



Anew Development, LLC
PO Box 201
30 Danforth Street, Suite 213
Portland, Maine 04112

207-272-8550

MEMO

To: Michael Chammings, Economic and Community Development Director, City of Auburn
Yvette Bouttenot, Community Development Manager, City of Auburn
Linda Cohen, Economic and Community Development Specialist, City of Auburn
Eric Cousens, Planning Director, City of Auburn

From: Ethan Boxer-Macomber, Developer, Anew Development, LLC

Date: August 30, 2016

RE: 62 Spring Street – HOME Allocation and Tax Increment Financing

On behalf of Auburn Housing Development Corporation (AHDC), thank you for scheduling AHDC's 62 Spring Street project for review and action by the Auburn City Council on Monday, September 12, 2016.

As discussed and as further outlined below, AHDC is requesting that the City Council take the following actions in support of the 62 Spring Street project:

- 1) **Renew prior commitment to allocate \$250,000 in FedHOME funds to the project, and**
- 2) **Authorize staff to take all steps necessary to establish a new, stand-alone commercial TIF district over the subject site between the City, AHDC, and the Maine Department of Economic and Community Development (DECD) including;**
 - a. **Amend #10 Omnibus TIF so as to remove the subject property from its delineated boundaries, and**
 - b. **Form a new TIF district for 62 Spring Street and structure a TIF agreement based on a 20-year term, commencing with the issuance of a certificate of occupancy, and 76% of the tax increment returned to AHDC during the 20-year term as an operating subsidy.**

Please note that requests 1 and 2 above are not new, but rather renewals and minor modifications of prior commitments originally made to the project by the City Council in 2014 and later renewed 2015.

1. Background

AHDC contracted to acquire the subject site in 2013. AHDC's vision for the development of the site was strongly influenced by the City's new vision for the revitalization of the downtown.

City Influence & Participation

At the urging of the City, AHDC agreed to strive toward certain community-oriented goals for the project such that it would be:

- Mixed-Use (Featuring ground floor retail storefronts)
- Mixed-Income (Featuring a mix of market rate and workforce apartments)
- Beneficial to the future re-development potential of the adjacent Engine House property.

In 2014 and since then, AHDC and the City have acknowledged that these project goals would make the project more difficult to develop. At the same time, the City and AHDC have pledged to work together to overcome barriers to allow 62 Spring Street the opportunity to contribute in the most meaningful ways possible to the redevelopment of Auburn's downtown.

Indeed, to date the City of Auburn has been an invaluable partner in the continuing effort to make 62 Spring Street a reality:

- In 2014, the Auburn City Council awarded 62 Spring Street with a FedHOME commitment of \$225,000. In 2015, the commitment was renewed and increased to \$250,000.
- In 2014, the Auburn City Council granted 62 Spring Street a 75% TIF under its 20-year #10 Omnibus Downtown TIF District. In 2015 that TIF commitment was renewed.
- Also in 2015, the Auburn City Council approved a downtown revitalization plan, which consolidated a collective vision for the revitalization of the downtown and, through its adoption, qualified this and future MaineHousing financed projects for critical competitive points.

Financing Challenges

Regrettably in late 2013 and early 2014, just as 62 Spring Street was first being designed and permitted, MaineHousing's formulas or selecting projects for funding were undergoing dramatic changes to the detriment of 62 Spring Street. In 2014, new MaineHousing policies were instituted which gave the very highest preference to projects that made the most efficient use of public resources as measured by total development cost per residential unit; MaineHousing's so called, 'cost containment' points.

