

City of Long Branch

Pier Village – Phase 3

RAB Financing

September 12, 2017

Project Description

Pier Village Phase 3 (the “Project”) will consist of:

- 269 condominium units
- 42,292 sq. ft. of leasable retail space
- A 72 room hotel (including an additional 11,000 sq. ft. of leasable retail space)
- A 370 space self parking garage (with capacity for at least 600 valet parking spaces)
- A 42' diameter carousel
- Boardwalk improvements and infrastructure, kids play area, and stage
- The acquisition of land to be used for additional public parking
- Possible additional on and/or off-site parking facilities







Need for Financial Assistance

- The redeveloper requests \$20 Million in Redevelopment Area Bond (RAB) proceeds to ensure project feasibility with an adequate rate of return
- Based on NW Financial review, the project faces a funding gap, confirming the redeveloper's request for financial assistance of approximately \$20 Million.

Redevelopment Area Bonds (RABs)

- A tool to provide “gap financing”, repaid by Annual Service Charge (ASC) (a/k/a PILOTs) in order to encourage a project that “but for” the municipal participation would not be feasible
- Payments will be made from incremental municipal revenues that occur as a result of the redevelopment: PILOTs and additional hotel occupancy taxes
- PILOT revenues in this transaction are NOT formally dedicated to pay debt service
- General Obligation Bonds of the City, supported by municipal taxes and the City’s credit, are utilized to create a cost of funds that allows the project to proceed and the City to generate revenues in excess of its costs

Minimization of Risk

- ASC structured such that stabilized project revenues to City will exceed projected City costs
- ASCs are municipal liens on the property
- RABs will be spent simultaneously with contribution of Redeveloper equity
- ASC Payment Percentage concept allows the City to restructure the financing (ie, reduce RAB amount or increase ASC amount due) if financing expectations change between now and time of issuance of RABs
- Minimum Annual Service Charge - in the event the project is delayed, the Redeveloper must make payments to the City that cover the projected debt service costs and additional revenue to the City
- Guarantee from Redeveloper's parent company and principal - highly solvent company and individual backing in the event of a default by Redeveloper

Project Financing

Type of Financing	Amount	Percent of Total
Redeveloper Bank Loan*	\$178,103,878	63 %
Redeveloper Equity	85,027,587	30 %
City RAB Proceeds**	<u>20,000,000</u>	<u>7 %</u>
Total	\$283,131,465	100.00%

* Includes Mezzanine Debt

**The RAB proceeds and Redeveloper Equity will be spent at same time to fund project costs. Repayment of the Redeveloper debt and equity is subordinate to the repayment of the PILOT due to the function of the PILOT as a tax lien.

Uses of RAB Funds

- **Public Infrastructure and Site Work**
 - Boardwalk, pavilions, streetscape, etc
- **Carousel**
- **Kids play area, stage and lighting**
- **Off-Site Parking Acquisition and Site Preparation/Installation**
- **On-Site Parking**
- **Financing Costs**
- **Potential for Additional Project Costs if Public Improvements are Under Budget**

Payment in Lieu of Taxes (PILOTs)

- An amount that a property owner pays to the City instead of real estate taxes on the improvement portion of their property
- All property owners still pay conventional taxes on the land portion of their property
- The amounts due are a municipal lien and collected in the same manner as property taxes
- Term of 30 years from the date of completion of the project or 35 years from execution of the Financial Agreement
- Even though a portion of the PILOTs will be available to make payments on the Bonds, the City will still receive more revenue than it currently receives from property taxes in the entire redevelopment area
- Neither the issuance of the Bonds nor the PILOT put any additional tax burden on the residents of the City
- Escalate each year at same rate as City-wide taxes escalate

Obligations of the Redeveloper

- Guarantors, a combination of Redeveloper parent company and high net-worth individual principal, will guarantee the payments required to be made by the URE, up to two years after completion of the Project
- Site Preparation & Install surface parking lot on the Phase III Offsite Parking Parcel
- Construct the Carousel and lease from City
- Construct various other improvements including the Boardwalk, concession stands, stage, kids play area, beach access, beach shower
- Use commercially reasonable efforts to lease a certain percentage of the retail space in the Project to Family Friendly Tenants
- Conditions that must be met by the Redeveloper before the City is obligated to proceed:
 - the City receiving LFB approval, if necessary
 - the Redeveloper simultaneously funding equity and demonstrating debt accessibility
 - the existence of market conditions that will allow the RABs to be sold within certain parameters

Financial Benefit

- Excess PILOT Revenue
 - Approximately \$567,000 annually
 - These figures are net of County share, Land Taxes and Debt Service
 - Expected to generate approximately \$23.5 Million in revenue over the term of the 30-year PILOT
- Local Hotel Occupancy Tax
 - Estimated to be \$105,000 in the first year and increase at the same rate as the PILOTs
 - Expected to generate approximately \$4.1 Million in revenue over the term of the 30-year PILOT
- Additional revenues achieved from the carousel, beach use, and other miscellaneous items

Total Expected Financial Benefit

- **Approximately \$27.6 Million in new tax revenue, net of debt service, over the life of the 30 year PILOT**

Non-Financial Benefit

- Public improvements and infrastructure
 - Approximately \$15-17 Million of the total Project
- Job creation
 - Approximately 671 temporary jobs during construction
 - Approximately 375 permanent jobs
 - 25% of which are expected to be filled by City residents
- Improved City aesthetics and branding
- Beachfront attractions and improvements
- Satisfy public parking requirements
- Potential link to future Broadway redevelopment

Municipal Costs

- After completion, the Project is expected to generate:
 - 495 new people (using data from a Rutgers University housing study)
 - 3 new school children (using actual data from Pier Village 1 & 2)
- Each additional resident is expected cost taxpayers approximately \$496 per year upon the project's completion*
- Each additional school age child is expected cost taxpayers approximately \$9,644 per year upon the project's completion
- As evidenced on the next slide, the excess PILOT revenues are anticipated to be sufficient to cover these added municipal costs

*These municipal cost estimates are conservative based on the fact that the review does not account for seasonality of the units.

Net Annual Benefit to City After Municipal Costs

Revenues

PILOT Revenue	\$567,000
Hotel Occupancy Tax	\$105,000
Total	\$672,000

Costs

Municipal	\$245,000
School	\$29,000
Total	\$274,000

Annual Net Benefit \$398,000

Tax Revenue Impact of Pier Village Phases 1 & 2

Block	Current Annual Tax Revenue	Pre-Pier Village Annual Tax Revenue	Tax Revenue Benefit
292.01	\$1,046,864	\$33,550	\$1,013,314
225.01 & 225.03	231,030	39,613	191,417
224.01	792,225	32,934	759,291
223	186,247	20,852	165,395
298	44,167	13,384	30,783
290.01	<u>312,143</u>	<u>2,357</u>	<u>309,786</u>
	\$2,612,676	\$142,690.90	\$2,469,986

Redeveloper

- Joint Venture between Extell Development Company and Kushner Companies
 - Extell Development Company
 - Nationally acclaimed real estate developer of residential, commercial, retail, hospitality and mixed-use properties
 - Operates primarily in Manhattan and other premier cities across the nation
 - Distinguished by sophisticated design, gracious floor plans and first-class amenities
 - Developed many of Manhattan's top-selling luxury condominiums, including One57, 1,000 foot tall landmark
 - Kushner Companies
 - Renowned and diversified national real estate organization
 - Headquartered in New York City
 - Portfolio includes more than 20,000 residential buildings and 13 million sq ft of commercial space