-story development is required. Contiguous expansion of commercial zoning is allowed.

	RESIDENTIAL RESIDENTIAL RESIDENTIAL	ACTIVE USE ACTIVE USE ACTIVE USE	RESIDENTIAL RESIDENTIAL ACTIVE USE	RESIDENTIAL RESIDENTIAL RETAIL	ACTIVE USE ACTIVE USE RETAIL
NEIGHBORHOOD MIXED USE	O	O	O	O	O
CORRIDOR MIXED USE	O	O	O	O	O
COMMUNITY MIXED USE	×	O	O	O	O
DESTINATION MIXED USE	×	×	×	O	O

O Allowed

× Not Allowed

Related policies:

Policy 1: Access to Housing

Policy 2: Access to Employment

Policy 4: Access to Commercial Goods and Services

Map color:

Project 1: 461 Girard Terrace and Project 2: 555 Girard Terrace will also have a built form designation of Transit 15 described below:

Transit 15

The Transit 15 district is typically applied along high frequency transit routes, adjacent to METRO stations, in neighborhoods near downtown, and in downtown.

Built Form Guidance: New and remodeled buildings in the Transit 15 district should reflect a variety of building types on both moderate and large sized lots. Building heights should be 4 to 15 stories. Building heights should be at least 4 stories in order to best take advantage of the access to transit, jobs, and goods and services provided by the Transit 15 district. Requests to exceed 15 stories will be evaluated on the basis of whether or not a taller building is a reasonable means for further achieving Comprehensive Plan goals.

Related policies:

Policy 1: Access to Housing

Policy 2: Access to Employment

Policy 4: Access to Commercial Goods and Services

Map color:

Site Selection Criteria

City staff identified the two anticipated project sites in the City for potential development/redevelopment opportunities. Both are TOD opportunities. When evaluating a project, there are conditions of that project site that may be considered when evaluating viability. The following is a general listing of certain characteristics favorably associated with TOD projects.

- Reduced Parking
- Bicycle Access
- Pedestrian access and walkability
- Transit station access
- Codes that allow for higher density and mixed use
- Nearby amenities
- Affordable housing
- Access to jobs
- Supporting businesses

When analyzing the projects and potential TOD opportunities, it is important to understand which of the above characteristics may be incorporated into a particular site and define what potential barriers or constraints may exist that would cause a project not to be viable. Barriers may include location, financial, political, or market. Some of those constraints can more easily be controlled and mitigated, as compared to others. It is our understanding the sites chosen for the City of Minneapolis include several of the characteristics listed above. An outcome for the project evaluations is to understand how the sites that were selected could be enhanced TOD projects by achieving additional measurements such as affordable housing, jobs, supporting businesses, bicycle and pedestrian access. The additional TOD enhancements do not typically generate revenue and instead increase costs for the project, creating financial gaps that require substantial levels of public and other funding sources

Project Descriptions

Project 1: 461 Girard Terrace

The location of the first project site identified for financial review is in the City of Minneapolis and located at 461 Girard Terrace. The entire parcel is 7.39 acres. The first phase of the mixed-use redevelopment project is planned to include the construction of 92 affordable newly built units on the northern undeveloped portion of the property. This project phase has been approved by City Planning Commission in June 2020, Community Housing Development Corporation (CHDC) has expressed a desire to replace the existing 92 two-floor Olson Townhomes that are spread over six buildings with the new units. Despite renovations and upgrades, conditions in the existing buildings have degraded over time due to unstable soils, building settlement, and water intrusion and they do not meet current accessibility requirements. The 92 new units would be constructed prior to demolition of the existing units and upon completion, existing residents will relocate to the new building. The new five story building would include both townhome style and apartment units, and 57 underground parking spaces and 35 surface stalls.

The site is located within one block of the future Van White LRT station and the 35 surface stalls will be phased out as LRT becomes operational. The new 92-unit development would include tot lots for both younger and older children and new community garden plots and utilities for residents. The site is within two blocks of Harrison Park and the Van White Memorial Boulevard loop.

For this project analysis, we are including the preliminary financing assumptions related to the first 92-unit phase of housing, as well as estimates for the completed financing scenario that incorporates the future phases of development encompassing the entire 7.39-acre site. Preliminary concept plans include mixed development with housing, retail, commercial and office space.

Table 2: General Project Description	
Property Address	461 Girard Terrace
Parcel ID	2102924420021
Existing Market Value	$8,170,000 (assess 2020, pay 2021)
Site Size	7.39 acres
Development Assumptions for 461 Girard Terrace, includes future redevelopment opportunities of project site	Mixed Use Development – 5 stories (first floor commercial, remaining residential) – 450 Dwelling Units o 75 Studio o 140 1-bedroom o 140 2-bedroom o 75 3-bedroom o 20 4-bedroom – 350 Total Parking Spaces – 300 underground – 50 surface – 35,000 square feet commercial space – Average square footage each unit – TBD
Additional Future Redevelopment of Project Site	Future Phases 2-5 will total: Approximately 540 housing units – Retail commercial – Office Second Project (555 Girard) – Phase 4 (mixed use housing, retail, commercial)

Financing/Funding Structure

The analysis for Project 1 is based on the anticipated future phases of development beyond that are still in preliminary conceptual stages following development of the 92-unit housing project. We used information regarding the anticipated full site buildout from previous station area analysis and other planning documents. The entire site for Project 1 is guided as a TOD project with mixed-use with varying development components that include residential rental with mixed incomes and supporting office and retail space. The data was used as baseline information to generate the preliminary analysis. Assumptions were made for various types of development, estimated total development costs and funding sources. The total development cost for the project including the previously approved phase 1 92-unit housing development is estimated to be $109,070,000. Per unit building cost is based on the following estimates:

- $200/square foot for commercial
- $200,000/unit for apartments

In addition to the building costs summarized above, there will be additional costs of the project including site acquisition, demolition, developer fee, professional fees, financing costs and reserves. The project costs do not include a separate line item for contingency amounts and those costs have been included within specific line items. There are typically ranges for certain cost items, and we may see developer fees ranging 3-5%. Total development cost per residential unit is expected to be closer to $240,000.

Financial Feasibility using Baseline/Traditional Financing

We have assumed that a traditional project funding structure would include private financing of a first mortgage and owner equity as primary revenue sources. It is assumed the baseline/ traditional financing structure would not be sufficient for a proposed TOD project as considered for this project site and that additional funding from other sources will be necessary for financing of certain extraordinary project costs related to redevelopment, TOD enhancements, affordable commercial space, mixed-income/affordable housing construction, and additional public infrastructure improvements.

The projected operating revenues from each phase/building of the project would be used to finance operating expenses, support debt service payments and provide equity investor returns. The project cash flows incorporate operating revenues that will include rental rates from the residential apartment units and commercial retail space, parking and any other related income. Operating expenses have been estimated as a percentage of annual revenues. Annual debt service payments have been amortized over 30 years assuming repayment of the first mortgage at 5%. Assumptions within the operating cash flow proforma are consistent with industry standards for annual revenue and expense inflators of 3% and annual vacancy rates of 5%. With the baseline assumptions as described assuming only private financing and no additional public funding sources, the project is not expected to be financially feasible. The projected financial gap for this first funding structure is approximately $20,000,000. This is generally consistent for TOD projects that incorporate extraordinary public purpose costs that are not supported by the market. A traditional privately financed approach for this TOD project is not expected to work.

For this project concept to be financially feasible, we can assume there will need to be an alternative financing structure that incorporates additional funding programs, strategies and sources to close the financial gap. The enhanced financing scenario illustrated in the next section will incorporate additional funding sources and programs as a means of providing an alternative funding structure(s) that could provide for the development of a financially feasible project.

Financial Feasibility using Enhanced Financing

As stated above, the projected financial gap assuming a traditionally financed mixed-use TOD project financed solely with private investment is expected to be approximately $20,000,000. Private funding sources alone would not support a financially feasible project based on current assumptions. Additional funding, either as upfront in the form of grant or lower-interest financing, or additional annual cashflow would be necessary to assist with financing of the project due to the higher development costs and reduced annual revenues available to support repayment of equity investment and debt obligations.