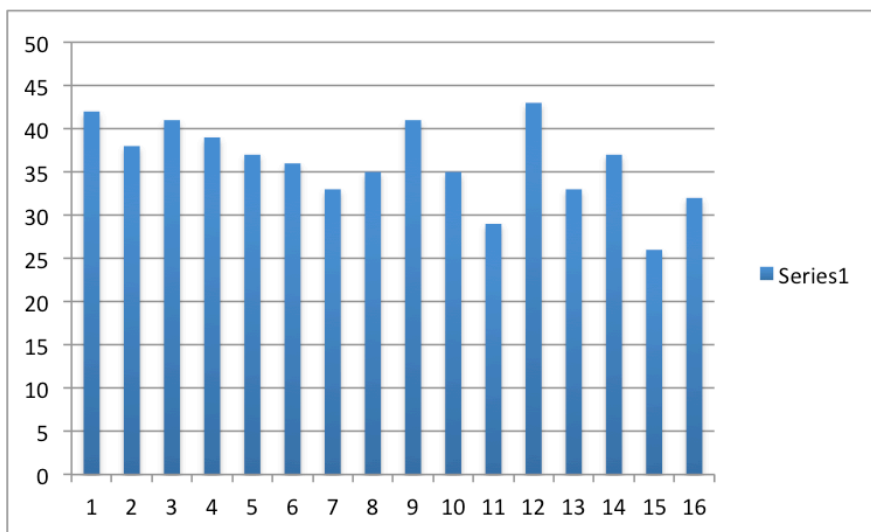
Under the new cost containment criteria, projects receive points in a range from -8 to +10 based on total development cost (TDC) per residential unit. Regrettably, 62 Spring Street's project costs, as designed in 2013 and permitted in 2014, put it in a position to receive a penalty of -3 points.

In 2014, and again in 2015, AHDC sought tax credits and sub-market financing for 62 Spring Street from MaineHousing. Each year, 62 Spring Street went in as among strongest applications in terms of points earned *before* considering cost containment. However, the project's original design featured structured

parking beneath the building and other attributes which drove higher than average construction costs and resulted in 62 Spring Street consistently losing out based on its inability to earn any competitive points for cost containment.

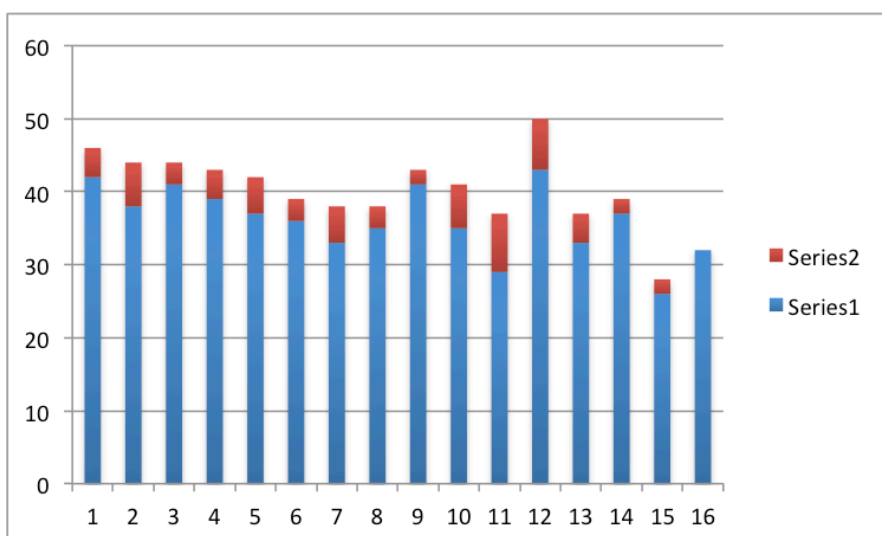
To illustrate this point, the following graph represents all 16 projects submitted to MaineHousing in 2016 for housing tax credits. The blue lines represent base points earned before considering either leveraged funds (i.e. items like FedHome and TIFs) or points for cost containment. These base points, represented in blue, are earned for various things like non-profit sponsorship, donated land, being within a certified business friendly community, being in close proximity to urban amenities such as stores, public transportation, and employment opportunities, and so on.

62 Spring Street is application #12 in this graph, and was the single highest scoring project in terms of these base points in large part due to the desirability of its downtown Auburn location and the strength of AHDC as a project sponsor.



