Executive Summary

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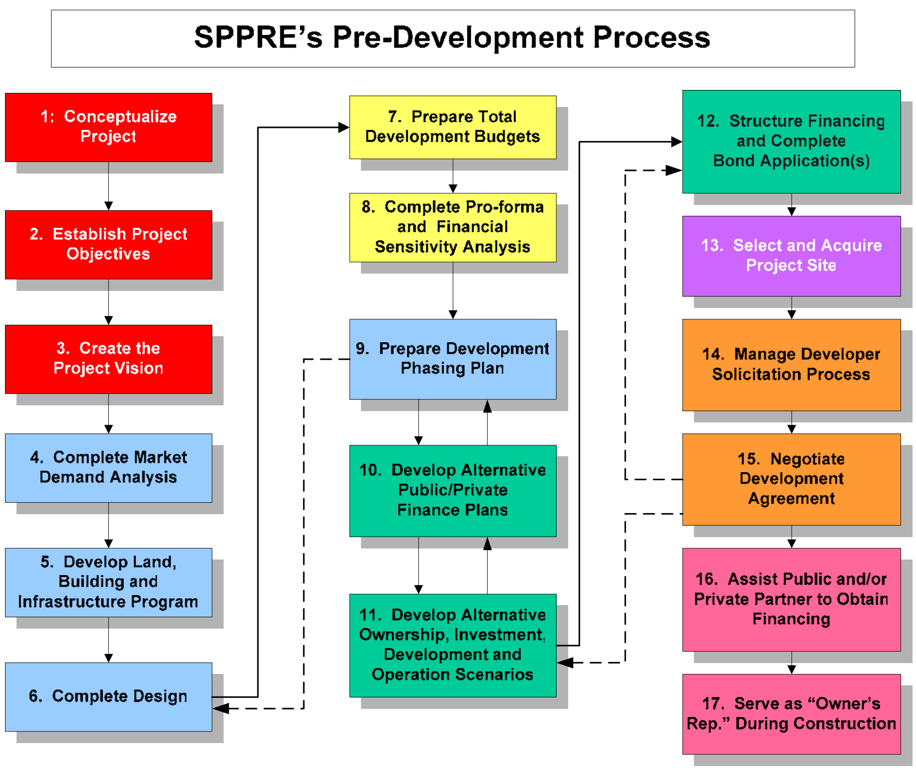
The SPPRE Pre-Development Process Places the Town in a Position of Strength with the Competitively Selected Developer

The sole purpose of Stainback Public/Private Real Estate (SPPRE) is to assist public or private partners to complete all, or a portion of the pre-development process and serve as the public partners' "owner's rep" during construction for major public/private developments. This process includes 17-steps extending from project conceptualization to completion of construction. (See the diagram below). Because the Town had completed project conceptualization and visioning, the Town of Chapel Hill hired SPPRE to complete steps 4-17, beginning with the market demand analysis.



The reason we began with Step 4, the market demand study, was to assure the Council Committee and the private development community that the building program was market driven. By design, SPPRE hired a nationally recognized firm specializing in market demand analysis to serve as the objective third-party to determine the proposed building program. The Building Program (Step 5) is the basis for all design work (Step 6). Again, SPPRE brought a nationally recognized firm (HKS Architects) to develop the conceptual master plans.

During the last several weeks, SPPRE has completed Steps 7-11. The fundamental component of the Total Development Budget (Step 7) is the estimate of hard construction costs. Again, SPPRE turned to an outside objective third-party firm to prepare the construction cost estimate. In addition, SPPRE hired an outside local firm to complete a Land Appraisal for Lots 2 and 5. Consequently, all of the work completed by SPPRE for Steps 7-11 is based on the results of work completed by some of the nation's best talent, all entities performing as the objective third-party to SPPRE and the Town. This not only eliminates any potential conflicts of interest on the part of SPPRE, but also assures the Town that some of the best talent available was responsible for steps, which have a substantial "ripple-effect" throughout the pre-development process.

SPPRE's Primary Objectives for the Development of Lots 2 and 5

Performing as the prime consultant to the Council Committee and Town staff, the primary objectives for SPPRE include:

- Minimize the investment required by the Town
- If the Town is required to invest in projects, optimize debt supported solely by nontax income and/or tax revenue generated by the projects. In other words, limit the Town's financing responsibilities to self-financing debt.
- Optimize private investment, but have confidence that the required private debt and equity meets the current requirements of the capital markets
- Until voters cast their ballots for Tax Increment Financing (TIF) do not depend on TIF-Backed Revenue Bonds.
- Reduce Town market, finance, construction and ownership risks
- Structure the Public/Private Finance Plan from the perspective of both the Town and the private developer community, so that ultimately when the Developer RFQ/RFP is issued developers will be willing to invest their time and money to submit proposals and implement the projects.

Council Committee Directives for the Financial Analysis Resulting from the September 13, 2004 Project Review

The SPPRE Team completed a work session with the Council Committee on September 13, 2004. The following reflects our understanding of the major directives for SPPRE to refine the financial analysis for the four primary development projects:

Item 1: Change the building program so that 100% of the proposed 305 housing units are owner-occupied. The mix of housing is 80% Market-Rate Condominium units and 20% Affordable Condominium units.

While we revised the finance models to reflect this directive by the Council Committee, SPPRE remains concerned that this shift from 100% market-rate rental housing to 100% condominium housing may reduce the number of proposals submitted by developers in response to the RFQ and/or RFP for these projects. Many developers will be concerned that ERA, a nationally recognized consultant, concluded from their market demand analysis that the most effective building program would include 100% market-rate rental housing and that there appeared to be only “negligible demand for owner-occupied units in multi-unit buildings….”

