

Report and Recommendation of the Planning & Development Department

Core Campus Application for Multiple-Unit Property Tax Exemption

The Executive Director of the Planning & Development Department of the City of Eugene Finds that:

1. Core Campus intends to purchase real property located at 505 East Broadway, Eugene, Oregon (Assessor's Map 17-03-32-23; Tax Lots 1800, 1900, and 2300). Core Campus submitted an application pursuant to the City's Multiple-Unit Property Tax Exemption Program (Sections 2.945 and 2.947 of the Eugene Code, 1971), with respect to residential units to be constructed on the property.
2. As the City Manager's designee, I have reviewed the application and find that:
 - 2.1 The project will provide 19 studios, 46 1-bedroom units, 44 two-bedrooms, 25 three-bedroom units, 42 four-bedroom units, and 21 five-bedrooms, for a total of 197 residential units. The project may also include approximately 4,430 square feet of ground floor commercial space.
 - 2.2 Construction is expected to be complete on or before January 1, 2022.
 - 2.3 The project is located in the downtown area described in subsection (2) of Section 2.945 of the Eugene Code, 1971.
 - 2.4 The applicant submitted all materials, documents and fees required by the City as set forth in Section 2.945 of the Eugene Code, 1971, and the Standards and Guidelines for Multiple-Unit Housing Property Tax Exemptions adopted by Administrative Order No. 53-09-01-F and 53-11-05.
 - 2.5 The applicant has responded to the public benefit criteria as follows:
 - 2.5.1 Public Benefits:
 - Density. The project density is approximately 318 units per acre. The project will be built in the C-2 zone and has no minimum or maximum for residential units. Since the minimum density is zero, the applicant was awarded 50 points, the maximum allowed.
 - Green Building Features. Core Campus plans to qualify for LEED Silver certification.
 - Mixed Income. The project will not include housing dedicated to controlled income.
 - Homeownership. No units are designated for home ownership.
 - Accessibility. A minimum of four units will be ADA accessible.
 - Historic Sensitivity. The project is not immediately adjacent or contiguous to a historic structure.

- Location. The project is located in the Downtown Plan Area.
- Parking. The project is not located in a RPP zone.

2.5.2 Longevity of Public Benefits. All of the public benefits listed above will extend beyond the period of the tax exemption.

2.5.3 Points Awarded. The applicant has been awarded 290 public benefit points.

2.6 Other Benefits Provided by the Project. Based on the comments heard at council work sessions, a number of issues or possible concerns emerged. Below are the relevant issues and Core Campus's responses, which provide additional benefits.

2.6.1 Payment in Lieu of Affordable Housing. Core Campus proposes to make payments to the City of \$1,030,000 during years six through ten. The payments would be guaranteed and paid regardless of the financial performance of the project. The average cash on cash return for the 10-year period with the MUPTE and the additional payments from Core Campus is estimated at 9.66%. Continuation of the MUPTE would be conditioned on each of the guaranteed payments in the later years being paid. The project would immediately stop receiving the MUPTE if Core Campus failed to make a guaranteed payment. For example, should Core Campus fail to make the proposed \$30k year six payment, Core Campus would not receive the tax exemption that year and would instead pay property taxes on the improved value to the site (estimated tax of \$520,600). Not paying property taxes would trigger default with the lender, which is a strong guarantee in itself that Core Campus would make the payments. Additionally, the guaranteed payments would survive should the property change hands; the new owner would be required to either make the payments in order to keep the MUPTE benefit active or, alternatively, begin payment of full property taxes.

In years 6-10 of the tax exempt period, in addition to any other fees, taxes or charges owed to the City, the owner of the property shall make the following payments to the City by July 15 of each year:

- Year 6 = \$30,000
- Year 7 = \$60,000
- Year 8 = \$165,000
- Year 9 = \$300,000
- Year 10 = \$475,000

If the payment is not made by the due date, the City Manager shall follow the process in Section 2.947 of the Eugene Code, 1971, to initiate proceedings for Council to terminate the exemption.

2.6.2 **Local Hiring.** Core Campus shall provide a plan with local hiring goals on:

A. The percent of the dollar volume of the combined professional services and construction contracts to include local firms (based in Oregon), and

B. The percent of on-site construction jobs performed by local residents (residing in Oregon). Exceptions for specialty work not available in the local market will be reviewed on a case by case basis.

Core Campus shall also demonstrate a good faith effort to solicit bids for professional services and construction contracts from qualified women and minority business enterprises.

2.6.3 **Bicycle and Pedestrian Access and Safety.** Core Campus has committed to:

2.6.3.1 Design elements to facilitate safety and access, such as a streetscape barrier along East Broadway so residents and visitors are not tempted to cross the street mid-block.

2.6.3.2 Working with the City on options for safe pedestrian crossings.

2.6.3.3 Lighting, signage, and maps for residents and visitors.

2.6.4 **Transportation Options.** Core Campus plans to provide a flex-car and allow bicycle storage within units, in addition to providing limited on-site embedded parking.

2.7 The financial information Core Campus submitted in their application is based on projections prior to finalizing financing, construction, and tenancing. The applicant demonstrated that the project as proposed could not be built but for the benefit of the tax exemption.

Underwriting for the permanent financing is based on a maximum 75% loan-to-value and minimum 1.25 debt service coverage ratio. Core Campus will need to provide 25% (\$11 million) of the project's financing in the form of equity, which is likely to come from an equity investor active in the nationwide market. Additionally, the proposed project will require the investor to assume some risk from the major redevelopment costs associated with the site and

from the rate of absorption of the large number of proposed units brought into the local student housing market. Core Campus has indicated that their equity investor will require a minimum rate of return of 8.96% in the first year. Without the MUPTE savings, The Hub is projected to generate a 4.7% first year rate of return, which is insufficient to attract the required equity investment. The MUPTE tax exemption would lower annual operating costs by approximately \$450,000, which produces higher net operating income and results in a projected 8.7% first year rate of return.

Staff and the Loan Advisory Committee reviewed the pro-forma, including assumptions regarding lease rates, operating costs, capitalization rate, lender underwriting criteria, interest rate assumption, and market expected rate of return. The Committee confirmed the financial assumptions used in the analysis and unanimously concluded that the tax exemption is needed to generate a return on investment sufficient to attract the required equity investment.

- 2.8 Presentations concerning the Core Campus project were given to the Downtown Neighborhood Association on January 23, 2013. The Association submitted a letter indicating that the Downtown Neighborhood Association Steering Committee unanimously took a position of support for the Core Campus project with specific points on safety for pedestrians and bicyclers.
- 2.9 The project is, or will be at the time of completion, in conformance with all applicable local plans and provisions of the Eugene Code, 1971, planning regulations, and the Metropolitan Area General Plan.
- 3 A display ad soliciting recommendations or comments from the public regarding this project was published in the Register-Guard on May 4, 2013. The period for comment expired on June 3, 2013 at 5pm. Twenty-four comments were received within that period.

Therefore, based upon the above findings and the criteria set forth in the City's adopted Standards and Guidelines, I recommend that the application be approved.

Dated this 13 day of June, 2013.



Executive Director
Planning & Development Department