2015 Base Points earned before adding for Leveraged Funds or Cost Containment

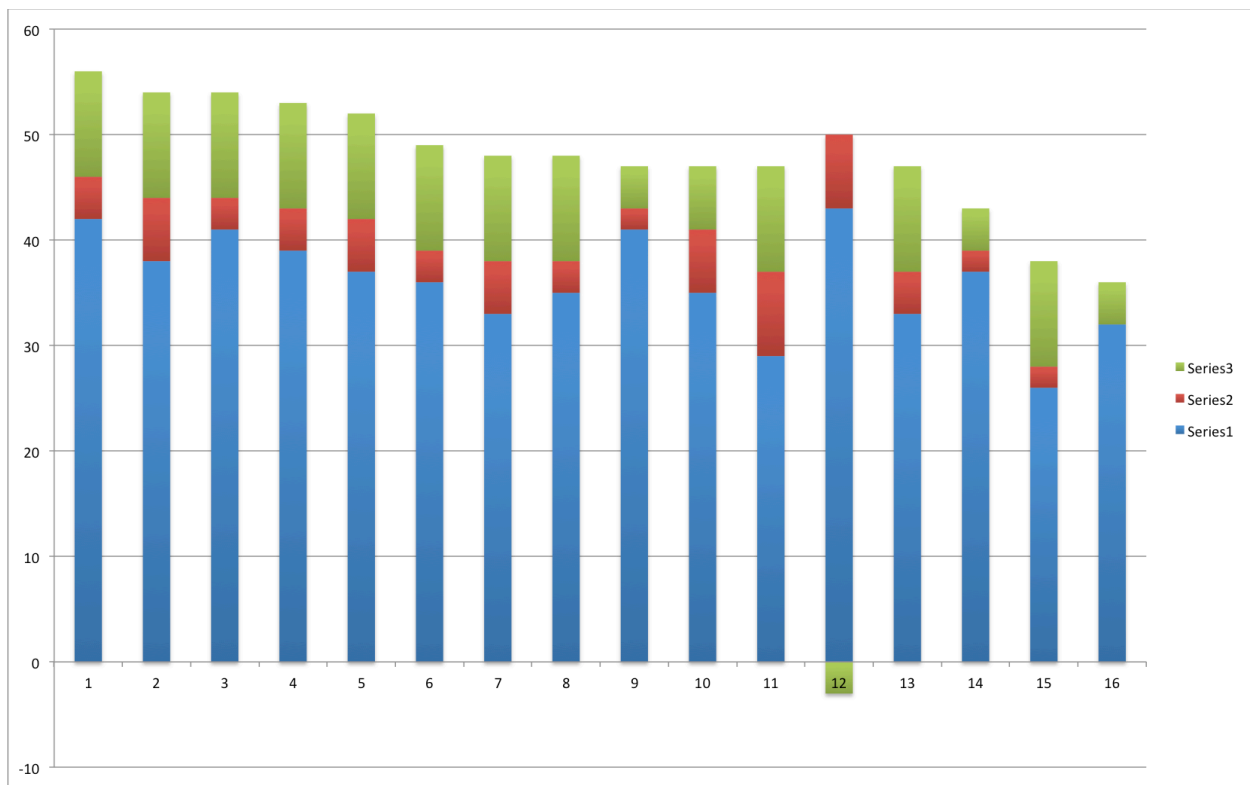
The next graphic shows the effect of additional points earned from leveraged funds such as HOME dollars, TIF proceeds, and the like. The added points achieved by leveraged funds are depicted in red. 62 Spring Street is, again, project #12 and, again, among the very highest scoring projects in the round.



2015 Base Points (Blue) and Leveraged Funds (Red) earned

The graphic above represents the strength that AHDC and the City expected 62 Spring Street to have when it first applied for funding in 2014 before the addition of the new cost containment policies. This graphic also illustrates the power and importance of the City's commitments in the form of HOME dollars and the 20-year/75% TIF Agreement.

Lastly, this third graphic demonstrates the complete final outcome of last year's project scoring. The green bars indicate points earned (or lost) in the category of cost containment.



2015 All Projects, All Points

The final result in 2015 was that projects 1, 2, and 3 were awarded funding and are currently starting construction. 62 Spring Street's -3 (negative three) cost containment points pulled it down 6 points short of being funded.

2. Currents Status / Next Steps

In 2016, seeing that MaineHousing's cost containment policies had been extended to the upcoming application round, AHDC set out to change the project as needed to ensure that it would earn at least 6 points in the cost containment category. Through this exercise, AHDC made a firm commitment to uphold commitments to the City that the project remain mixed-use and mixed income and that it enhance the Engine House property.