Annual operating revenues less operating expenses equals net operating income of the project. Net operating income is used to support annual debt service payments and provide equity investor returns within market ranges. In order to obtain adequate project funding, annual operating revenues are required to:

1) meet minimum debt coverage requirements of a lender
2) pay deferred developer fee
3) produce reasonable rates of return to the investors (when privately invested)

The financial gap is estimated from the level of private financing and equity this project could expect to receive based on net operating income. Additional upfront funding sources that reduce the burden of annual operating revenues' ability to pay expenses and cash flow funding would allow the project to be financially feasible. Additional upfront and annual operating funding sources would be necessary to establish and enhance financial feasibility.

Enhanced Financing Scenario

To understand how this project could achieve financial feasibility (increased debt coverage and/or investor returns), we started with the traditional funding structure and $20,000,000 gap. We targeted funding sources that could be used to reduce that gap. This could include some familiar funding sources such as tax increment financing, affordable housing trust fund (AHTF), energy and sales tax rebates, tax credits, low-interest loans, deferred developer fee, Met Council, LCDA and Hennepin County TOD/AHIF funding. For purposes of the enhanced financing scenario, tax increment financing has not been included as a funding source.

The enhanced financing scenario has focused more on the inclusion of innovative funding strategies and programs that may not be as commonly used but considered for certain project components. Components of this proposed project that contribute to the $20,000,000 funding gap and will need innovative funding sources include:

1. Ground floor commercial/retail space
2. Affordable housing at mixed income, include deep subsidy
3. Infrastructure improvements

There are funding strategies and programs specific to each of the project components that would be used in combination on eligible pieces of the total project. There are certain programs that only work for commercial/retail space and those that work only for residential units. In certain cases, the funding sources would also be sufficient to support additional TOD infrastructure improvements. In other instances, additional funding sources above those for commercial or residential uses would need to be incorporated.

Utilizing public assistance that includes local participation, regional and state funding sources would provide additional resources for a financially feasible project that also includes TOD components. For a project of this type that incorporates multiple components all requiring public assistance, increased public participation may be considered reasonable. The availability of actual programs and funding sources will be based on developer investor resources, market demand, project performance, and project type. The project performance for the enhanced financing scenario has demonstrated returns that would be at the low end of minimum levels as necessary to create a financially feasible project.

Sources and uses

The following table provides a summary of the preliminary sources and uses of funds assuming a baseline/traditional financing scenario. It includes an estimate of the total development costs related to acquisition and subsequent construction of the mixed-use project components. Given assumptions regarding the ability of the project to generate net operating revenues and the ability to capitalize those revenues, it also shows the assumption regarding equity, capital provided through borrowing (debt), and the resultant initial financing gap of $20,000,000.

Sources and Uses of Funds Illustrating Financial Gap			
Sources		Uses	
Equity	17,814,000	Land	0
Debt	71,256,000	Demolition	400,000
		Construction	97,000,000
		Developer Fee	2,910,000
		Professional Fees	2,910,000
		Financing Costs	4,850,000
		Reserves	1,000,000
Financial Gap	20,000,000		
	109,070,000	Total	109,070,000

To illustrate how the financial gap of $20,000,000 could be resolved, we adjusted the upfront sources of funds to include additional revenues through grants and other mechanisms. The additional funding sources would be facilitated through the establishment and use of alternate funding sources. For example, if we were to assume the City and development team could incorporate a community owned business, business incubator, community land trust, and/or resource center to facilitate development and subsequent success of commercial retail and office space within the project, the assumption is that those strategies would attract the additional funding sources necessary for the project. Funding sources specific to the commercial project components could include:

- Opportunity Zone Funding,
- New Market Tax Credits
- Social impact investors
- Angel investors
- Small business administration

Many of the above funding sources have more favorable terms including lower interest rates, reduced equity returns, long-term investment and deferred funds. All of the above would provide the upfront financing needed for acquisition, construction and other related soft costs. The above funding sources could also be used in conjunction with some traditional funding sources available from local, regional and state sources. The housing components of the project are expected to utilize some of the City programs described under funding tools and innovative funding strategies and tools.

The purpose of the enhanced financing scenario is to illustrate how innovative financing strategies could be used to develop a project that meets the City's desired TOD project objectives including affordable commercial retail/office space, affordable and moderate-income housing and infrastructure improvements. The table that follows incorporates the alternative financing scenario that would fill the $20,000,000 financial gap with additional revenue sources supported by the alternate strategies.

Sources and Uses of Funds Illustrating Enhanced Financing to fill Gap			
Sources		Uses	
Equity	17,414,000	Land	0
Debt	69,656,000	Demolition	400,000
Grants	4,000,000	Construction	97,000,000
Sponsor Equity	5,000,000	Developer Fee	2,910,000
Deferred Developer Fee	1,500,000	Professional Fees	2,910,000
Low Interest Loan	5,000,000	Financing Costs	4,850,000
NMTC Loan	6,500,000	Reserves	1,000,000
Total	109,070,000	Total	109,070,000

The operating proformas on the following pages illustrate the annual cash flow projections using the assumptions outlined under “Financing/Funding Structure” above and based on the total development costs of $109,070,000. The first schedule as further described under “Financial Feasibility using Baseline/Traditional Structure” appears to achieve adequate debt coverage and return to the developer but is $20,000,000 short of funding total development costs. The second schedule as described under “Financial Feasibility using Enhanced Structure” appears to have similar coverage and developer return results but includes adjustments to the upfront funding sources that results in operating revenues sufficient to support operating expenses and debt repayment using the assumptions.

Operating Proforma with Traditional/Baseline Financing

City of Minneapolis
461 Girard Terrace - Mixed Use
Operating Proforma Illustrating Baseline Scenario

Sources	Amount	Percent	Uses	Amount
Equity	17,814,000	16.33%	Land	-
Private Financing	71,256,000	65.33%	Demo	400,000
County TOD		0.00%		
DEED		0.00%	Construction	97,000,000
Deferred Developer Fee		0.00%	Developer fee	2,910,000
TIF *		0.00%	Professional Fees	2,910,000
Land Equity		0.00%	Financing Costs	4,850,000
Low Interest Loan		0.00%	Reserves	1,000,000
		0.00%	Fees	
Gap	20,000,000	18.34%		
Total	**109,070,000**	**100%**	Total	**109,070,000**

Expense Inflation Rate	**3.00%**
Revenue Inflation Rate	**3.00%**

IRR	11.10%
FMV	$95,461,877
NOI Year 10	5,727,713
Cap Rate	6.00%
Mortgage	56,138,298
Cost of Sale	3%
Sale Proceeds	$36,459,723
Remaining TIF (PV)	
Yield on Cost	4.27%
Cash on Cash Return	2.47%