Item 2: The term of Town-issued bonds should be 20 and possibly 25 years, not 30 years as proposed in the initial finance modeling.

Item 3: Tax Increment Financing (TIF) – Backed Bonds should be referred to as “Self-Financing Bonds”.

Item 4: SPPRE was instructed not to rely on any tax abatements in structuring public/private finance plans.

Item 5: Town staff informed SPPRE that the development schedule should allow 8 months to process the Special - use Permit and complete project reviews by the Town.

Tab 1: The Revised Building Program

As the Council Committee will see in Tab 4: The Revised Public/Private Finance Plan, the “Overall Project” includes nine (9) public and private components: Three private commercial developments, three public development projects and three public non-building or finance transactions.

The Three Private Developer Components:

- Developer Project 1: The Expansion of the Wallace Deck
- Developer Project 2: The Commercial Development of Lot 5
- Developer Project 3: The Commercial Development of Lot 2

The Six Public (Town) Building and Non-Building Components:

- Town project 1: Continued Funding of the Revenue Bond for the Wallace Deck
- Town project 2: The Financing of the Town's Replacement Parking in Lot 5
- Town Project 3: The Financing of the Delta Cost of Below-Grade parking versus Above-Grade parking
- Town Project 4: The Construction of the Transit Transfer Center (TTC)
- Town Project 5: The Development of the RBC Garage
- Town Project 6: The Construction of a Second-Level Pedestrian Bridge connecting Lot 2 to the RBC Garage

The Total Building Program for the Six (6) Public and Private Building Projects includes:

As described in detail in Tab 1: The Revised Building Program, the Total Building Program for the Six Developments includes:

Retail Space:	62,750 GSF
Market-Rate Condominium:	305,440 GSF (244 units)
Affordable Condominium:	76,360 GSF (61 units)
Subtotal:	444,550 GSF
Pedestrian Space:	55,100 GSF
Parking Garage Spaces:	
Private-Use:	696
Public-Use:	593
Total:	1,289
	(1,061 new parking spaces plus remaining 228 existing spaces)

Transit Transfer Center: 43,560 GSF

Second-level Pedestrian Bridge: Approximately 60 Linear Feet

Developer Project 1: The Expansion of the Wallace Deck (Phase 1A)

Retail Space at Street Level:	4,000 GSF
Market-Rate Condominium:	109,120 GSF (87 Units)
Affordable Condominium:	27,280 GSF (22 Units)
Pedestrian Space:	12,200 GSF
Parking Spaces:	400 (320 existing spaces plus 80 new spaces)

Developer Project 2: Lot 5 Development (Phase 1B)

Retail Space at Street Level:	30,250 GSF
Market-Rate Condominium:	128,480 GSF (102 Units)
Affordable Condominium:	32,120 GSF (26 Units)
Pedestrian Space:	28,300 GSF
Parking Spaces:	539

Developer Project 3: Lot 2 Development (Phase 2A)

Retail Space at Street Level:	20,100 GSF
Market-Rate Condominium:	67,840 GSF (54 Units)
Affordable Condominium:	16,960 GSF (14 Units)
Pedestrian Space:	14,600 GSF
Parking Spaces:	0

Town Project 4: Transit Transfer Center (Phase 2B)

Street Level Space: 43,560 GSF

Town Project 5: Second-Level Pedestrian Bridge (Phase 2C)

The proposed pedestrian bridge connecting the commercial development on Lot 2 and the RBC Garage would span approximately 60 to 65 Linear Feet. This bridge would be approximately 10 to 12 feet wide including structure. The bridge therefore, would include approximately 600 to 780 GSF.

Town Project 6: RBC Garage (Phase 2D)

Retail Space at Street level:	8,400 GSF
Parking Spaces:	342

In Tab 1, we have also included at the request of Town staff , a comparative analysis of the Building Program at three key milestones:

- The Building Program Recommended by ERA
- The Building Program Approved by the Town Council on June 14, 2004
- The Building Program included in this Final Financial Analysis

This comparative analysis reveals the following major points:

- The proposed new construction building program is well within the projected market demand determined by ERA
- The parking demand has increased and the supply has been reduced so ultimately there are no surplus parking spaces for the proposed projects. This reduces the Town's cost and market risk.

Tab 2: Final Finance Models and Assumptions

Changes to the Finance Models Since October 27, 2004

The Three Major Changes

The Finance Models presented in this Final Report reflect three major decision points:

- The Land Value has Been Adjusted to Reflect Potential Income
- Development Cost for Lot 5 Reflects the Results of the Soil Borings Completed on October 27, 2004
- A Public Arts Program equal to One Percent (1%) of the Total hard Construction Cost has been Incorporated into the Budgets for the Three Private Development Components

Changes in Assumptions Since September 13, 2004

Overview

SPPRE recognizes that the costs of construction, interest rates and market-rate condominium and Retail prices and many financial components of the project may fluctuate prior to the finance and development of Lot 5, Wallace Deck, Lot 2 or RBC Garage. However, because this *project is a market-rate driven project the costs and revenues will follow the Market Demand. These Financial Proformas represent a 'snapshot' of what the current demands and financial returns of a market driven program. This further emphasizes the notion of 'capturing the market' by the Town and SPPRE moving in an efficient manner in the continued developments of these projects.*

Interest Rate

The SPPRE Team felt it was beneficial to use a nationally recognized objective third-party source to determine the current interest rate for the various types of proposed developments. Using the Internet, as well as our firm's national network, we determined that the national average interest rate for commercial apartments is 6.98% and 7.25% for retail development. The primary source for these average rates is RealtyRate.com. RealtyRates.com is a national source used by developers and investors seeking comprehensive commercial real estate, investment, financial and market data.