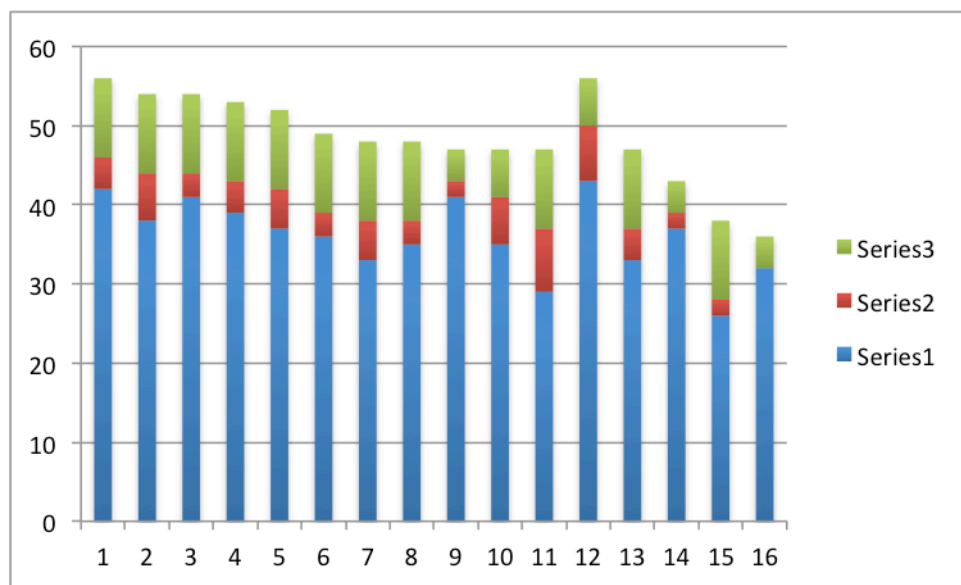
The project was redesigned through the summer and finally reviewed and unanimously approved by the Auburn Planning Board on August 9, 2016. The primary changes made through the redesign were:

1. Ground floor structured parking was removed in favor of a smaller building with surface parking on the site. As a result, the north-side plaza space was reduced to a smaller entry plaza and a small outdoor seating area was added adjacent to the retail space on the corner facing Hannaford.
2. One workforce unit was added (higher denominator for the 'TDC per unit' calculation).
3. The site now features less impervious surface and better green space buffers to adjacent residential property on Pleasant Street.
4. Through block pedestrian access has been made more clear and orderly.

The redesigned project has been estimated by Wright Ryan Construction and the total construction costs have been reduced by over \$1MM despite general increases in construction costs across the market. Additionally, at AHDC's urging, MaineHousing has changed the way the way TDC is calculated in 2016. The cost to develop the retail space will now be netted out of the TDC calculation further strengthening 62 Spring Street's position.

The result of 62 Spring Street's lower TDC combined with the higher unit count will result in the project scoring +6 cost containment points where it previously earned -3; a 9 point swing.

2016's application round will see a new set of applications and it is never possible to perfectly predict outcomes. However, the following graphic demonstrates how 2015 would have turned out had 62 Spring Street contained its costs then as it has now. Clearly, it would have been the highest scoring project in the round as we expect it to be in 2016.



Hypothetical 2015 Results (had 62 Spring Street had earned 6 Cost Containment Points)

Please note that the above graphic demonstrates the strength of the project with 6 cost containment points *and* assuming the City's HOME and TIF commitments will be renewed. **Without sustained HOME and TIF support from the City, the project will not likely be competitive.**

A complete project budget and (2) a self-scoring analysis for the upcoming MaineHousing funding round are attached.

3. FedHome

The value of the City's FedHome to the project is two-fold.

First, it provides a critical source of funding to pay for direct costs and help the project achieve its many community and economic development goals in Auburn.

Second, it earns the project critical points in MaineHousing's competitive scoring criteria. The Maine communities that can offer strong and focused HOME commitments to projects tend to be the ones that have the greatest ability to leverage housing tax credit investment in their communities.