				Year	1	2	3	4	5	6	7	8	9	10
Revenues	Unit #	SF/Unit	Rent/SF	Rent/Unit										
Studio	75	500	1.90	950	855,000	880,650	907,070	934,282	962,310	991,179	1,020,915	1,051,542	1,083,088	1,115,581
1 bedroom	140	867	1.32	1,144	1,922,659	1,980,339	2,039,749	2,100,942	2,163,970	2,228,889	2,295,756	2,364,628	2,435,567	2,508,634
2 bedroom	140	1,000	1.38	1,380	2,318,400	2,387,952	2,459,591	2,533,378	2,609,380	2,687,661	2,768,291	2,851,340	2,936,880	3,024,986
3 bedroom	75	1,300	1.30	1,690	1,521,000	1,566,630	1,613,629	1,662,038	1,711,899	1,763,256	1,816,154	1,870,638	1,926,757	1,984,560
4 bedroom	20	1,600	1.35	2,160	518,400	533,952	549,971	566,470	583,464	600,968	618,997	637,567	656,694	676,394
					7,135,459	7,349,523	7,570,009	7,797,109	8,031,022	8,271,953	8,520,111	8,775,715	9,038,986	9,310,156
Parking			-	0	-	-	-	-	-	-	-	-	-	-
Commercial	22,500		15.00	337,500	337,500	347,625	358,054	368,795	379,859	391,255	402,993	415,082	427,535	440,361
Commercial	7,500		12.00	90,000	90,000	92,700	95,481	98,345	101,296	104,335	107,465	110,689	114,009	117,430
Commercial	5,000		15.00	75,000	75,000	77,250	79,568	81,955	84,413	86,946	89,554	92,241	95,008	97,858
vacancy			5%	10%	(381,898)	(393,355)	(405,156)	(417,310)	(429,830)	(442,724)	(456,006)	(469,686)	(483,777)	(498,290)
TIF					-	-	-	-	-	-	-	-	-	-
	35,000													
Total Revenues	450				6,753,561	6,956,168	7,164,853	7,379,799	7,601,193	7,829,228	8,064,105	8,306,028	8,555,209	8,811,866
Operating Expenses														
Total Operating Expenses			35%		2,363,746	2,434,659	2,507,699	2,582,930	2,660,417	2,740,230	2,822,437	2,907,110	2,994,323	3,084,153
Cash Flow Available for Debt Service					4,389,815	4,521,509	4,657,155	4,796,869	4,940,775	5,088,998	5,241,668	5,398,919	5,560,886	5,727,713
Debt Service														
1st Mortgage Debt Service					(4,082,245)	(4,082,245)	(4,082,245)	(4,082,245)	(4,082,245)	(4,082,245)	(4,082,245)	(4,082,245)	(4,082,245)	(4,082,245)
Other Debt Service						0	0	0	0	0	0	0	0	0
Total Debt Service					(4,082,245)	(4,082,245)	(4,082,245)	(4,082,245)	(4,082,245)	(4,082,245)	(4,082,245)	(4,082,245)	(4,082,245)	(4,082,245)
Debt Coverage Ratio					1.08	1.11	1.14	1.18	1.21	1.25	1.28	1.32	1.36	1.40
Net Income					307,570	439,265	574,910	714,625	858,531	1,006,754	1,159,424	1,316,674	1,478,642	1,645,468
Deferred Fee Repayment														
Net Available Cash Flow					307,570	439,265	574,910	714,625	858,531	1,006,754	1,159,424	1,316,674	1,478,642	1,645,468
Hypothetical Sale														$36,459,723
Cash Flow				-17,814,000	307,570	439,265	574,910	714,625	858,531	1,006,754	1,159,424	1,316,674	1,478,642	1,645,468
				-17,814,000	307,570	746,835	574,910	714,625	858,531	1,006,754	1,159,424	1,316,674	1,478,642	38,105,191
10 Year IRR					**11.10%**									

Operating Proforma with Enhanced Financing

City of Minneapolis
461 Girard Terrace - Mixed Use
Operating Proforma Illustrating Enhanced Financing

Sources	Amount	Percent	Uses	Amount
Equity	17,414,000	15.97%	Land	-
Private Financing	69,656,000	63.86%	Demo	400,000
Grants	4,000,000	3.67%		
Sponsor Equity	5,000,000	4.58%	Construction	97,000,000
Deferred Developer Fee	1,500,000	1.38%	Developer fee	2,910,000
TIF *		0.00%	Professional Fees	2,910,000
Land Equity		0.00%	Financing Costs	4,850,000
Low Interest Loan	5,000,000	4.58%	Reserves	1,000,000
NMTC Loan	6,500,000	5.96%	Fees	
Gap		0.00%		
Total	**109,070,000**	**100%**	Total	**109,070,000**

** not assumed to be included*

Expense Inflation Rate	**3.00%**
Revenue Inflation Rate	**3.00%**

IRR	10.69%
FMV	$95,461,877
NOI Year 10	5,727,713
Cap Rate	6.00%
Mortgage	54,877,755
Cost of Sale	3%
Sale Proceeds	$37,720,266
Remaining TIF (PV)	
Yield on Cost	4.27%
Cash on Cash Return	1.31%

				Year	1	2	3	4	5	6	7	8	9	10
Revenues	Unit #	SF/Unit	Rent/SF	Rent/Unit										
Studio	75	500	1.90	950	855,000	880,650	907,070	934,282	962,310	991,179	1,020,915	1,051,542	1,083,088	1,115,581
1 bedroom	140	867	1.32	1,144	1,922,659	1,980,339	2,039,749	2,100,942	2,163,970	2,228,889	2,295,756	2,364,628	2,435,567	2,508,634
2 bedroom	140	1,000	1.38	1,380	2,318,400	2,387,952	2,459,591	2,533,378	2,609,380	2,687,661	2,768,291	2,851,340	2,936,880	3,024,986
3 bedroom	75	1,300	1.30	1,690	1,521,000	1,566,630	1,613,629	1,662,038	1,711,899	1,763,256	1,816,154	1,870,638	1,926,757	1,984,560
4 bedroom	20	1,600	1.35	2,160	518,400	533,952	549,971	566,470	583,464	600,968	618,997	637,567	656,694	676,394
					7,135,459	7,349,523	7,570,009	7,797,109	8,031,022	8,271,953	8,520,111	8,775,715	9,038,986	9,310,156
Parking			-	0	-	-	-	-	-	-	-	-	-	-
Commercial	22,500		15.00	337,500	337,500	347,625	358,054	368,795	379,859	391,255	402,993	415,082	427,535	440,361
Commercial	7,500		12.00	90,000	90,000	92,700	95,481	98,345	101,296	104,335	107,465	110,689	114,009	117,430
Commercial	5,000		15.00	75,000	75,000	77,250	79,568	81,955	84,413	86,946	89,554	92,241	95,008	97,858
vacancy			5%		(381,898)	(393,355)	(405,156)	(417,310)	(429,830)	(442,724)	(456,006)	(469,686)	(483,777)	(498,290)
TIF					-	-	-	-	-	-	-	-	-	-
	35,000													
Total Revenues	450				6,753,561	6,956,168	7,164,853	7,379,799	7,601,193	7,829,228	8,064,105	8,306,028	8,555,209	8,811,866
Operating Expenses														
Total Operating Expenses			35%		2,363,746	2,434,659	2,507,699	2,582,930	2,660,417	2,740,230	2,822,437	2,907,110	2,994,323	3,084,153
Cash Flow Available for Debt Service					4,389,815	4,521,509	4,657,155	4,796,869	4,940,775	5,088,998	5,241,668	5,398,919	5,560,886	5,727,713
Debt Service														
1st Mortgage Debt Service					(3,990,581)	(3,990,581)	(3,990,581)	(3,990,581)	(3,990,581)	(3,990,581)	(3,990,581)	(3,990,581)	(3,990,581)	(3,990,581)
Other Debt Service					(303,530)	(303,530)	(303,530)	(303,530)	(303,530)	(303,530)	(303,530)	(303,530)	(303,530)	(303,530)
Total Debt Service					(4,294,111)	(4,294,111)	(4,294,111)	(4,294,111)	(4,294,111)	(4,294,111)	(4,294,111)	(4,294,111)	(4,294,111)	(4,294,111)
Debt Coverage Ratio					1.02	1.05	1.08	1.12	1.15	1.19	1.22	1.26	1.30	1.33
Net Income					95,704	227,398	363,044	502,758	646,664	794,888	947,558	1,104,808	1,266,775	1,433,602
Deferred Fee Repayment														
Net Available Cash Flow					95,704	227,398	363,044	502,758	646,664	794,888	947,558	1,104,808	1,266,775	1,433,602
Hypothetical Sale														$37,720,266
Cash Flow				-17,414,000	95,704	227,398	363,044	502,758	646,664	794,888	947,558	1,104,808	1,266,775	1,433,602
				-17,414,000	95,704	323,102	363,044	502,758	646,664	794,888	947,558	1,104,808	1,266,775	39,153,868
10 Year IRR					**10.69%**									

Project 2: 555 Girard Terrace

The location of the second project site in the City of Minneapolis is located at 555 Girard Terrace. Minneapolis Public Housing Authority (MPHA) owns the site and the City anticipates it likely may be a development partner. Based on preliminary concept plans for the entire project site, this phase of development could include approximately 101 housing units in two buildings (41 in the first building and 60 in the second as a mixed-use building). This would be a mixed-use project due to the expected land use designation and will also include both retail and office space. 11,000 square feet of retail and 48,750 square feet of office would be the first floors with approximately 60 units of housing on the upper floors. The adjacent new buildings would include apartment units with underground parking spaces and surface stalls. The site is located within one block of the future Van White LRT station and is within two blocks of Harrison Park and the Van White Memorial Boulevard loop.