Major Assumptions in ALL Finance Models (Lot 5, Wallace, Lot 2)

Building Program:

- It is assumed that there will be a 20% Affordable Housing component that is available for purchase by residents whose income levels qualifies.

- SPPRE has assumed that the Town does not want to incur the cost of surplus parking and has removed the spaces at each project site.

Development Budget:

- The Land Lease payment to be made to the Town is allocated by use-type (Market-Rate Condos, Affordable Housing, Retail).

- The land valuation for each site is determined by using a 2.5% discount rate over a 30-year period using the projected total land payments at 9% appraised land value at each site.

- The Town pays appraised value for RBC Property.

- Assume Market Rate Condominium units are account for 83% if of the Total Hard Costs proposed by McDonald-York and Affordable Housing accounts for 17%.

Market Rate Condominiums

- The Market Rate Condominiums are assumed to be financed at a 70% LTV Interest Construction Rate of 7.00%, Term: 30 years.

- The Garage spaces in are sold at cost to the end-users where applicable (Lot 5, and 80 spaces in Wallace Deck).

- Assume the Town will receive 20% of the Market-Rate Condo Proceeds at sellout in each development. The Town will not receive proceeds from the Affordable Housing component at sellout.

- Assume Land Lease Payment to town for Market-Rate Condominium portion is paid in Month 1 of Construction to Town.

Affordable Housing:

- Assume that the Private Partner will be eligible for Grant monies.
- Assume Private Partner still pays Land Lease Payment to Town in year 1.
- Assume Financing for Affordable Housing using two permanent loans:

    1. Senior Mortgage: Interest Rate: 4.25% Term: 20 years
    2. Junior Mortgage. Interest Rate: 2.50% Term: 25 years

- Affordable housing Land Lease Payment is grouped into the Financing of the MR Units because the Equity required at an LTV of 90% for Affordable Housing does not cover the cost of the Land Lease Payment. The Town will be paid the Land Lease Payment as part of the MR Condominiums Sales.

Retail Component

- Assume that the Private Developer carries the cost of the required Retail Garage spaces on the Retail Proforma, including financing, in all projects.
- Assume an Interest rate of 7.25%, a term of 25 years, and an LTV of 70%. This is the average for Retail Financing from RealtyRates.com (9/20/04).
- Assume Town will receive 20% of the proceeds at the sellout of the Retail and Retail Garage Component in Year 10 of all projects.

Non-Tax Income Worksheet

- Assume Base Rent from Retail component will continue after sale in year 10. (New owner will takeover lease payments to Town).

Major Assumptions Specific to Lot 5

Development Budget:

- The Delta Land Cost to the Private Partner is assumed to be paid by the Town.

Retail Component

- Income assumes parking for the 59 required Retail spaces are priced at $1.00 per hour and are free on weekends and holidays.

Major Assumptions Specific to Wallace Deck

Building Program/Development Budget

- Assume cost for the 80-space garage will be carried on the Market-Rate Condominium financing package.

- Assume the 80-space garage extension will be sold at cost to end-users during the sellout period.

- Assume the Wallace St. Garage will provide parking for Residential and Retail demand totaling 172 spaces (No storage assumed at Wallace Deck). Because the Developer is building an 80-space extension this leaves 92 spaces to be absorbed by the current spaces at Wallace Garage. This 92-space shortfall in the Wallace deck will be replaced by incorporating these 92 spaces into the new RBC Garage.

- The developer will privately finance and develop the 80-space extension and the Town will assume operations for the entire garage at completion.

- The Town will manage monthly/annual-parking leases from Wallace demand (92 spaces) and manage the existing hourly parking operations.

Retail Component

- Assume parking rates are $1.60 per hour (approximate current rate at Wallace Deck).

- Opportunity cost on Wallace Deck needs to be determined because cash flow is negative now, pay off Wallace debt, or leverage land lease payment into future debt service payments at current rates. We should possibly explore the refinance of the Wallace Deck.

Major Assumptions Specific to Lot 2

- No Cost for Garage spaces from Lot 2 Demand to Private Developer.

- Assume end-users will lease 140 spaces directly from the Town at RBC Garage. (No Storage assumed at RBC Garage). Spaces in the RBC Garage from Lot 2 demand will be either Monthly/Annual or Hourly rates for users.

Major Assumptions Specific to RBC Garage

- Land Valuation at RBC Property is $990,090 or $38/SF.

- Assume Hard Cost Construction per Retail SF is equal to Lot 2 estimate.

- Assume RBC building will be demolished (the Town will not keep the Garage, HKS needs to indicate whether keeping the RBC building would constitute an efficient Garage).

- Assume new Retail space will be built in 1st floor of garage and Privately managed for the Town.

Income Assumptions

Market-Rate Condominium Sales (Owner Occupied):

ERA report states: "…condos are selling briskly even at a comparatively high price point of nearly $250.00 per square foot."

Comparable Market Rate Condominiums:
(9/16/04)

Development:	SF	Price
Meadowmont Village:	1,532	$399,900
Meadowmont Village:	1,532	$364,900
Rosemary Condominiums:	950	$289,900
Market Street Condominiums:	880	$189,900

	SF	Without Garage	With Garage
Lot 5:	1,255	$225,844	$273,214
Wallace Deck:	1,251	$225,248	$267,271
Lot 2:	1,247	$224,471	N/A

- There are only 80 private spaces for sale in Wallace deck. The remaining spaces for Residential Demand, both MR Condos and/or Affordable Housing must lease from the Town. This Lease Cost is not included in the above rates.
- HOA Fees, Insurance, Cable, and fees are not included.

