

PROPOSED AMENDMENT TO THE
MASTER DEVELOPMENT AGREEMENT
11 CROWN STREET, MERIDEN CT
MAY 15, 2017

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AVA GOLDMAN, THE MICHAELS ORGANIZATION



11 Crown Street Redevelopment Project History

- 2011 City was awarded a HUD Sustainable Communities Challenge Grant for planning & property acquisition in TOD district.
- 2014 City evaluates 11 Crown St. and completes historic and environmental assessments.
- 2014 City purchases 11 Crown Street with \$495,000 in funding from HUD Grant.
- 2014 City issues RFQ/RFP for the development of 9 city owned sites within the TOD district, including 11 Crown St.
- 2015 The Michaels Organization selected as the preferred developer of 11 Crown St.



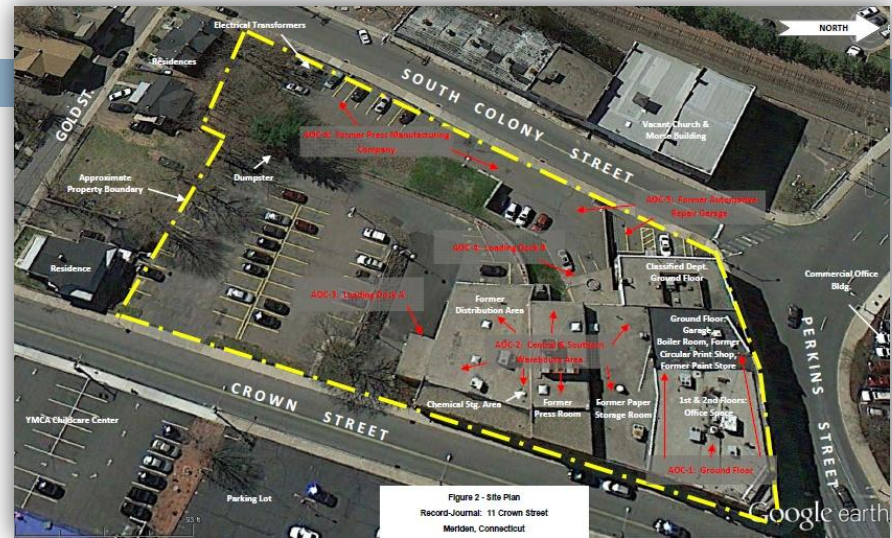
11 Crown Street Redevelopment Project History

2015 Developer determines building can not be repurposed. SHPO determines structure not historically significant.

2015 City applies for and was awarded \$1.73 million (DECD) to complete environmental remediation at 1.6 acre site and building demolition.

2016 City selects Manafort Brothers, Inc. to complete remediation and demo project, selects Tighe & Bond as Licensed Environmental Professional overseeing project. Total cost of remediation, demolition and engineering services is approximately \$1.66 million.

2017 Building demo underway. Demo to be completed by August 2017.

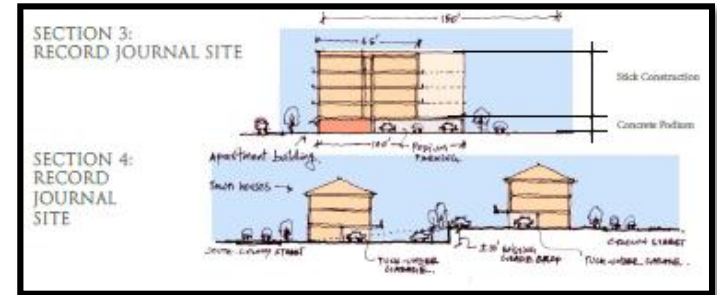


11 Crown Street Redevelopment Project History

March 28, 2016: City signs Master Developer Agreement (MDA) with the Michaels Organization.

Key contract terms include:

- Michaels to build 81 unit, mixed use development
- 70% of housing units to be affordable
- City to demolish building, remediate site, and place site in clean and buildable condition. (RJ has liability if previously unknown environmental hazards are found during demo.)
- Michaels agrees to complete financing plan and budget.
- 25% set aside for SBE/WBE/MBE.
- 20% goal for all general contracting services to be sourced locally (New Haven Co.).
- Michaels agrees to contribute \$495,000 to City for park maintenance fund.
- Developer entitled to receive a Development Fee equal to 10% of the total project cost.
- City agrees to 17 year, 80% tax abatement based on 57 affordable units, 24 market rate units, and 14,400 sf of non residential space.