Table 2: Project Description	
Property Address	555 Girard Terrace, Minneapolis, MN
Parcel ID	21-029-24-42-0020
Existing Market Value	Assess 2020, Pay 2021 $0 estimated total (ownership by Mpls Public Housing Authority)
Site Size	3.8 acres
Conceptual Development (Estimates)	Mixed Use Redevelopment 101 housing units 11,000 square feet commercial 48,750 square feet office supporting parking spaces
Development Assumptions	Building One – 3 stories o First floor housing o 2 floors housing Building Two – 12 stories o First floor commercial o 5 floors office o 6 floors housing – 101 Dwelling Units o 29 1-bedroom o 48 2-bedroom o 21 3-bedroom o 3 4-bedroom Average square footage each unit – TBD – 11,000 Sq Ft Commercial – 48,750 Sq Ft Office – Parking Spaces – Mix of commercial and residential – Estimated 220 spaces

Financing/Funding Structure

The analysis for Project 2 is based on the anticipated future phase of development related to Phase 4 of the planned development to include 101 housing units and approximately 60,000 square feet of office/commercial space. We used information regarding the anticipated site buildout from station area and other planning documents and made assumptions for certain types of development, estimated total development costs and funding sources. The planned development for this project site would be the construction of a mixed-use project with office, commercial/retail and mixed-income housing. The total development cost for the project development is estimated to be $43,947,255. Total cost per unit is as follows:

- $200/square foot for commercial
- $200,000/unit for apartments

In addition to the building costs summarized above, there will be additional costs of the project including site acquisition, demolition, developer fee, professional fees, financing costs and reserves. The project costs do not include a separate line item for contingency amounts and those costs have been included within specific line items. There are typically ranges for certain cost items, and we may see developer fees ranging 3-5%.

Financial Feasibility using Baseline/Traditional Financing

We have assumed that a traditional project funding structure would include private financing of a first mortgage and owner equity as primary revenue sources. It is assumed the baseline/ traditional financing structure would not be sufficient for a proposed TOD project considered for this project site and that additional funding from other sources will be necessary for financing of certain extraordinary project costs related to redevelopment, TOD enhancements, infeasible commercial space, mixed-income/affordable housing development, and additional public infrastructure improvements.

The projected operating revenues from each phase/building of the project would be used to finance operating expenses, support debt service payments and provide equity investor returns. The project cash flows incorporate operating revenues that include rental rates from the residential apartment units and commercial retail space, parking and any other related income. Operating expenses have been estimated as a percentage of annual revenues. Annual debt service payments have been amortized over 30 years assuming repayment of the first mortgage at 5%. Assumptions within the operating cash flow proforma are consistent with industry standards for annual revenue and expense inflators of 3% and annual vacancy rates of 5%. With the baseline assumptions as described assuming sole private financing and no additional public funding sources, the project is not expected to be financially feasible. The projected financial gap for this first funding structure is approximately $9,800,000. This is generally consistent for TOD projects that incorporate extraordinary public purpose costs that are not supported by the market. A traditional privately financed approach for this TOD project is not feasible.

For this project concept to be financially feasible, we can assume there will need to be an alternative financing structure that incorporate additional funding programs, strategies and sources to close the financial gap. The enhanced financing scenario illustrated in the next section will incorporate additional funding sources and programs as a means of providing an alternative funding structure(s) that could provide for the development of a financially feasible project.

Financial Feasibility using Enhanced Financing

As stated above, the projected financial gap assuming a traditionally financed redevelopment project financed solely with private investment could be expected to be approximately $9,800,000. Those funding sources alone would not support a financially feasible project based on current assumptions. Additional funding, either as upfront in the form of grant or lower-interest financing, or additional cashflow from other sources would be necessary to assist with financing of the project due to the higher development costs and reduced annual revenues available to support repayment of equity investment and debt obligations.

Annual operating revenues less operating expenses is the net operating income of the project. Net operating income is used to support annual debt service payments and provide equity investor returns within market ranges. In order to obtain adequate project funding, annual operating revenues are required to:

1) meet minimum debt coverage requirements of a lender
2) pay deferred developer fee
3) produce reasonable rates of return to the investors (when privately invested)

The financial gap has been calculated based on the level of private financing and equity this project could expect to receive based on net operating income. Additional upfront funding sources that reduce the burden of annual operating revenues' ability to pay expenses and cash flow funding would allow the project to be financially feasible. It is assumed that additional upfront and annual operating funding sources would be necessary to establish and enhance financial feasibility.

Enhanced Financing Scenario

To understand how this project could achieve financial feasibility (increased debt coverage and/or investor returns), we started with the traditional funding structure and $9,800,000 gap. We targeted funding sources that could be used to reduce that gap. This could include some familiar funding sources such as tax increment financing, affordable housing trust fund (AHTF), energy and sales tax rebates, tax credits, low-interest loans, deferred developer fee, Met Council, LCDA and Hennepin County TOD/AHIF funding. For purposes of the enhanced financing scenario, tax increment financing has not been included as a funding source.

The enhanced financing scenario has focused more on the inclusion of innovative funding strategies and programs that may not be as common but considered for certain project components. Components of this proposed project that contribute to the $9,800,000 funding gap and will need innovative funding sources include:

1. Ground floor commercial/retail space
2. Affordable housing at mixed income, include deep subsidy
3. Infrastructure improvements

There are funding strategies and programs specific to each of the project components that would be used in combination on eligible pieces of the total project. There are certain programs that only work for commercial/retail space and those that work only for residential units. In certain cases, the funding sources would also be sufficient to support additional TOD infrastructure improvements. In other instances, additional funding sources above those for commercial or residential uses would need to be incorporated.

Utilizing public assistance that includes local participation, regional and state funding sources would provide additional resources for a financially feasible project that also includes TOD components. For a project of this type that incorporates multiple components all requiring public assistance, increased public participation may be considered reasonable. The availability of actual programs and funding sources will be based on developer investor resources, market demand, project performance, and project type. The project performance for the enhanced financing scenario has demonstrated returns that would be at the low end of minimum levels as necessary to create a financially feasible project.

Sources and uses

The following table provides a summary of the preliminary sources and uses of funds assuming a baseline/traditional financing scenario. It includes an estimate of the total development costs related to acquisition and subsequent construction of the mixed-use project components. Given assumptions regarding the ability of the project to generate net operating revenues and the ability to capitalize those revenues, it also shows the assumption regarding equity, capital provided through borrowing (debt), and the resultant initial financing gap of $9,800,000.

Sources and Uses of Funds Illustrating Financial Gap			
Sources		**Uses**	
Equity	5,109,451	Land	0
Debt	20,437,804	Construction	22,220,000
Syndication Proceeds	8,600,000	Construction	12,300,000
		Contingency	1,726,000
		Interest	1,356,038
		Relocation	193,200
		Developer Fee	3,185,000
		Legal Fees	175,000
		Architect	615,000
		Other	2,177,017
Financial Gap	9,800,000	Reserves	611,185
Total	43,947,255	Total	43,947,255

Enhanced Financing Strategy

To illustrate how the financial gap of $9,800,000 could be resolved, we adjusted the upfront sources of funds to include additional revenues through grants and other mechanisms. The additional funding sources would be facilitated through the establishment and use of alternate funding sources. For example, if we were to assume the City and development team could incorporate a community owned business, business incubator, community land trust, and/or resource center to facilitate development and subsequent success of commercial retail and office space within the project, the assumption is that those strategies would attract the additional funding sources necessary for the project. Funding sources specific to the commercial project components could include:

- Opportunity Zone Funding
- New Market Tax Credits
- Social impact investors
- Angel investors
- Small business administration

Many of the above funding sources have more favorable terms including lower interest rates, reduced equity returns, long-term investment and deferred funds. All of the above would provide the upfront financing needed for acquisition, construction and other related soft costs. The above funding sources could also be used in conjunction with some traditional funding sources available from local, regional and state sources. The housing components of the project are expected to utilize some of the City programs described under funding tools and innovative funding strategies and tools.