Affordable Housing:

SPPRE's research in Orange County for comparable Condo/Townhome sales units that meet has produced the following comparables:

Development	*SF*	*Sales Price*	*Monthly Pmts**
Greenway Condominiums	950	$140,000	$1,175
Vineyard Square (3 BR)	1,223	$115,000	$940+HOA
Vineyard Square (2 BR)	1,069	$95,000	$740+HOA

Development	*SF*	*Sales Price*	*Monthly Pmts (1)*
Lot 5 (2)	1,255	$155,452(w/Garage)	$982.56
Wallace Deck (3)	1,251	$101,361	$640.67
Lot 2	1,247	$89,788	$567.52

(1)

- Payments at 6.5%, Term: 30 yrs, do not include HOA, TBD.
- Lot 5 units are also available without a Garage space for $90,338
- Assume Affordable Units in Wallace and Lot 2 will lease spaces monthly/annually from the Town in Wallace Garage (Wallace Units) or RBC Garage (Lot 2 Units). This cost is not included in the approximate monthly payments.
- Lot 5 Affordable units cannot carry the cost of underground Garage Spaces on the Total price and still remain affordable without assistance from State or Federal Agencies. For this model we assume that the parking requirement in Lot 5 can be reduced to 1 space per DU, and 1 storage space per DU. Totaling 2 available parking spaces per DU versus the MR Condo availability of 2.5 per DU.

Retail Operations:
ERA report states: "…ERA estimates rents averaging $25 per square foot for retail space, with rents in the 100 block area of Franklin Street as high as $40 per square foot."

SPPRE has assumed the following Retail Rents:

Lot 5: $26.00
Wallace Deck: $23.00
Lot 2: $24.00
RBC: $25.00

Tab 3: Final Financial Sensitivity Analysis

Overview

The SPPRE Team has completed a four-part Financial Sensitivity Analysis, which includes

- Part 1: Increase Interest Rate and Construction Cost for Lots 2 and 5 and the Wallace Deck
- Part 2: The Increase in Development Cost of Lot 5 Resulting from the Soil Borings Report Completed on October 27, 2004.
- Part 3: The Implications of the Unlikely Further Increase in Parking Cost Beyond $25,000 per Stall
- Part 4: The Implications of Reducing the Development Scope of Wallace Deck.

Part 1: Increase Interest Rate and Construction Cost for Lots 2 and 5 and the Wallace Deck

Lot 5 Development:

1. Variable: Interest Rate

The Benchmark Finance Model (the model included in this report) assumed a 7.0% interest rate for the condominiums and 7.25% for the retail space. The Financial Sensitivity Analysis reveals that if the interest rate were to increase by 50 basis points (bp), or one-half of one percent, the Return on Equity (ROE) still meets the current requirements of the capital markets for the condominiums. The Internal Rate of Return (IRR) and Return on Cost (ROC) for the retail space also still meets the requirements of the capital markets.

If interest rates were to increase by a 100 bp, or one percent (1%), the project continues to meet the requirements for both the condominiums and the retail space.

2. Variable: Construction Cost

The analysis reveals that if construction costs increase as much as ten percent (10%), the returns on investment for both condominiums and retail still meet the current requirements of the capital markets.

Wallace Deck

1. Variable: Interest Rate

The Benchmark Finance Model assumed an interest rate of 7.0% for housing and 7.25% for retail space. If the interest rate was to increase to 7.75%, the analysis reveals that this project remains financially feasible.

2. Variable: Construction Cost

The analysis reveals that if construction costs increase by 10% or more, the condominium portion of this project is no longer financially feasible.

Part 2: The Increase in Development Cost of Lot 5 Resulting from the Soil Borings Report Completed on October 27, 2004

The Benchmark Finance Model assumed that the additional cost to blast and remove the rock was $1,212,750, or the median cost of the two scenarios offered by Clark Construction Company. If the actual cost of blasting and removing rock were to increase to the projected maximum cost of $2,079,000, the project still meets the current requirements of the capital markets.

Part 3: The Implications of the Unlikely Further Increase in Parking Cost Beyond $25,000 per Stall.

The SPPRE Team wants to reiterate that based on our extensive experience and discussions with several highly respected construction companies, we are confident that the Total Development Cost (Hard and soft costs) to design, finance and construct a parking stall in an underground garage will not exceed $25,000. At the request of Town staff, SPPRE has completed a Financial Sensitivity Analysis for Lot 5, which assumes the total cost of a parking stall at $30,000 and

$35,000. The analysis reveals that if the cost of developing each parking stall was $31,333 the project remains financially feasible producing an IRR of 11.28% and an ROC of 8.41%. But if the cost per parking space were to increase to $34,700, the project no longer meets the requirements of the equity capital markets.

Part 4: The Implications of Reducing the Development Scope of Wallace Deck.

There are three major implications of reducing the development scope of the Wallace deck project:

- If the expansion only includes one or two levels, the scope of the project may not warrant the attention of private developers.
- The parking required would be substantially reduced, thereby avoiding cost of the 82 new parking spaces.
- The Land Lease payments to the Town would be significantly reduced thereby affecting the Town’s ability to finance one, or more of the public development components

Tab 4: Final Public/Private Finance Plan

Overview

The primary objectives in structuring the Public/Private Finance Plan are to:

- Optimize private investment
- Minimize Town investment
- Eliminate Town-issued debt not supported 100% by the proposed projects
- Reduce the need for TIF related financing (TIF is on the State Ballot in November 2004)
- Reduce Town market, finance and construction risk
- Accelerate the development schedule

The SPPRE Team has achieved these objectives. The proposed Public/Private Finance Plan includes private and public financing instruments, all of which are supported 100% by the revenues generated and the nontax income paid to the Town by the private developer.

