



MEMORANDUM

Date: June 5, 2015

To: Members of City Council, City of University Heights

From: Tom Jackson, Director, National Development Council

RE: Response to Questions on Gap Financing Analysis for Proposed One University Place Mixed-Use Development

On Tuesday, June 2, 2015, I received an email from Councilmember Quezada listing five (5) questions and requesting my response to each for consideration at Council's June 9, 2015 meeting. The questions are as follows with responses to each question immediately following:

1. Question: Is the UOP (university one place) eligible for the Iowa "tax roll back" (SF295) as a multi-residential property? Are the NDC's values accounting for the 13.75% (2015) and up to 37.25% (2021) roll-backs?

Response: My analysis treats all of the residential units as legal condos and the commercial properties as purely commercial. The Residential roll-back for the yet to be approved 2014 levies (see below) is 55.73% and the Commercial/Industrial roll back is 90%. If the County Assessor classifies a portion of the property as Multi-Residential while the units in that portion have not been sold as condominiums, the 86.25% rate for 2015 and eventual 62.75% roll back for 2021 would both provide higher tax revenues than the Residential roll-back. Even if all of the project was assessed at the projected 2021 Multi-residential roll-back identified in the question, the cumulative discounted value of the property tax increment after developer rebates would exceed the estimate given the utilized Residential and Commercial/Industrial roll-backs.

2. Question: How did the NDC evaluate project costs where the construction can be completed within 5 years from City final approval? I think they were concerned about staleness of values.

Response: My understanding is that all of the Project's construction is proposed to be completed in 20-24 months, so this shouldn't be an issue. If the Project fails to meet progress milestones defined in the development agreement or is stalled for lack of financing or other reasons, revised construction, sales and operating projections will need to be evaluated.

3. Question: Do you have a schedule of rate of return (e.g., Pat Bauer's schedule)?

Response: Hard copy of a spreadsheet I distributed to the Council by email on Wednesday, June 3, 2015, is attached. The chart models future property tax revenues given an assumed initial valuation and rates and information taken from 2013 and 2014 levies as provided by the Johnson County Auditor's office. The 2014 levy rates, expected to be certified by the County by July 1, are the most up to date levy information available at this time. It's important to remember that the 2014 levies, like those from 2013, can't predict with certainty the size of future levies, individually for a single taxing entity like University Heights, or collectively for all taxing bodies. Given this uncertainty, it's also important to note that the rebate available to the developer and any residual increment available to the city, county, schools, etc., are dependent on the payment of taxes by the developer and by each condominium buyer.

In addition to projected levy rates, a conservative annual property valuation escalator of 1.5% has been calculated (10-year trend for University Heights is just under 6%). I've also included columns showing discounted net tax receipts, using a discount rate of 2%. The 2% rate was primarily used to provide some hedge against inflation (currently -0.2% and below 2.0% for six of the past eight years, including 2015 through April).

Given the assumptions outlined above and noted on the chart, there's a significant projected upside in the potential increment available – but not a financial downside given that that property currently doesn't pay property taxes and the City is not issuing or guaranteeing debt on the Project.

4. Question: Need confirmation that you have received and reviewed the terms and conditions of the Land Purchase agreement.

Response: I have received copies of the original Offer to Buy Real Estate dated June 25, 2008, multiple amendments extending the closing date and a draft of an addendum that is expected to be accepted within the week. The purchase price was initially \$4,300,000 and has been maintained at that level through the current addendum.

5. Question: Need confirmation that you have received and reviewed the GC's bid for construction.

Response: I have received estimates from McComas-Lacina, Monson and Maxwell at various points in the analysis and am expecting an additional update from that the Developer is negotiating with McComas in the next few days. I would not expect that final bids and a guaranteed maximum price contract would be available until the project has secured all of its approvals and is in the process of closing into financing.

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Please let me know if there are questions regarding the responses above or if there are additional questions that you would like for me to address. I will be available at the June 9th meeting to answer questions as well.