The purpose of the enhanced financing scenario is to illustrate how innovative financing strategies could be used to develop a project that meets the City's desired TOD project objectives including affordable commercial retail/office space, affordable and moderate-income housing and infrastructure improvements. The table that follows incorporates the alternative financing scenario that would fill the $9,800,000 financial gap with additional revenue sources supported by the alternate strategies.

Sources and Uses of Funds Illustrating Enhanced Financing to fill Gap			
Sources		**Uses**	
General Partner	239,473	Land	0
		Construction	22,220,000
		Construction	12,300,000
First Mortgage	23,707,782	Contingency	1,726,000
Syndication Proceeds	8,600,000	Interest	1,356,038
Grants	2,000,000	Relocation	193,200
Sponsor Equity	2,500,000	Developer Fee	3,185,000
NMTC	2,500,000	Legal Fees	175,000
		Architect	615,000
		Other	2,177,017
OZ Equity	4,400,000	Reserves	611,185
Total	43,947,255	Total	43,947,255

The operating proformas on the following pages illustrate the annual cash flow projections using the assumptions outlined under "Financing/Funding Structure" above and based on the total development costs of $43,947,000. The first schedule as further described under "Financial Feasibility using Baseline/Traditional Structure" appears to achieve adequate debt coverage and return to the developer but is $9,800,000 short of funding total development costs. The second schedule as described under "Financial Feasibility using Enhanced Structure" appears to have similar coverage and developer return results but includes adjustments to the upfront funding sources that results in operating revenues sufficient to support operating expenses and debt repayment using the assumptions.

Operating Proforma with Traditional/Baseline Financing

City of Minneapolis, Minnesota
555 Girard Terrace
With Baseline Financing

Sources	Amount	Percent	Uses	Amount
Equity	5,109,451	11.63%	Land	-
First Mortgage	20,437,804	46.51%	Construction	22,220,000
Syndication Proceeds	8,600,000	19.57%	Construction	12,300,000
		0.00%	Contingency	1,726,000
		0.00%	Interest	1,356,038
		0.00%	Relocation	193,200
		0.00%	Developer fee	3,185,000
		0.00%	Legal fees	175,000
		0.00%	Architect	615,000
Financial Gap	9,800,000	22.30%	Other	2,177,017
		0.00%	Reserves	611,185
		0.00%		
Total	**43,947,255**		Total	**43,947,255**

Revenue Inflation Rate	**3.00%**
Expense Inflation Rate	**3.00%**

IRR	12.93%
FMV	$31,882,355
NOI Year 10	1,912,941
Cap Rate	6.00%
Mortgage	19,887,220
Cost of Sale	3%
Sale Proceeds	$11,038,665
Remaining TIF (PV)	
Yield on Cost	3.54%
Cash on Cash Return	3.79%

			Year	1	2	3	4	5	6	7	8	9	10
Revenues	Unit #		Rent/Unit										
1 bedroom (50%)	12		970	139,680	143,870	148,187	152,632	157,211	161,927	166,785	171,789	176,942	182,251
2 bedroom (50%)	20		1,163	279,120	287,494	296,118	305,002	314,152	323,577	333,284	343,282	353,581	364,188
3 bedroom (50%)	8		1,344	129,024	132,895	136,882	140,988	145,218	149,574	154,061	158,683	163,444	168,347
4 bedroom (50%)	1		1,500	18,000	18,540	19,096	19,669	20,259	20,867	21,493	22,138	22,802	23,486
Mixed Use (60 units)													
1 bedroom (50%)	17		970	197,880	203,816	209,931	216,229	222,716	229,397	236,279	243,367	250,668	258,189
2 bedroom (50%)	28		1,163	390,768	402,491	414,566	427,003	439,813	453,007	466,597	480,595	495,013	509,864
3 bedroom (50%)	13		1,344	209,664	215,954	222,433	229,106	235,979	243,058	250,350	257,860	265,596	273,564
4 bedroom (50%)	2		1,500	36,000	37,080	38,192	39,338	40,518	41,734	42,986	44,275	45,604	46,972
Retail	11,000		15	165,000	169,950	175,049	180,300	185,709	191,280	197,019	202,929	209,017	215,288
Office	48,750		15	731,250	753,188	775,783	799,057	823,028	847,719	873,151	899,345	926,326	954,115
Parking	220	50.00	11,000	132,000	135,960	140,039	144,240	148,567	153,024	157,615	162,343	167,214	172,230
vacancy		5%	10%	(172,832)	(178,017)	(183,357)	(188,858)	(194,524)	(200,359)	(206,370)	(212,561)	(218,938)	(225,506)
TIF				-	-	-	-	-	-	-	-	-	-
Total Revenues	41			2,255,554	2,323,221	2,392,917	2,464,705	2,538,646	2,614,806	2,693,250	2,774,047	2,857,269	2,942,987
Total Operating Expenses		35%		789,444	813,127	837,521	862,647	888,526	915,182	942,637	970,917	1,000,044	1,030,045
Cash Flow Available for Debt Service				1,466,110	1,510,094	1,555,396	1,602,058	1,650,120	1,699,624	1,750,612	1,803,131	1,857,225	1,912,941
Debt Service													
1st Mortgage Debt Service				(1,316,575)	(1,316,575)	(1,316,575)	(1,316,575)	(1,316,575)	(1,316,575)	(1,316,575)	(1,316,575)	(1,316,575)	(1,316,575)
Total Debt Service				(1,316,575)	(1,316,575)	(1,316,575)	(1,316,575)	(1,316,575)	(1,316,575)	(1,316,575)	(1,316,575)	(1,316,575)	(1,316,575)
Debt Coverage Ratio				1.11	1.15	1.18	1.22	1.25	1.29	1.33	1.37	1.41	1.45
Net Income				149,536	193,519	238,822	285,484	333,545	383,049	434,038	486,556	540,650	596,367
Deferred Fee Repayment													
Net Available Cash Flow				149,536	193,519	238,822	285,484	333,545	383,049	434,038	486,556	540,650	596,367
Hypothetical Sale													$11,038,665
Cash Flow			-5,109,451	149,536	193,519	238,822	285,484	333,545	383,049	434,038	486,556	540,650	596,367
			-5,109,451	149,536	343,055	238,822	285,484	333,545	383,049	434,038	486,556	540,650	11,635,032
10 Year IRR				**12.93%**									

Operating Proforma with Enhanced Financing

City of Minneapolis, Minnesota
555 Girard
With Enhanced Financing

Sources	Amount	Percent	Uses	Amount
General Partners	239,473	0.54%	Land	-
First Mortgage	23,707,782	53.95%	Construction	22,220,000
Syndication	8,600,000	19.57%	Construction	12,300,000
Grants	2,000,000	4.55%	Contingency	1,726,000
Sponsor Equity	2,500,000	5.69%	Interest	1,356,038
Deferred Developer Fee	-	0.00%	Relocation	193,200
NMTC	2,500,000	5.69%	Developer fee	3,185,000
OZ Equity	4,400,000	10.01%	Legal fees	175,000
			Architect	615,000
			Other	2,177,017
			Reserves	611,185
Total	**43,947,255**		Total	**43,947,255**

Revenue Inflation Rate	**3.00%**
Expense Inflation Rate	**3.00%**

IRR	10.96%
FMV	$33,101,859
NOI Year 10	1,986,112
Cap Rate	6.00%
Mortgage	19,887,220
Cost of Sale	3%
Sale Proceeds	$12,221,583
Remaining TIF (PV)	
Yield on Cost	3.90%
Cash on Cash Return	4.32%