SPPRE has also structured the Public/Private Finance Plan, so that the nontax income for the Town generated by the proposed commercial development of Lots 2 and 5 and Wallace Deck and the proposed two Revenue Bonds cover 100% of the cost of the Town’s six building and non-building transactions. This is clearly illustrated in the Foldout Chart titled “The Schedule for Sources and Uses of Funds for Scenario C-3,” which demonstrates a positive cash flow for the Town in years 2007- 2011, the years where the focus will be on financing and constructing the proposed projects. Based on our financial analysis and Schedule of the Sources and Uses of Funds, the positive cash flow ranges from a low of $1,538,215 in year 2010 to a high of $2,114,282 in year 2007.

When the Council Committee changed the housing product from rental units to owner-occupied units, the Land Lease payments paid to the Town changed from annual payment over the term of the Land Lease to one-time payouts based on the sale of condominium units. The Land Lease Payout in Year Two exceeds the Present Value (PV) of the Land Lease payments paid over the term of 30-years. This allowed the SPPRE Team to avoid leveraging the Property Tax generated annually by the proposed commercial developments. In addition, the Base Rent paid to the Town by the private developer as part of the Land Lease structured developed by SPPRE now only applies to the retail space. In other words, the Land Lease Payout was structured by SPPRE to provide the Town with nontax income which exceeds the PV of the previous Land Lease structure.

Organization of the Proposed Nine-Part Development Project Implemented in Two Phases

The SPPRE Team has organized the “overall project” into nine (9) public and private components, including the three (3) private commercial developments and the six (6) public projects and transactions.

The Three Private Developer Components:

- Developer Project 1: The Expansion of the Wallace Deck ($19,936,247)

- Developer Project 2: Commercial Development of Lot 5 ($30,099,046)

- Developer Project 3: Commercial Development of Lot 2 ($14,558,605)

  Total Development Cost (Private Components): $64,593,898. This cost represents 78.49% of the total cost of all public and private components.

The Six (6) Public (Town) Building and Non-Building Components:

- Town Project 1: The Existing Revenue Bond for the Wallace Deck

- Town Project 2: A Portion of the Lot 5 Below-grade Garage to Accommodate the 173 Replacement Parking Spaces ($4,411,457).

- Town Project 3: The Delta Cost of Below-Grade Parking versus the Cost of Above-Grade Parking ($4,539,014).

- Town Project 4: The Transit Transfer Center (TTC) (Lot 2) ($2,141,037)

- Town Project 5: The Above-grade Garage Located on the RBC Site ($6,149,537).

- Town Project 6: Second-Level Pedestrian Bridge (Lot 2) ($457,679).

  Total Development Cost (Public Components): $17,698,724.

The total development cost for all public and private components is $82,292,622. This cost represents 21.51% of the total cost for all public components and 78.49% for private development components, for a total of 100%.

The estimated total development cost for all public and private development components is $82,292,622. The total cost of three private development components, which include the expansion of the Wallace Deck, Lots 2 and 5, is $64,593,898, or 78.49% of the total cost for all projects. The total cost of the five public components is $17,698,724, or 21.51% of the cost of all public and private components. SPPRE wants to take this opportunity to remind the Council Committee, that a major portion of the Town's investment of $17,698,724 million is the cost of the garages required to accommodate the 274 replacement parking spaces. The cost per parking stall in Lot 5 is $24,402 and in the above-grade garage located on the existing RBC property is $12,434. The cost for replacement parking is $8,950,471, including the delta cost referred to above, is equal to almost 50% of the Town's investment. In addition, the proposed Town investment includes the cost of the Transit Transfer Center, which is $2,141,037, or 13% of the total Town investment of $17,698,724. In other words, if the cost of the TTC is excluded, the required Town investment to realize the desired private commercial development of Lots 2 and 5 and the Wallace Deck is only $15,557,687.

The Proposed Public/Private Finance Plan

The SPPRE Team has structured the proposed Public/Private Finance Plan for the overall project so that the nine public and private development components are self-financing. (*We strongly recommend that Council Committee members pullout the Public/Private Finance Plan diagram included in Tab 4 so that they can better understand the proposed financing*).

The three (3) private developer components, excluding the affordable housing, are financially feasible using private equity and debt. The public/private financing for the affordable housing includes four parts: 1) Senior Debt provided by Fannie Mae at an interest rate of 4.25% for a term of 20 years, 2) Subordinated Junior Debt provided by Fannie Mae at an interest rate of 2.5% for a term of 25 years, 3) Grants provided by the Federal Home Loan Bank (FHLB) Affordable Housing Program (AHP), and 4) Traditional Private Equity equal to 10% of the total retail cost. The proposed financing for the six (6) public, or Town Projects includes some combination of the following sources of financing:

- Land Lease Payouts (A one-time payment paid by the developer to the Town at the closing of the Construction Loan for each developer project)

- The Town's 20% Share of the Net Proceeds from the Sale of the Market-Rate Condominium units (A one-time payment made by the developer for each project two years after completion of construction).

- Annual Base Rent Payments Indexed to the CPI (Retail space only)

- The Town's 20% Share of the Net Proceeds from Selling the Retail Space in Year 10.

- Annual Net Income from Parking Operations

We recommend that the Town determine whether they can segregate the Property Tax generated and use this new stream of income toward infrastructure improvements related to the projects.

The Public/Private Finance of Public (Town) Project 1: The Existing Revenue Bond for the Wallace Deck:

When the Town and the selected developer begin construction of Lot 5 and later Lot 2, they will eliminate the existing Town Parking Lots. The Town currently uses the income from these two Town Parking Lots to cover a portion of the Debt Service for the existing Revenue Bond for the Wallace Deck The approximate median annual income from Lot 5 is $125,000. The median income generated by Lot 2 is $285,000. Construction of Lot 5 is currently scheduled to start in August 2007. One of the initial actions of starting construction will be to demolition the existing parking lot and therefore, the Town will experience a loss of income, which must be replaced. Construction of Lot 2 is not scheduled until April 2010.