Attachment: Chart, OUP Estimated Property Tax Increment

Estimated Property Tax Increment: One University Place - 2014 Levy Guidance

Date: 6/3/2015

Note - 2014 Levies not certified until approx. July 1, 2015

Assumptions:

Valuation at Completion:	\$30,500,000
Annual Valuation Escalator:	1.50%
Total Levy (mils)	33.40
Residential Rollback:	55.73% 2014 Rollback for 2015-16
Commercial Rollback:	90.00% (Less 12% Civic Center Space)
Multiresidential Rollback:	86.25%
Protected Levy as % of Total Levy:	14.76%
City Unprotected Levy as % of Total Levy:	28.00%
City Protected Levy as % of Protected Levy:	10.29%

Year	Assessed Valuation	Total Increment	Rebate to Developer	Protected Levies	Residual Increment-				Protected + Discount				Residual Increment - City Discount			
					All Agencies	Discount Rate @ 2%	Present Value (PV)	Cumm PV	Residual Increment	Discount Rate @ 2%	PV	Cumm PV	Protected & Unprotected	Discount Rate @ 2%	PV	Cumm PV
1	\$30,500,000		0	0	0	0.9804	0	0	0	0.9804	0	0	0	0.9804	0	0
2	\$30,957,500	\$298,142.95	248,337	43,993	5,813	0.9612	5,587	49,806	0.9612	47,872	16,154	0.9612	5,915	6,154	0.9612	5,915
3	\$31,421,863	\$605,230.19	496,675	89,306	19,249	0.9423	18,139	108,555	0.9423	102,294	14,579	0.9423	13,738	14,579	0.9423	13,738
4	\$31,893,190	\$614,308.64	496,675	90,646	26,988	0.9238	24,933	117,634	0.9238	108,675	16,883	0.9238	15,598	16,883	0.9238	15,598
5	\$32,371,588	\$623,523.27	496,675	92,005	34,843	0.9057	31,558	126,848	0.9057	114,890	18,223	0.9057	17,411	18,223	0.9057	17,411
6	\$32,857,162	\$632,876.12	496,675	93,386	42,816	0.8880	38,019	136,201	0.8880	120,943	21,597	0.8880	19,178	21,597	0.8880	19,178
7	\$33,350,020	\$642,369.26	496,675	94,786	50,908	0.8706	44,318	145,694	0.8706	126,836	24,007	0.8706	20,900	24,007	0.8706	20,900
8	\$33,850,270	\$652,004.80	496,675	96,208	59,122	0.8535	50,460	155,330	0.8535	132,572	26,453	0.8535	22,578	26,453	0.8535	22,578
9	\$34,358,024	\$661,784.87	496,675	97,651	67,459	0.8368	56,446	165,110	0.8368	138,157	28,936	0.8368	24,212	28,936	0.8368	24,212
10	\$34,873,394	\$671,711.64	496,675	99,116	75,921	0.8203	62,281	175,037	0.8203	143,591	31,456	0.8203	25,805	31,456	0.8203	25,805
11	\$35,396,495	\$681,787.32	496,675	100,603	84,510	0.8043	67,968	185,112	0.8043	148,879	34,014	0.8043	27,356	34,014	0.8043	27,356
12	\$35,927,443	\$692,014.13	496,675	102,112	93,227	0.7885	73,509	195,339	0.7885	154,024	36,610	0.7885	28,867	36,610	0.7885	28,867
13	\$36,466,354	\$702,394.34	496,675	103,643	102,076	0.7730	78,908	205,719	0.7730	159,028	39,245	0.7730	30,338	39,245	0.7730	30,338
14	\$37,013,350	\$712,930.25	496,675	105,198	111,057	0.7579	84,167	216,255	0.7579	163,894	41,920	0.7579	31,770	41,920	0.7579	31,770