				Year	1	2	3	4	5	6	7	8	9	10
Revenues	Unit #	SF/Unit	Rent/SF	Rent/Unit										
Apartments (41 units)														
1 bedroom (60%)	12			1,125	162,000	166,860	171,866	177,022	182,332	187,802	193,436	199,240	205,217	211,373
2 bedroom (60%)	20			1,350	324,000	333,720	343,732	354,044	364,665	375,605	386,873	398,479	410,434	422,747
3 bedroom (60%)	8			1,560	149,760	154,253	158,880	163,647	168,556	173,613	178,821	184,186	189,711	195,403
4 bedroom (60%)	1			1,740	20,880	21,506	22,152	22,816	23,501	24,206	24,932	25,680	26,450	27,244
Mixed Use (60 units)														
1 bedroom (50%)	17			970	197,880	203,816	209,931	216,229	222,716	229,397	236,279	243,367	250,668	258,189
2 bedroom (50%)	28			1,163	390,768	402,491	414,566	427,003	439,813	453,007	466,597	480,595	495,013	509,864
3 bedroom (50%)	13			1,344	209,664	215,954	222,433	229,106	235,979	243,058	250,350	257,860	265,596	273,564
4 bedroom (50%)	2			1,500	36,000	37,080	38,192	39,338	40,518	41,734	42,986	44,275	45,604	46,972
Retail	11,000			15	165,000	169,950	175,049	180,300	185,709	191,280	197,019	202,929	209,017	215,288
Office	48,750			15	731,250	753,188	775,783	799,057	823,028	847,719	873,151	899,345	926,326	954,115
Parking	220		-	50	132,000	135,960	140,039	144,240	148,567	153,024	157,615	162,343	167,214	172,230
vacancy			5%	10%	(177,373)	(182,694)	(188,175)	(193,820)	(199,634)	(205,623)	(211,792)	(218,146)	(224,690)	(231,431)
TIF					-	-	-	-	-	-	-	-	-	-
Total Revenues	41				2,341,829	2,412,084	2,484,447	2,558,980	2,635,750	2,714,822	2,796,267	2,880,155	2,966,559	3,055,556
Total Operating Expenses			35%		819,640	844,229	869,556	895,643	922,512	950,188	978,693	1,008,054	1,038,296	1,069,445
Cash Flow Available for Debt Service					1,522,189	1,567,855	1,614,890	1,663,337	1,713,237	1,764,634	1,817,573	1,872,101	1,928,264	1,986,112
Total Debt Service					(1,259,665)	(1,259,665)	(1,259,665)	(1,259,665)	(1,259,665)	(1,259,665)	(1,259,665)	(1,259,665)	(1,259,665)	(1,259,665)
Debt Coverage Ratio					1.21	1.24	1.28	1.32	1.36	1.40	1.44	1.49	1.53	1.58
Net Income					262,524	308,190	355,226	403,672	453,572	504,970	557,909	612,436	668,599	726,447
Deferred Fee Repayment														
Net Available Cash Flow					262,524	308,190	355,226	403,672	453,572	504,970	557,909	612,436	668,599	726,447
Hypothetical Sale														$12,221,583
Cash Flow				-7,139,473	262,524	308,190	355,226	403,672	453,572	504,970	557,909	612,436	668,599	726,447
				-7,139,473	262,524	570,714	355,226	403,672	453,572	504,970	557,909	612,436	668,599	12,948,030
10 Year IRR					**10.96%**									

Funding Tools

Residential Finance Housing Finance Programs and Special Initiatives

Primary Programs

Affordable Housing Trust Fund

- Available on an annual competitive basis (pipeline for any unallocated funds) to provide gap financing for affordable and mixed income rental projects, both new construction and preservation. Funding is typically provided as a low/no interest deferred loan. $30k/affordable unit typical subsidy; more for larger unit configurations with deep affordability (30%AMI).

9% Low Income Housing Tax Credits

- Available on an annual competitive basis to provide private equity financing for affordable and mixed income rental projects, both new construction and preservation. Awarded based on adherence to published Qualified Allocation Plan. LIHTCs typically provide a 70% subsidy for projects.

Housing Revenue Bonds / 4% Tax Credits

- Available on a pipeline basis (project must meet threshold scoring) to provide private capital for financing affordable and mixed income rental projects (currently), both new construction and preservation. HRBs are paired with an allocation of 4% Low Income Housing Tax Credits, which typically provide a 30% subsidy for projects.

Emergency Solutions Grant Program

- Emergency Solutions Grant funds are part of our federal Community Development Block Grant (CDBG) entitlement funds and are allocated according to our Consolidated Plan. For capital expenditures, this money is the only source available to support capital improvements for existing homeless shelters. It cannot be used for new construction of emergency shelter housing.

Pass-through Grants

- CPED staff manages a large portfolio of grant funds on behalf of our funding partners at DEED, Hennepin County and the Metropolitan Council. These grant funds are associated with specific programs and range in utilization from environmental investigation and clean up to grants directly associated with new construction of affordable and mixed income housing.

Tax Increment Financing

- CPED coordinates with Finance & Property Services to use the increased property taxes that new real estate development generates to help finance the cost of the development.

Special Initiatives

NOAH Preservation Fund

- Special funding pool to assist preservation buyers in acquiring and preserving naturally occurring (unsubsidized) affordable rental housing at risk of market conversion in order to protect low-income tenants from involuntary displacement.

4d Affordable Housing Initiative

- 2018 pilot, 2019 full program
- Preservation program for existing owners that offers the ability to qualify for the Low-Income Rental Classification, or 4d tax classification. 40% reduction in property tax rate in exchange for 10-year affordability commitment. Paired with energy efficiency, healthy homes, and solar incentives.

Small and Medium Multifamily (SMMF) Land Banking Pilot Program

- Special funding pool under development with Twin Cities LISC and the Land Bank Twin Cities to preserve SMMF properties at risk of loss due to market pressure and/or substandard property condition.

Large Family Housing Initiative

- Special funding pool allocated through the Affordable Housing Trust Fund that provides increased subsidy ($50k/unit maximum) for projects that serve large homeless or at-risk families.

High Density Corridor Housing Program

- Program funds for the acquisition and associated costs of site assembly for multifamily housing on or near community, commercial, and transit corridors.

Housing Improvement Areas

- The City may lend funds (via issuance of taxable bonds, repayable through imposition of HIA fees) to a condominium homeowners association for the purpose of funding the cost of improvements made to common elements of their property. The City will consider the establishment of an HIA only on a "last resort" basis, when the Association is unable to obtain other financing for the needed repairs and improvements.

Innovative Funding Strategies and Tools

Components Driving Funding Gap

There are several components to this project scope that are anticipated to generate a funding gap. The site is close proximity to the Van White Station Area. The City desires to have infrastructure, affordable housing and mixed-use development that includes commercial retail/office space. Each of these project uses typically results in a financial gap for a project. Layering the costs will generally cause an increased funding gap similar to what has been generated for both Project 1 and 2. We made several assumptions in the enhanced financing scenarios as an illustration of closing the projected funding gap. We have assumed the projects will utilize available tools to facilitate affordable housing that include tax credits, loans and grants, low interest loans, community land trust and ground lease opportunities. To facilitate infrastructure needs, we have assumed value capture tools could be utilized. To facilitate the construction of mixed-use and first floor commercial, strategies to be considered include tax credits, community-owned businesses, business incubator, rent control, and community land trusts. Social impact investors, program related investments and direct grants/loans are also funding sources available for financing of extraordinary project costs related to all project components.

To follow is a listing of potential funding strategies and tools that could be considered for the City's proposed future projects. Whether a given tool will be applicable for each project will depend on what the actual development type and its specific use may be but could be a valuable resource to assist with project analysis. The list is intended to provide funding resources that could be used by the City and/or private investor to assist with project development. The purpose is to create and identify a list of resources that could be available to help businesses and residents get access to financing, especially to incentivize businesses that are in mixed use development (both commercial and residential use). More summary information and links to outside resources can be found in the TOD Funding Guide developed as part of the larger TOD study.