The proposed solution to replace the loss of income from Lot 5 is the interest income from the Land Lease Payout paid by the developer to the Town at the close of the construction loan for Wallace deck, which is now scheduled for April 2007. The Land Lease Payout for Wallace deck is estimated to total $3,887,060. Under the proposed Public/Private Finance Plan, this nontax income of $3.9 million paid to the Town has been allocated to finance: 1) the proposed Transit Transfer Center (TTC), which is not needed until April 2010, and 2) a portion of the Town parking in Lot 5. If the Town places this non-tax income in an interest bearing account yielding

4.5% annually, the $100,767 of annual income will cover the loss of income at Lot 5 for three years (2007-2009). Beginning in Year 2010, the Town will have excess non-tax income generated to cover this loss of income.

Construction of Lot 2 will generate a loss of income beginning in 2010. As graphically illustrated in the “Schedule of Sources and Uses of Funds”, this loss of income totals approximately $285,000, which will be covered by the Town’s projected surplus non-tax income generated by the private development of Lots 2 and 5 and Wallace Deck.

The Public/Private Finance of Town Projects 2 and 3: The Finance of the Replacement Parking in Lot 5 and the Cost Delta of Below-Grade Versus Above-Grade Parking

Several months ago, the Council Committee made the decision to replace the 274 parking spaces currently located on Lots 2 and 5 and to finance underground parking to free-up additional street-level space for larger pedestrian space. The estimated development cost to provide the 173 replacement parking spaces on Lot 5 is $4,411,457. As described in the September 13 report, SPPRE has determined that adding the cost of underground parking to the traditional commercial developments are not financially feasible, so we are recommending that the Town incur the difference in cost of underground versus above-grade parking garage. That cost delta is $4,539,014. The total cost of replacement parking covered by the Town is $8,950,471.

The recommended public/private finance plan to cover the Town cost of $8,950,471 includes three sources of financing: 1) A Revenue Bond in the amount of $2,888,522, 2) A portion of the Land Lease Payout for Wallace Deck totaling $1,647,778, and 2) the $4,414,171 Land Lease Payout provided by the developer of Lot 5.

1) The Revenue Bond

The proposed Revenue Bond is supported by two sources of income to the Town: a) The Net Income from Operation of the Town’s portion of the Lot 5 Garage, and 2) The Base Rent paid by the developer of the Lot 5 Retail Space. Based on our financial analysis the Town will recognize $190,937 of Net Income and $67,028 in annual Base Rent for the retail space in Lot 5 and anticipated lease of 92 spaces in Wallace Deck of $44,712. This amount of nontax income to the Town totals $302,137.

This amount of annual income can support a Revenue Bond in the amount of $2,888,522 applying the following assumptions:

Term:	20 years
Coupon Rate:	5.50%
DCR:	1.25

2) The developer of the Wallace Deck will be required to provide the Town with a total Land Lease Payout equal to $3,887,060. A portion of that payment equal to $1,647,778 will be applied to cover a portion of the cost of the replacement parking in the Lot 5 development.

3) Land Lease Payout from the Developer of Lot 5

Based on the development of Market-Rate Condominium units, we are requiring the developer to pay the Town a one-time payment equal to the Present Value (PV) of a 30-year Land Lease. This payment of $4,414,171 has been incorporated into the Proforma for Lot 5 and will be paid to the town at the closing of the Construction Loan.

The combination of the Revenue Bond, the one-time Land Lease Payout for Lot 5 and a portion of the Land Lease Payout for Wallace Deck totaling $8,950,471 is in equal to the Town's cost of replacement parking and the "delta cost" totaling $8,950,471.

Surplus Non-tax Income and Tax Revenue to the Town

In addition to covering more than 100% of the Town's cost for Lot 5, the Town receives annual Property Tax equal to $181,409 and allows the Town to apply their share of the Net Sales Proceeds from the Market-Rate Condominium units totaling $714,047 to cover the cost of a Second Level Pedestrian Bridge from Lot 2 to the RBC Garage.

Optional Finance Plans for the Public (Town) Project 4: Transit Transfer Center (TTC)

The estimated cost to construct the Transit Transfer Center (TTC) is $2,141,037.

There are three options for the Town to cover the cost of the Transit Transfer Center (TTC).

Option 1: Use a portion of the Land Lease Payout included in the proposed public/private partnership between the Town and the developer of the Wallace Deck, which amounts to $2,239,282.

Option 2: The Town optimizes Federal and State grants and some combination of the financing instruments identified by SPPRE in an earlier report.

The Public/Private Finance of Public (Town) Project 5: A Second-Level Pedestrian Bridge

The SPPRE Team highly recommends that the Town further explore the finance and design of a second level pedestrian bridge connecting the commercial development of Lot 2 and the RBC Garage. SPPRE took the initiative to obtain a cost estimate from the Spring Valley Construction Company based in Dallas Texas. Our initial description of the bridge is that it spanned 65 feet over Rosemary Street and was 10 to 12 feet wide including the structural system. The total construction cost is estimated to be $457,679. (See Cost Estimate dated September 21, 2004 in Tab 4).

The Public/Private Finance Plan for the Second-Level Pedestrian Bridge includes the use of the Town's 20% share of the Net Proceeds from selling the Market-Rate Condominium units included in Lot 5. The Town will receive $714,047 from the sale of the Lot 5 condominium units. We have assumed the developer will complete the sale of all Market-Rate units by the end of Year 2 of operations and the Town's non-tax income from the Lot 5 condominium units exceeds the estimated construction cost of the pedestrian bridge. Of course, “soft costs” will need to be added to the “hard” construction cost.