MaineHousing offers leveraged funds points to projects on a sliding scale as follows:

Percentage of Below Market Capital to TDC	Points
\$100,000 to 3%	1
>3% up to 6%	2
>6% up to 9%	3
>9% up to 12%	4
>12% up to 15%	5
>15%	6

The current TDC of the redesigned 62 Spring Street, net the cost of the retail space is \$7,494,708.

Accordingly the following table demonstrates the HOME commitments that would be needed to score a given number of points in the round:

Minimum Amount of HOME Commitment	Points Earned
\$100,000	1
\$224,841	2
\$449,682	3
\$674,524	4
\$899,365	5
1,124,206	6

AHDC is requesting that the City renew its earlier commitment of \$250,000 in FedHOME funds for 62 Spring Street to round out needed capital sources so that it can be in a sound position to earn at least 2 points with MaineHousing.

4. TIF

The value of the City's TIF Commitment to the project is two-fold.

First, it provides a critical source of operating subsidy during the term of the TIF allowing the project to leverage debt needed to complete the project's capital funding.

Second, it earns the project critical points in MaineHousing’s competitive scoring criteria. The Maine communities that offer strong TIF commitments to projects tend to be the ones that have the greatest ability to leverage housing tax credit investment in their communities. Indeed more than half of the TIF’s that have been created by municipalities to support projects like 62 Spring Street are offered at the 100% of increment level and for terms of up to 30 years.

MaineHousing offers leveraged funds points to projects for TIFs on a sliding scale as follows:

Percentage of Increment and Number of Years	Points
50% to 75% for at least 15 years from project completion	3
50% to 75% for at least 20 years from project completion	4
50% to 75% for at least 30 years	5
>75% for at least 15 years	4
>75% for at least 20 years	5
> 75% for 30 or more years	6

- In 2014, the Auburn City Council granted 62 Spring Street a 20-year (concurrent with it’s omnibus TIF), 75% TIF under it’s #10 Omnibus Downtown TIF District. In 2015 that TIF commitment was renewed.

In prior years the omnibus TIF earned the project points as a 75% TIF for a +15 year term (balance of omnibus TIF term). However, that would no longer be the case in 2016. The City’s 20-year omnibus TIF has set expiration date in the year 2032. Given that the 62 Spring Street will not complete construction and the TIF will not commence until 2018- the term of the omnibus TIF no longer aligns with the project in a way that would earn it points with MaineHousing.

Auburn Housing Development Corporation therefore requests that a new, stand-alone commercial TIF district and agreement be cast for 62 Spring Street for a term of no less than 20 years from project completion and at a 76% increment. This TIF would function substantially similar to the one approved in 2014 except that it would be “carved out’ of the omnibus TIF District and the % of increment returned to AHDC would be a nominally (1%) higher (76%) so as to earn it 5 points under MaineHousing’s criteria.

TIF Analysis

The 62 Spring Street property is currently assessed at vacant land value of \$474,300. Post construction the assessed value of land and building are estimated to be on the order of \$3.65MM; as restricted and based on a review of comparable housing tax credit properties in Auburn and other Maine service center communities.

We therefore estimate the increment at \$3.65MM less the base assessed value of \$474,300 = \$3,175,700.

This means that, during the term of the TIF, the City would continue to collect full taxes on the basis value of \$474,300 plus 24% of the increment value or \$762,168. Total annual tax retained by the City during the term then increases from its current level of approximately \$10,600 to approximately \$27,634; a 260% increase.

Moreover, the additional \$17,168 in annual tax revenue will not be subject to revenue sharing formulas and will therefore have a much stronger net benefit to the City's general fund than if it had not been collected from within in the TIF district.

At the end of the TIF term, the property will revert to paying full property taxes for many decades to come. In this way, the City's 20-year investment in the project not only leverages immediate and long-term community and economic development benefits to the downtown but also pays substantial long-term benefits in the form of increased tax revenue.

TIF Process

We have been in communication with staff at DECD and they have confirmed the viability of amending the omnibus TIF and carving out the property as proposed and within the designated timeframe. DECD also confirmed that it is feasible to complete the approval of the new TIF prior to the MaineHousing application deadline of October 27, 2016 so long as a complete application is submitted before the end of September.

AHDC and staff look forward to working with a third party municipal TIF attorney to structure the application to DECD. As discussed, AHDC has agreed to incur the cost of such legal services.