Commercial and Mixed-Use Project Strategies

Community-owned businesses (COBs)[1]:
Community-owned businesses (COBs) are financed and owned collectively by local residents. Community based enterprises use business to improve the life of a community. They are different from private enterprise because their business activity is undertaken as a means of achieving a community benefit, not private gain. They are based on assets belonging to the community that can't be sold off for private financial gain, benefiting stakeholders play a leading role in the enterprise, and have a goal of remaining financially self-sustaining. COBs can provide a vehicle to fill local needs including:

- Local media
- Affordable broadband
- Fresh groceries, household goods
- Provide affordable commercial spaces and other community voids

Business Incubators
A business incubator is a nonprofit corporation that assists start-up and developing businesses by providing services and support. The National Business Incubation Association (NBIA) defines business incubators as a catalyst tool for either regional or national economic development. Business incubators reduce the financial concerns many new companies face by offering:

- Office space
- Management training
- Access to shared equipment and meeting rooms
- Networking activities
- Other ongoing business development services (legal, accounting, marketing, etc.)

[11] https://www.amiba.net/resources/community-ownership/

Community-Land Trusts (CLTs)
A community land trust (CLT) is a nonprofit corporation that develops and stewards the following in order to balance the needs of individuals to access land and maintain security of tenure with a community's need to maintain affordability, economic diversity and local access to essential services. Examples of the types of development that may benefit from CLTs include the following:

- Affordable housing for low- and moderate-income people
- Community gardens
- Civic buildings
- Commercial spaces
- Other community assets developed on behalf of a community.

Employee-owned Cooperatives and Employee Stock Ownership Plan (ESOP)
Employee owned cooperative, also known as worker cooperatives, is a cooperative that is owned and self-managed by its workers. This control may mean a firm where every worker-owner participates in decision-making in a democratic fashion, or it may refer to one in which management is elected by every worker-owner who each have one vote. With a somewhat similar mission, the structure of an ESOP is one where stock is given to employees as part of their compensation and employees own the business.

CDFI
Community development financial institutions (CDFIs) provide credit and financial services to people and communities underserved by mainstream commercial banks and lenders. CDFIs encompass a range of nonprofit and for-profit entities including community development banks, community development credit unions, community development loan funds, community development venture capital funds, and microenterprise loan funds. The previously mentioned Denver Impact Fund is administered by a CDFI.

University and Community Partnerships
Institutions of higher education have an obvious vested interest in building strong relationships with the communities that surround their campuses. They do not have the option of relocating and thus are of necessity place-based anchors. While corporations, businesses, and residents often flee from economically depressed low-income urban and suburban edge-city neighborhoods, universities remain. At a time when foundations that help establish community-based projects are commonly unable to continue with ongoing involvement over long periods of time, universities can play an important role. Universities are inherently an important potential institutional base for helping community-based economic development in general, and civically engaged development in particular. (See also, "Anchor Institution" below.)

Anchor Institutions
Anchor institutions are large public or nonprofit organizations that once established tend not to move location. An important part of the local economies in which they reside, they can deliberately use their economic power to strengthen their community. Indeed, in many places, these anchor institutions have surpassed traditional manufacturing corporations to become their region's leading employers. This is particularly useful in neighborhoods where there are historic and other barriers to people accessing economic opportunity. Focused, well administered programs can foster community wealth building. The largest and most numerous of such nonprofit anchors are universities and non-profit hospitals (often called "eds and meds"). Other examples of anchor institutions include museums, faith-based institutions, libraries, and locally focused philanthropies.

Social Impact Investing
Impact investments are investments made into companies, organizations, and funds with the goal of generating positive, measurable social or environmental outcomes alongside a financial return. The term "impact investing" is relatively new, becoming popular in 2007. The practice of investing for social—and not merely economic—return itself has a much longer history and includes two key approaches:

- **Socially Responsible Investments (SRIs)** are investment strategies that *individuals* employ to generate financial returns while promoting social good. The most common form of socially responsible investment involves investment portfolios designed to exclude certain companies based on explicit social and/or environmental criteria. This is known as "negative screening." However, positive screening, investment in companies that achieve some positive social benefit, is another SRI strategy.

- **Mission-Related Investments** are investment strategies that *foundations* and *anchor institutions* use to generate financial returns as they promote mission-related goals. **Program-related investments (PRIs)** are one such strategy that has played a role in building wealth in low-income communities. Depositing money in community development financial institutions (CDFIs), such as community development credit unions or community loan funds, is another. In additions to PRIs and CDFIs, some foundations, such as the F.B. Heron Foundation, have dedicated their entire corpus in alignment with the Foundation's mission. In each asset class (such as stocks, bonds, loans, and private equity placement), Heron seeks to ensure that investment priorities align with the Foundation's social values.

Small Business Administration
The Small Business Administration is a governmental agency that ensures a percentage of the loan that is made by a local lender. These loans can be made on a real property for business use. These loans have many restrictions and usually take a long time to process but the interest rate is often lower than the current market because the government is guaranteeing a portion of the loan.

Resource center
A business resource center ("center") can serve as a welcome center for the particular neighborhood for businesses. The center can provide a one-stop shop of resources for small businesses to gain access to financial, technological and marketing resources to help them compete with larger businesses in the area. The resource center can provide the following:

1. Start-up help – connecting business owners with consultants and developers
2. Marketing and promotion
3. Administrative assistance: legal, bookkeeping, taxes, etc.
4. Rent assistance and support

Strategies for Housing Projects

- Affordable Housing Trust Fund
- Revolving Loan Fund
- Inclusionary zoning
- Tax Credits
- Value Captured Tools
    - Tax Increment Financing
    - Tax Abatement
- Debt Financing
    - General Obligation
    - Special Assessments
    - Revenue Bonds
    - Conduit
- Loans/Grants
- HOME Investment Partnerships Program (HOME)
- Community Development Block Grant (CDBG)
- National Housing Trust Fund
- Capital Magnet Fund
- Housing rehabilitation
- Small site acquisitions
- Land banking for affordable housing
- Corridor-based Tax Increment Financing Districts
- Joint Development opportunities for affordable housing production

Potential Development Concepts for Commercial Components

Case Study: Sample community-owned business

Coffee Shop / Bike repair store

A 501(c)(3) organization owns a coffee shop that is connected with a bike repair store. The 501(c)(3) public charity operates a number of activities in the area and has a board that reflects the community. The coffee shop has a seating area and is operated by full-time employees. The bike repair shop has a full-time repair employee. The bike shop has very limited hours in the winter, but more robust hours the rest of the year.

In the summer, the bike repair shop will have two high school apprentices. The primary goal is to teach the apprentices a craft, but also help them learn about operating a business. This model could be done on a larger scale, or on a similar scale, but in multiple locations.

In this case, revenue is enhanced via the ability to raise funds through fundraising. There is also a strong community board and a close relationship with one of the churches in the neighborhood. The community board includes board members with a variety of skills that can provide “back office” support or oversight.

As a part of a larger organization, the coffee shop/bike shop is able to utilize the resources of the larger organization (bookkeeping, HR, etc.). The 501(c)(3) organization utilizes neighborhood and/or nearby resources for these services.

<u>Application to other areas</u>
While another public charity could operate this type of business, it would also be a candidate for a minority entrepreneur or a community owned business – both for-profit operations.

As for-profit organizations, there are a variety of funding options available to the organizations:

- Small Business Administration loans and other similar programs
- Angel investors (higher rate of return required)
- Social impact investors (lower rate of return required)
- Program Related Investments from foundation (lower rate of return required)
- Direct grants to assist in establishing the organization or employing low-income individuals

The organization could also avail itself of accounting, staffing, HR, etc. services from other neighborhood businesses and benefit from a business resource center for other types of governmental assistance. As a locally owned business, hopefully it would enjoy the patronage and support from local residents.

The business could also be a training location for minorities and low-income individuals to help them gain work skills. It could also be an entry into other work programs and/or apprenticeship programs offered by other businesses in partnership with a local community college.