The Public/Private Finance of Public (Town) Project 6: The RBC Garage

The RBC Garage is a 6-level above-grade garage which includes 342 parking spaces and 8,400 SF of retail space at the street level. The estimated cost of the garage is $4,264,700, excluding the land cost and the retail space. The assumed cost of the RBC property is $990,090, which reflects a cost of $38 per square foot. The total cost of the RBC Garage, excluding the retail space is $5,159,447, or $15,086 per parking space. The total cost of the garage including the retail space and land cost is $6,149,537.

Revenue Bond:

The SPPRE Team completed a Proforma for the RBC Garage. Based on our assumptions, the projected income exceeds the operational expenses and the required debt service, so we are recommending to the Town to issue a traditional Revenue Bond and TIF bond in the amount of $6,189,981, which covers the cost of the land and development costs associated with the RBC Garage.

The assumptions for the Revenue Bond are as follows:

Revenue Bond:
Term: 20 Years
Coupon Rate: 5.0%
DCR: 1.25

The Tax-Increment Finance backed Revenue Bond, or TIF bond, is supported by the stabilized Property Tax (year 3) from Lot 5 totaling $181,409, Wallace Deck totaling $105,347, and Lot 2, totaling $80,717. This equals a total Property Tax amount of $367,473 that we use to support a basis for a Tax-Increment Financing Bond.

The assumptions for the TIF Bond are as follows:

TIF Backed Revue Bond
Term : 20 years
Coupon Rate: 6.0%
DCR: 1.25

Tab 5: Revised Summary of the Nontax Income and Tax Revenue for the Town and Related Government Entities

There are four government entities that will share the economic benefits of the development of Lots 2 and 5 and the Wallace Deck: 1) The Town of Chapel Hill, 2) Orange County, 3) The Chapel Hill/Carrboro School District, and 4) The State of North Carolina. We have organized the economic benefits of this project into Non-Tax Income and Tax Revenue, as follows:

The Types of Nontax Income and Tax Revenue Generated by the Proposed Developments

Nontax Income:

- Land Lease Payouts (A one-time payment paid by the developer to the Town at the closing of the Construction Loan for each developer project)

- The Town's 20% Share of the Net Proceeds from the Sale of the Market-Rate Condominium units (A one-time payment made by the developer for each project in Year 2 of operations - two years after completion of construction).

- Annual Base Rent Payments Indexed to the CPI (Retail space only)

- The Town's 20% Share of the Net Proceeds from Selling the Retail Space in Year 10.

- Annual Net Income from Parking Operations

Tax Revenue

- Property Tax (Distributed to four Government Entities)

- Sales Tax (Distributed to two Government Entities)

Nontax Income Realized by the Town of Chapel Hill

All of the Nontax Income is paid to the Town of Chapel Hill. The Nontax Income includes:

- Land Lease Payout as part of the Land Lease with the to-be-selected developer

  As part of the proposed Land Lease Agreement we will require the developer to pay the Present Value (PV) of the total rent that would have been paid in years 1-30 under a traditional Land Lease arrangement.

After completing our financial analysis of the Affordable Condominiums, we concluded that it was not financially feasible to include Land Lease Payouts. Therefore, we added the Payouts to the Land Lease Payouts for the Market-Rate Condominium units.

- Lot 5 Development: $3,582,634 plus $831,537 equals $4,414,171.

- Wallace Deck Expansion: $3,108,331 plus $778,729 equals $3,887,060.

- Lot 2 Development: $1,700,348 plus $425,087 equals $2,125,434.

The three developer projects (Wallace, Lots 2 and 5) will generate payouts for the Town totaling $10,426,665.

- The Town's 20% share of the Net Proceeds from the Sale of the Market-Rate Condominium units

  The developer of the Market-Rate Condominium units should sell the units in two years or less after construction is completed. We have positioned the Town to be paid a 20% share of the Net Sale Proceeds. Because of cost, we did not structure the public/private partnership so that the developer shared the Net Sales Proceeds of the Affordable Condominium units.

  - Lot 5 Development: $714,047

  - Wallace Deck: $353,560.

  - Lot 2 Development: $222,205.

  The total Net Proceeds paid to the Town is $1,271,797.

- Base Rent and Indexed Rent as part of the Land Lease with the to-be-selected developer

  As part of the proposed Land Lease Agreement we will require the developer to pay a base rent that has been indexed to the 2004 Consumer Price Index (CPI). The only development component not sold by the developer by year 2 is the retail space, so retail space generates the following Base Rent income to the Town from the three proposed projects:

- Lot 5 Development:	$2,304,132
- Wallace Deck	$371,263
- Lot 2 Development:	$1,385,450

The total Base Rent paid to the Town from years 1 – 30 is $4,060,845.

- The Town's 20% Participation in the Net Sales Proceeds of retail Space in Year 10.

  As part of the proposed Land Lease Agreement we will require the developer to allow the Town to have a 20% position when the retail space is sold to a third party. We have assumed that each retail component will be sold in Year 10.

  - Lot 5 Development: $765,362

  - Wallace Deck: $95,757

  - Lot 2 Development: $425,087

  The total Net Sales Proceeds for the Town equals $1,286,205

  Clearly, at this point in time, no one knows when the buildings will be sold, if ever, but many developers do sell their buildings between Years 5 and 10. This type of Land Lease Payment allows the Town to participate in the appreciation of the development value and the developer's "upside".

- The Town's Net Parking Income from Public Parking in Years 1-30.

  The Town will own a portion of the Lot 5 garage and own 100% of the RBC and Wallace Deck garages. Therefore, there is the potential that the Town will realize net income from these parking facilities. Based on our Proformas for each garage and the developer lease arrangements, we are projecting that the Town will realize the following net income in years 1-30:

  - Lot 5 Development: $ 6,492,439.