15	\$37,568,550	\$723,624.21	496,675	106,776	120,173	0.7430	89,290	226,949	0.7430	168,627	44,635	0.7430	33,164	44,635	0.7430	33,164
16	\$38,132,078	\$734,478.57	496,675	108,378	129,416	0.7284	94,381	237,897	0.7284	173,281	47,389	0.7284	34,520	47,389	0.7284	34,520
17	\$38,704,059	\$745,495.75	496,675	110,003	138,773	0.7142	99,434	249,012	0.7142	177,924	50,182	0.7142	35,841	50,182	0.7142	35,841
18	\$39,284,620	\$756,678.19	496,675	111,653	148,312	0.7002	104,451	260,395	0.7002	182,575	53,014	0.7002	37,127	53,014	0.7002	37,127
19	\$39,873,889	\$768,028.36	496,675	113,328	158,000	0.6864	109,434	272,038	0.6864	187,234	55,884	0.6864	38,378	55,884	0.6864	38,378
20	\$40,471,998	\$779,548.78	496,675	115,028	167,843	0.6730	114,381	283,971	0.6730	191,901	58,799	0.6730	39,593	58,799	0.6730	39,593
21	\$41,079,078	\$791,242.02	496,675	116,754	177,854	0.6598	119,292	296,184	0.6598	196,579	61,758	0.6598	40,772	61,758	0.6598	40,772
22	\$41,695,264	\$803,110.65	496,675	118,505	188,033	0.6468	124,167	308,677	0.6468	201,281	64,791	0.6468	41,915	64,791	0.6468	41,915
23	\$42,320,693	\$815,157.31	496,675	120,282	198,476	0.6342	128,999	321,460	0.6342	206,000	67,899	0.6342	43,022	67,899	0.6342	43,022
24	\$42,955,503	\$827,384.67	496,675	122,087	209,183	0.6217	133,799	334,525	0.6217	210,744	70,194	0.6217	44,093	70,194	0.6217	44,093
25	\$43,599,836	\$839,795.44	496,675	123,918	220,156	0.6095	138,569	347,876	0.6095	215,513	72,527	0.6095	45,128	72,527	0.6095	45,128
26	\$44,253,833	\$852,392.37	496,675	125,777	231,399	0.5976	143,306	361,513	0.5976	220,316	74,924	0.5976	46,137	74,924	0.5976	46,137
27	\$44,917,641	\$865,178.25	496,675	127,663	242,912	0.5859	148,009	375,446	0.5859	225,144	77,396	0.5859	47,111	77,396	0.5859	47,111
28	\$45,591,405	\$878,155.93	496,675	129,578	254,695	0.5744	152,681	389,575	0.5744	230,007	79,844	0.5744	48,050	79,844	0.5744	48,050
29	\$46,275,276	\$891,328.27	496,675	131,522	266,738	0.5631	157,314	403,999	0.5631	234,901	82,367	0.5631	48,953	82,367	0.5631	48,953
30	\$46,969,406	\$904,698.19	496,675	133,495	279,051	0.5521	161,909	418,718	0.5521	239,828	84,944	0.5521	49,820	84,944	0.5521	49,820
31	\$47,673,947	\$918,268.66	496,675	135,497	291,624	0.5412	166,466	433,831	0.5412	244,787	87,479	0.5412	50,652	87,479	0.5412	50,652
32	\$48,389,056	\$932,042.69	496,675	137,530	304,457	0.5306	170,987	449,240	0.5306	249,777	89,977	0.5306	51,450	89,977	0.5306	51,450
33	\$49,114,892	\$946,023.33	496,675	139,593	317,550	0.5202	175,463	464,945	0.5202	254,797	92,435	0.5202	52,214	92,435	0.5202	52,214
34	\$49,851,615	\$960,213.68	496,675	141,687	330,863	0.5100	179,896	480,946	0.5100	259,836	94,854	0.5100	52,943	94,854	0.5100	52,943
35	\$50,599,389	\$974,616.89	496,675	143,812	344,426	0.5000	184,289	497,243	0.5000	264,895	97,227	0.5000	53,637	97,227	0.5000	53,637
