

MEMORANDUM

TO: Town of Winchester Select Board

FROM: Lynne D. Sweet, Principal, LDS Consulting Group, LLC

RE: Peer Review of Financial Pro-Forma

DATE: February 11, 2022

LDS was asked to review new plans relative to the redesign of the ground floor and garage space that would increase the total parking spaces from 85 to 121. Of these spaces, 48 would be utilized by the apartments and 73 for the public. We were also asked to review new pro-forma the increased the purchase price by \$500,000 from \$1,000,000 to \$1,500,000. It is our understanding that the \$1,000,000 would be paid at construction closing, and the remaining \$500,000 would be paid to the town in a priority cash flow position of up to \$40,000 per year (8%) until paid off. In addition, the towns cash flow share increased from 10% to 15%, and the towns refinance/sale proceeds share increased from 15% to 20%.

The chart below is a comparison of changes from the original submission to the December update, to the current proposal as provided by the applicant.

	Original	Update	Current
Purchase Price	1,000,000	1,000,000	1,500,000
Total Development Costs	28,925,000	30,175,000	29,700,000
Units	60	60	60
Units below 60% AMI	32	40	40
% Low Income	53%	67%	67%
Parking Spaces (Private)	45	45	48
Parking Spaces (Public)	40	40	73
Total Parking	85	85	121
Gross SF	64,500	64,500	60,000
Retail	Yes	Yes	No
CoC Building	Kept	Kept	Demolish
Cash Flow Share	None	10%	15%
Refi Share	None	15%	20%

71 spaces per CIVICO
2/14/22 pro forma

I have been asked to report on the difference between what was voted on at the last town meeting compared to today's proposal. The issue with this is that when I first reviewed the numbers, I found some errors in assumptions. One was for parking revenue which was too high, and would have essentially eliminated the \$1M purchase price. I worked with the development team on the numbers to correct this and other matters, and the result was increasing the number of affordable units to bring in more tax credit equity. Therefore, the comparison below is based on my work with the developer and where we left off with the task force, compared to today's proposal.

Proceeds to the Town	Proposal At Town Meeting		Current Proposal	
	CIVICO #	Corrected #	CIVICO #	Corrected #
Acquisition	\$ 1,000,000	\$ 1,000,000	\$ 1,500,000	\$ 1,500,000
Real Estate Taxes (15 years)	\$ 3,296,426	\$ 3,296,426	\$ 3,125,230	\$ 3,125,230
Supplemental Ground Lease	\$ 327,637	\$ 327,637	\$ 380,817	\$ 380,817
Repayment of Town AHT Loan w. Int at refi	\$ 857,896	\$ 357,896	\$ 736,413	\$ 236,413
Refinance Proceeds	\$ 293,583	\$ 293,583	\$ 466,668	\$ 466,668
Total Projected 15-year Cash Return to Town	\$ 5,775,542	\$ 5,275,542	\$ 6,209,128	\$ 5,709,128
Parking Amenities				
Parking Garage*	\$ 2,812,603	\$ 2,205,842	\$ 2,812,603	\$ 2,205,842
Parking Exterior (\$30k/space)**	\$ -		\$ 750,000	0
Total Value to the Town	\$ 8,588,145	\$ 7,481,384	\$ 9,771,731	\$ 7,914,970

*Developer can receive return on equity of \$606,761

**Civico numbers included original loan amount of \$500,000 from Winchester Affordable Housing Trust. The corrected number reflect the interest.

There are a number of factors that lead to the refinance of the AHT fund repayment being lower under the new model:

- 1. The lower yearly payment due to the priority position of the purchase price loan means the outstanding debt is higher at the property valuation in year 15.***
- 2. The refinance amount is lower in the new model due to loss of the commercial revenue therefore the proceeds are lower. The results in lower proceeds from the loan available to pay down principal of the AHT loan in year 15.***

Regarding the additional 33 additional parking spaces, as noted below in 1b and 1c below, there are some costs to the developer. In addition, there would be a cost to the town if they had to build these spaces elsewhere. Therefore, there is a value to the additional spaces, but it may not necessarily be measured in dollars. The developer has assumed the \$30K would be revenue for the parking spaces. It is my understanding that the town spaces would bring in little revenue as is the current practice. It is our understanding that the town would continue to maintain the surface parking spaces with the same low monthly/ yearly fees rather than MBTA commuter fees.

- 1) Construction costs
 - a. Went down since there will not be a renovation of the chamber of commerce building, construction of retail, and community space.
 - b. Demolition costs were added

- c. Costs to address repair to the state sewer line were added, if necessary
- 2) Soft costs
 - a. Architectural costs went down since there will not be a redesign of the chamber of commerce building, construction of retail, and community space.
 - b. Developer fee went down as % of total development costs
- 3) Income
 - a. Went down due to loss of commercial income
- 4) Operations
 - a. Management fee went down as % of income
 - b. Real estate tax revenue went down due to loss of commercial income
- 5) Year 15 refinance proceeds show an increase from \$293,583 to \$466,668 to the town.
- 6) Interest free loan of \$500,000 added to purchase price

Overall, since the town started negotiating with Civico, the purchase price went up, number of parking spaces increased due to design changes, and potential income years 1-15 increased.

Adding an additional story to the building

We were asked to examine whether adding a story to the building would increase the number of affordable units. The short answer is no. There is a \$10M limit on low-income tax credits and at \$250,000 per unit, that caps out at 40 units, which is what the development includes today. In addition, a 50/50 market to affordable percentage is not as attractive to tax credit investors as they do not want the market risk. This will also put additional pressure on the parking which will impact the progress that has been made to date to add more public parking. Last, it could have a negative impact on permitting for parties who are concerned about height and density.