Case study for business incubator sample project:
Business Incubator

A business incubator ("BI") is typically established as a non-profit 501(c)(3) organization that supports growth in a particular industry. The organization will provide the facility, office space and supportive programming for early-stage companies.

Funding sources for a BI
Business incubators are often sponsored by private companies, municipal entities and public institutions such as colleges or universities, so much of their funding may come from the sponsoring organization in addition to other private donors. Other companies and organizations in a similar industry may also contribute to the BI and could share their resources with the start-ups as needed. This may also include businesses who could provide administrative support to the start-ups residing in the BI, such as talent acquisition, accounting and tax, legal and marketing support, with the potential for a discounted rate.

Governance of a BI
As a non-profit organization, there will typically be a board of directors, which may be comprised of representatives/leaders all over the city or state in the particular industry. The board of directors can elect board officers to oversee operations of the BI. The board can also provide more opportunities for the BI and its start-ups to learn about other companies in the area, specifically industry trends, figures and what is new in the marketplace.

Criteria to apply for a BI
Many business incubators allow companies to apply online. Companies would typically need to provide their organizational information, space needs (e.g. offices, shared space and equipment needs), and current funding levels/sources. BIs conduct research on the company including browsing social media, the website and business plan from a sustainability and mission-alignment perspective.

Resources available while residing in a BI

1. Networking services: The BI can invest in and provide a number of services designed to help grow the start-up business. It can provide opportunities to network with other start-ups and offer training opportunities in different areas of business.
    a. Partnership opportunities: BIs are sometimes supported or funded by other larger organizations or companies, such as governments, colleges or universities. This connection can provide a myriad of resources to the start-up, including potential employees or apprentices, funding sources and access to research (depending on the industry).
2. Business libraries or journals: The BI can often subscribe to expensive knowledge tools such as libraries, journals and other articles that can assist start-ups with their own research, technology and development of materials.
3. Business services: The BI can offer shared spaces ad resources with the other start-up companies, to allow the start-up access without having to incur the expense outright. Examples of on-site business services could include shared conference spaces, shared IT and teleconference equipment and helpdesk, high-speed Wi-Fi connections, shared office equipment (printers, copiers, postage), secure sites for collecting and shipping packages and a shared loading dock for shipping and receiving needs.
    a. The BI can occupy a larger space to house start-up companies, so it can invest or expand rooms and conference centers for business use. For example, if start-ups want to hold networking or grand opening events, trainings or other presentations, they could have access to an appropriately sized room that may otherwise be too expensive to rent on its own.
4. Financial resources: Aside from offering trainings about business concepts, BIs can assist start-ups with obtaining and accessing financial support from governmental entities, private companies, the SBA or other reputable resources. It can also provide assistance with applications, processes and tracking/documenting funds upon receipt.
5. Logistical offerings: Typically for the below-market rental fee, the BI provides discounted or free guest and employee parking, a convenient location for businesses to start up and network and bike racks for convenient commute.

Next Steps

It is important to note the assumptions used to close the estimated financial gaps in each scenario will ultimately be subject to a variety of both controlled and uncontrolled variables including:

1. Project specifics (type, clientele served, etc.)
2. Policy
3. Market
4. Access to financial resources
5. Availability of funding

The purpose of the analysis of the two project sites was to review potential projects the City has identified as opportunities for redevelopment. We focused the project details for each site based on City staff feedback for desired and marketable uses.

Potential Barriers to Redevelopment that may be identified:

- Existing businesses/tenants
- Relocation
- High acquisition cost
- Lack of support of future development
- Additional public improvements needs
    - Enhancements
    - TOD requirements
    - Public space/plaza/amenities
    - Sidewalks/trails
- Market demand
- Timing for anticipated phased development
- Availability of Funding Sources

Potential Next Steps for Consideration:

- RFQ – solicit developer interest
- Timing for development
- Underground parking
- Align development with market
    - Housing study – gap analysis
    - Commercial analysis
        - affordability

Policy Considerations

When private development efforts result in requests for public assistance, cities are faced with a number of policy considerations. These considerations often revolve around the desire to advance a project, the cost vs perceived benefit to the community at large, and the ability to treat all private parties equitably. This section addresses topics related to gap funding policy considerations.

Cities use different incentives for a variety of purposes that might include some or all of the following:

- Stimulate development where it would otherwise not occur ("but for" test)
- Retain existing tax base
- Encourage development of uses that would otherwise not occur, such as low-income housing
- Enhance tax base
- Facilitate infrastructure improvements
- Coordinate new developments with existing plans
- Demonstrate long-term benefits to the community
- Retain local jobs and/or increase the number and diversity of jobs that offer stable employment and/or attractive wages and benefits

- Encourage unsubsidized private development through “spin off” development
- Increase private investment (consequently market value) through:
    - Increased employment
    - Added housing units (Affordable or Market Rate)
    - Attraction of visitors who contribute to the local economy
    - Increased sales volume
    - Elimination of negative or blighting influences effecting surrounding property (Blight Curve)
    - Maximize land use (TOD)
    - Addition of infrastructure (parking other public improvements)

An important thing to focus on when considering providing any financial consideration for a project is what is driving the gap and if the need for public financial assistance is driven by project specific needs and will result in reasonable financial outcomes for all parties involved. Sometimes extraordinary public improvements or amenities are being required by the City or community and a developer may reasonably request that public participation cover the extra costs that result. In every case, understanding why the City would consider participating (see above) needs to be coupled with a clear understanding of what is driving the need for public financing assistance is essential to assure that each party gets a return that is reasonable for the investment that they are making – whether that is the public participant or the private participant. Below are some of the reasons that a project may exhibit a financing gap:

- Extraordinary redevelopment costs
- Hold out by existing property owner, land price too high
- Development needs more than it can pay for
- “Oversizing” of utility and infrastructure needs for future growth
- Developer wants less risk/more return than typical market conditions dictate
- Market competition
- Achieve development on sites that would not develop “but for” the use of TIF
- Remove blight and/or encourage redevelopment of commercial and industrial areas resulting in high quality redevelopment and private reinvestment
- Offset redevelopment costs (i.e. contaminated site clean-up) over and above the costs normally incurred in development
- Construction of housing
    - Market rate
    - Affordable
    - Work force

Evaluating the Proper Role for the Public

When reviewing projects and understanding financial feasibility and potential tools that may be available to spur development and redevelopment, it may be helpful to understand what role your community may want to play to encourage development/redevelopment opportunities and what your risk level and/or cost is. They typically include the following:

Public Sector Role	Risk Level
Grant the permit and zoning allowance	Lowest risk
Reimburse the project as benefits are completed	Low risk
Be the lender	Medium/high risk
Be the borrower	Higher risk
Be the developer	Highest risk

It is important to understand real estate development or engage a third party to help as needed when choosing the role to take. A good understanding of what is being asked for, why/if it is necessary, and if project returns are reasonable for each party will protect the public from over or under subsidizing projects. Understanding the communities’ interest or desire for a particular project or related public amenity is also important in shaping the long-range vision in which public investments are made.

Communities should keep the concept of measurable return in mind as they approach development involvement. What is the outcome that is desired? Who will benefit? Is the benefit reasonable and does it justify the cost? What guarantees the desired outcome is achieved if an investment is made? Contractual agreements can be developed that define who will do what, pay for what, and what will happen if those things do not happen. A local government that relies on property taxes might use an increase in the market value of real estate as the primary measure of whether the project has been successfully completed. Other measurable outcomes might include job production, affordable housing units produced, or timely completion of project or phases of the project.

The benefit that a party receives from public incentives should be measured and at a reasonable level. Return on Investment (ROI) to the developer or investor is a simple performance measure to evaluate the efficiency of an investment opportunity. It is calculated by subtracting the cost of the investment from the benefits of the investment and then dividing by the cost of the investment. The result is expressed as a ratio. A reasonable level for ROI will be different for different types of developments and developers and fluctuates over time. Understanding the dynamics that drive the calculation what a reasonable range of ROI is for the project under consideration is key in evaluating the level of assistance needed, if any.

We recommend all of these items be considered when reviewing project concepts and determining appropriate levels, if any, of public financial assistance.