For timing to work in favor of 62 Spring Street's success, final Council action on the matter will be needed on the evening of September 12th.

5. Additional Information Requested by Staff

Revised General Project Description

62 Spring Street will be a four-story, +/- 40,000 square foot building featuring 2,420 square feet of ground floor retail with 41 apartments on the upper floors. 33 workforce apartments will be financed with housing tax credits from MaineHousing and will be made affordable to Auburn residents with household incomes at or below 50% and 60% of area median income. 8 apartments will be developed as market rate units. The 41 units will be made up of 31 one-bedroom, 9 two-bedroom, and 1 studio unit.

Special care has been taken to ensure that 62 Spring Street will integrate well with adjacent properties and contribute positively to Auburn's downtown. The site features 36 onsite parking spaces and 4 new on street spaces which are expected to provide an excess of parking and avoid impacts on the availability of public parking in the area.

In the summer of 2016, Auburn Housing surveyed its existing apartment properties in Auburn and found that, on average, comparable properties demonstrate a demand of .58 parking spaces per apartment unit. Parking demand at 62 Spring Street is expected to be consistent with this finding and so surplus onsite parking is anticipated.

The building's façade has been designed with quality articulation and materials so as to integrate with and enhance the urban context. Green spaces, buffer areas, hardscapes, and landscaping were artfully integrated into the site plan so as to screen and buffer adjacent residential properties while enhancing the beauty and functionality of adjacent commercial property.

62 Spring Street will be owned and operated by a private for profit limited partnership which will infuse Auburn’s downtown with nearly \$5MM in private equity while leveraging nearly \$3MM more in matching funds from state and local, public and private sources. These resources not only provide high quality new housing opportunities and spark the revitalization of a key corner of Auburn’s downtown, but also bolster the City’s tax base and create dozens of quality employment opportunities for area development and construction related businesses.

The project was permitted under the City’s new form-based code, which resulted in a richer dialogue and review between staff, Board and applicant and had a positive influence on the design revision process.

AHDC is pleased to be able to bring 41 new housing units and two street oriented retail shells to the heart of downtown Auburn where residents will benefit from close proximity to goods and services and the City will benefit from the added economic activity and urban vitality that comes with a high density mixed use development. Building downtown isn’t easy but we feel that it’s a far more appropriate way to develop than pushing off high-density development to greenfield sites on the quiet outskirts of the community as is too often the result.

Expected Average Household Make-Up

In an effort to try and predict the likely future number of households with children at 62 Spring Street we have conducted an analysis of all non age restricted two-bedroom apartments owned and managed by Auburn Housing in the City of Auburn. The results were as follows:

Property	# of 2-Bedroom Units	Child Residents	Ratio	Property Type
Webster School Apartments	16	9	.56	LIHTC
Lincoln School Apartments	10	10	1	Public Housing
Broadview Acres Apartments	2	2	1	Public Housing
New Auburn Place	4	1	.25	Market Rate
TOTALS	32	22		

Overall, the Auburn Housing portfolio shows a .69 children per two-bedroom unit ratio. Of the properties studied, Webster and New Auburn Place were most similar to 62 Spring in terms of income eligibility. Those properties, in isolation show a .5 ratio. Applying the .5 ratio to the six 2-bedroom units at 62 Spring Street, we anticipate up to an estimated three (3) children potentially living at the property. At the same time, 62 Spring Street is in a distinctly more downtown and urban location and suggesting that three children may be a conservative estimate.

Project Timeline

Spring 2016	Project Redesign
August 9, 2016	Planning Board Approval
September 12, 2016	Auburn City Council approvals of HOME and TIF support
Sept-Oct 2016	DECD Approval of new TIF
October 27, 2016	LIHTC Application Due to MaineHousing
December 2016	Housing Tax Credits Awarded
Jan-April 2017	Finalize Design, Procure Construction Services, Pull Building Permits
May 2017	Legal preparation for Construction Loan Closing
June 2017	Construction Starts
April 2018	Construction complete, new resident move-ins begin.

6. Attachments

- 1) Plans and Elevations
- 2) Confidential Project Budget and Proforma
- 3) Confidential Self-Scoring