36	\$51,358,380	\$989,236.14	496,675	145,969	358,249	0.4902	188,643	513,946	0.4902	270,000	99,576	0.4902	54,295	99,576	0.4902	54,295
37	\$52,128,756	\$1,004,074.68	496,675	148,159	372,332	0.4806	192,958	530,945	0.4806	275,161	101,889	0.4806	54,917	101,889	0.4806	54,917
38	\$52,910,687	\$1,019,135.80	496,675	150,381	386,675	0.4712	197,231	548,290	0.4712	280,378	104,166	0.4712	55,502	104,166	0.4712	55,502
39	\$53,704,348	\$1,034,422.84	496,675	152,637	401,278	0.4619	201,464	565,981	0.4619	285,641	106,415	0.4619	56,050	106,415	0.4619	56,050
40	\$54,509,913	\$1,049,939.18	496,675	154,926	416,131	0.4529	205,657	583,916	0.4529	290,950	108,636	0.4529	56,561	108,636	0.4529	56,561
41	\$55,327,561	\$1,065,688.27	496,675	157,250	431,346	0.4440	209,809	602,105	0.4440	296,304	110,829	0.4440	57,035	110,829	0.4440	57,035
42	\$56,157,475	\$1,081,673.59	496,675	159,609	446,921	0.4353	213,922	620,558	0.4353	301,703	112,994	0.4353	57,474	112,994	0.4353	57,474
43	\$56,999,837	\$1,097,898.70	496,675	162,003	462,856	0.4268	217,995	639,265	0.4268	307,146	115,119	0.4268	57,877	115,119	0.4268	57,877
44	\$57,854,835	\$1,114,367.18	496,675	164,433	479,141	0.4184	222,026	658,234	0.4184	312,633	117,204	0.4184	58,244	117,204	0.4184	58,244
45	\$58,722,657	\$1,131,082.69	496,675	166,900	495,786	0.4102	226,017	677,467	0.4102	318,164	119,257	0.4102	58,575	119,257	0.4102	58,575
46	\$59,603,497	\$1,148,048.93	496,675	169,403	514,831	0.4022	229,968	696,964	0.4022	323,737	121,277	0.4022	58,870	121,277	0.4022	58,870
47	\$60,497,549	\$1,165,269.66	496,675	171,944	534,286	0.3943	233,879	716,725	0.3943	329,352	123,257	0.3943	59,129	123,257	0.3943	59,129
48	\$61,405,013	\$1,182,748.71	496,675	174,523	554,151	0.3865	237,750	736,876	0.3865	334,999	125,196	0.3865	59,352	125,196	0.3865	59,352
49	\$62,326,088	\$1,200,489.94	496,675	177,141	574,426	0.3790	241,581	757,289	0.3790	340,678	127,084	0.3790	59,539	127,084	0.3790	59,539
50	\$63,260,979	\$1,218,497.29	496,675	179,798	595,101	0.3715	245,312	777,934	0.3715	346,397	128,921	0.3715	59,681	128,921	0.3715	59,681
51	\$64,209,894	\$1,236,774.75	496,675	182,495	616,176	0.3642	248,993	798,839	0.3642	352,156	130,707	0.3642	59,788	130,707	0.3642	59,788
52	\$65,173,042	\$1,255,326.37	496,675	185,233	637,651	0.3571	252,624	820,000	0.3571	357,955	132,442	0.3571	59,850	132,442	0.3571	59,850
53	\$66,150,638	\$1,274,156.26	496,675	188,011	659,526	0.3501	256,205	841,425	0.3501	363,784	134,135	0.3501	59,877	134,135	0.3501	59,877
54	\$67,142,897	\$1,293,268.61	496,675	190,831	681,801	0.3432	259,736	863,100	0.3432	369,653	135,786	0.3432	59,870	135,786	0.3432	59,870
55	\$68,150,041	\$1,312,667.63	496,675	193,694	704,576	0.3365	263,217	885,125	0.3365	375,562	137,395	0.3365	59,830	137,395	0.3365	59,830