  - Wallace Deck: $14,715,136

  - Lot 2 Development: $ 1,385,450

  Based on our financial analysis the Town may receive net income from parking operations totaling $22,593,025 over the first 30 years.

Based on our proposed Public/Private Finance Plan and Land Lease arrangements, the total nontax income generated for the Town from the proposed developments in years 1-30 is $39,638,537.

Tax Revenue

Tax Revenue generated by the proposed projects has been organized into Property Tax and Sales Tax.

Property Tax

The proposed three private developments (Lot 5, Lot 2, and the expansion of the Wallace Deck) generate the following amounts of property tax in Years 1 – 30:

- Orange County: $17,459,078
- Chapel Hill/Carrboro School District: $3,967,972
- Chapel Hill City Revitalization: $11,407,919
- Downtown Revitalization District: $1,230,071

- Because SPPRE leveraged these property taxes on behalf of the Town, we have totaled the taxes into the following categories:

- County and School District: $21,427,050
- Total Town Property Tax: $12,637,991

The total property tax generated by the proposed projects in years 1 – 30 equals $34,065,041.

Sales Tax

Based on the Retail Building Program and the $330 in sales per S.F. as quoted by the International Council of Shopping Centers (ICSC), we have determined that the proposed development projects will generate Sales Tax in years 1 – 30 as follows:

- State of North Carolina: $22,275,891
- Orange County: $12,375,495

The total Sales Tax generated in years 1 – 30 equals $34,651,386.

The total tax revenue generated by the proposed projects over years 1 – 30 equals $68,716,427.

The Total Nontax Income and Tax Revenue

In summary, during construction and in years 1-30 of operations the Town of Chapel Hill could realize a total nontax income of $39,638,537 and Property Tax revenue equal to $12,637,991. The total nontax income and tax revenue generated by the proposed projects for the Town may be as much as $52,276,528.

Tab 6: Federal Finance Programs for Transit, TODs and Related Projects

The SPPRE Team has developed an 8-page matrix identifying 21 financing programs for transit, Transit-Oriented Developments (TODs) and related projects. The financing programs have been organized according to the federal and state entities sponsoring the programs. The sources of financing include:

- Federal Transportation Administration (FTA)
- U.S. Department of the Treasury
- Fannie Mae
- U.S. Department of Housing and Urban development (HUD)
- Local Initiatives Support Corporation (LISC)

Tab 7: Alternative Public/Private Finance Instruments for Affordable Housing

The SPPRE Team completed the research required to identify a wide variety of alternative financing programs to support the finance and development of the proposed affordable housing units included in Lots 2 and 5 and Wallace Deck. The sources of the finance for affordable housing include:

- Orange County, North Carolina
- State of North Carolina
- Federal Housing Programs
- Town of Chapel Hill (Only Options to Facilitate the Financing of Affordable Housing)

Tab 8: Recommended Developer Solicitation Method

There are eight alternative methods to solicit private developers to submit proposals to design, finance, develop and construct the commercial development of Lots 2 and 5 and Wallace Deck. The SPPRE Team recommended only three methods to the Council Committee for their consideration: 1) Pre-qualify developers and issue an RFP to these developers, 2) The two-step Request for Qualifications (RFQ)/Request for Proposal (RFP), and 3) Issue an RFQ with the option to negotiate a Development Agreement or issue an RFP.

Based on extensive discussions with the Council Committee and the Town staff, SPPRE recommended the two-step RFQ/RFP method. This method allows the Committee, staff and SPPRE to evaluate the qualifications of many developers and then complete a comparative analysis of developer proposals and designs submitted in response to an RFP. We would then select the proposal which is most advantageous to the Town.

Tab 9: Development Schedule

By starting construction of Lot 5, before Lot 2, the development phasing plan proposed by SPPRE has substantially reduced the risk for the Town. The Town avoids the risk of financing and constructing the RBC Garage to accommodate 100% of the replacement parking, not knowing whether Lot 5 or Wallace Deck proceeds to construction.

The estimated concurrent start of construction for Lot 5 and Wallace Deck is August 2007 with an anticipated completion date of Wallace Deck 14 months later or October 2008. The projected completion of construction for Lot 5 is February 2009. SPPRE, in conjunction with the Town, will issue the Developer Request for Proposal (RFP) for the development of Lot 2 in December 2007. The construction of Lot 2 and related developments is scheduled to start construction in February 2010 with a completion date of May 2011.

Tab 10: SPPRE Recommendations to Council Committee Based on the Completed Financial Analysis

Based on our comprehensive financial analysis, the SPPRE Team highly recommends that on October 11, 2004, the Council Committee proceed to the next step in the pre-development process, which is to complete " Part Two: The Developer Solicitation and Selection Process" as described in the SPPRE Scope of Work.

The SPPRE Team believes the design, financial analysis and deal structure include several features, which should provide the Town with a level of comfort to proceed with the solicitation of technical proposals from highly respected national and regional development companies. These design and finance modeling features include:

- Interest rates which we believe can be significantly decreased through presentations and negotiations with equity and debt providers.

- Loan-to-Value (LTV) which can be increased, once equity and debt investors better understand the project and market.

- Cost reductions resulting from design refinements based on developer and construction company input.

- The potential approval of Tax Increment Financing (TIF).

Although SPPRE completed a Financial Sensitivity Analysis for the Council Committee to better manage their risk, the Town is susceptible to the following:

- Increase in construction costs

- Increase in the cost of financing

- A significant delay could increase market risk by not capturing current market demand as described by ERA in March 2004.

The Town must do everything in their power to incorporate and accommodate public input but accelerate the design and finance approval process.