11 Crown Street Redevelopment Project History

- Purpose of the Master Developer Agreement is to define terms and conditions of transfer of 11 Crown Street from the City to the Michaels Organization for future development.
- Pre-Development tasks included in MDA include:
 1. Site Readiness (in progress)
 - Demolition and remediation underway. \$1.73m DECD cleanup grant
 2. Planning (near completion):
 - Site plans & financing plan subject to City approval.
 - Michaels applies for a low income housing tax credit (LIHTC) allocation from the Connecticut Housing Finance Agency (CHFA), and Federal Home Loan Bank of Boston (FHLBB) & CT Department of Housing gap loan funds.
 - Michaels applies for and awarded 25 “Project Based Vouchers” for relocation of 25 Mills tenants into the new development. (Qualifies as mixed income development under TOD zoning regulation)
 3. Construction approval (near completion):
 - Michaels received approvals from City planning/zoning.
 - Building plans 90% complete.
- **Property to be transferred to Michaels following acceptance of a financing and development plan, completion of demo and remediation by the City.**

Completing the Financing Plan

- Prior to 2016 funding round, CT Housing Finance Authority (CHFA) had no per unit limit on low income housing tax credit (LIHTC) allocations.
- During the course of CHFA's review of the LIHTC application, Michaels was advised that the maximum per unit allocation was \$28,750. With no adjustment in the number of LIHTC units (it was 57), the project would have lost over \$2.2 million in funding. This would have rendered the project economically unfeasible.
- 2016--Michaels revises Low Income Housing Tax Credit (LIHTC) application to include 80% eligible units to close \$2 million gap in project financing. By increasing the number of LIHTC units by 7 to 64 (thereby reducing the number of market rate units from 24 to 17), Michaels was able to restore all but \$441,000 in funding.

	Original Application	With 2017 Cap	As Amended
Number LIHTC/ (affordable) Units	57	57	64
Per unit Allocation	\$32,250	\$28,750	\$28,750
Total Annual Allocation	\$1,838,244	\$1,638,750	\$1,840,000
Value of Allocation to Equity Investors	\$19,115,827	\$16,872,570	\$18,674,132
Loss in Credit Value		(2,243,257)	(441,695)

Completing the Financing Plan

- In April 2017, Michaels received a tax credit allocation of \$1,840,000, which when marketed to private investors, is expected to generate about \$18 million in LIHTC financing for the project.
- Other approved funding sources include:
 - \$6 million in CT DOH funding
 - \$750,000 in FHLBB capital funding plus interest rate subsidy valued at an additional \$700,000
 - 25 project based vouchers related to the relocation of Mills tenants
- Michaels seeking Council approval to amend Master Developer Agreement so that, of the eighty one (81) units of rental housing already contemplated under the current Agreement, 64 units (80%) will be affordable to households whose income does not exceed 60% of area median income for Low Income Housing Tax Credit purposes and 17 units (20%) will be market rate.
- Michaels will agree to maintain a baseline tax rate utilizing 24 market rate units as originally proposed.
- Why are the additional affordable housing units needed?
 - Keeping the number of market rate units as is was going to cost the project over \$2.3 million, which would have reduced Michaels' development fees below \$0, and resulted in an unfeasible project. Increasing affordable units to 80% will support a development fee of approximately about \$1.1 million, which will be used to cover the developer overhead, risk, and profit.

Project impacts and benefits to City of Meriden

	Current Agreement	Proposed agreement
Total development cost	unspecified	\$30 million
Affordable housing units	57 units at or below 60% areawide median income-AMI (estimated \$42,000/year for a two-person household)	64 units at or below 60% areawide median income-AMI
Affordable housing units that are Mills replacement units	unspecified	25
Market rate units	24 units	17 units
Estimated annual taxes to city (80% abatement for 17 years) Note: final tax amount subject to City Tax Assessor valuation.	\$30,000-\$35,000 per year	\$30,000-\$35,000 per year (Michaels will agree to maintain a baseline tax rate utilizing 24 market rate units as originally proposed.)
Payment to Meriden park fund	\$495,000	\$495,000
Building permit fees	unspecified	\$200,000
\$ of contract fees to SBE/MBE (25%)	unspecified	\$7,500,000
\$ of contract fees to New Haven County contractors (20%)	unspecified	\$6,000,000
Estimated # taxable vehicles to be registered at site by residents	unspecified	86
Projected start date	October 2017	October 2017

Without amendment

- Development has \$2 million gap, cannot be constructed as proposed.
 - \$30m LIHTC/FHLBB/DOH/PBV/private funding is forfeited.
- City/Michaels MDA expires October 2017. Project is likely terminated due to financing infeasibility.
- City retains ownership of 11 Crown St., but development does not proceed.
 - City forfeits \$1.14 million in project revenue to City
 - City must maintain site. Property remains tax exempt.
 - City's inability to complete redevelopment project could jeopardize future funding awards from state and local agencies.
- City staff recommends the proposed amendment to the Master Developer Agreement, which increases the total number of affordable housing units in the project to 64, from 57. Developer agrees that proposed tax rate will be calculated using 24 market rate units as the baseline.

Key Dates/Milestones (if approved)

- May 2017: Council Approves Master Developer Agreement Amendment as proposed.
- August 2017: City completes building demolition and remediation.
- October 2017: Michaels completes financial closing.
- October 2017: City completes property transfer.
- October 2017: Construction begins.
- December 2018: Construction completed.



FOR MORE INFORMATION, PLEASE CONTACT:

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Thank you!