NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

TO: Members of the Authority

FROM: Caren S. Franzini, Chief Executive Officer

DATE: November 9, 2011

SUBJECT: **Transit Village Associates LLC** (P34633)
Urban Transit Hub Tax Credit Program ("UTHTC")

Request

Modify the existing approval of the HUB tax credit to increase the nominal award amount over ten years from $55.1 million to $76.6 million. The present value of the HUB tax credit will also be increased from $40.5 million to $56.4 million. This modification is requested reflecting (1) reapplication to increase the award amount from 20% to 35% of eligible costs for a residential project as allowed by the 2011 amendment to the UTHTC program, and (2) the applicant's inability to secure certain financing anticipated in the previous application.

Background

In January 2010, the Members approved the issuance of $21.9 million of Urban Transit Hub Tax Credits for Somerset Street Urban Renewal LLC for the Gateway portion of a Transit Village project located in New Brunswick, New Jersey. The New Brunswick Development Corporation ("DEVCO") later submitted a new application as Transit Village Associates LLC ("Transit Village" or the "Applicant") requesting consideration for its Gateway, Ferren and Arts facilities to be considered as a single project under the complex rules of the UTHTC program. Transit Village Associates LLC is a holding company created by DEVCO for the three projects. This application was approved by the Members of the Authority on May 10, 2010 for an Urban Transit Hub Tax Credit in the amount of $55.1 million, and simultaneously, the Somerset Street Urban Renewal LLC approval was withdrawn.

The Transit Village represents the cornerstone of the Downtown Transit Village Redevelopment Initiative led by DEVCO, in conjunction with the City of New Brunswick, and in the prior application included the following three complexes totaling $326 million in investments:

- Gateway – This project included 192 housing units, 58,000 square feet of office space, 657 parking spaces and 58,000 square feet of retail. This project is a public-private partnership with Rutgers University and the New Brunswick Parking Authority and will provide important links with mass transit, including direct access to a train platform serving the Northeast Corridor line of New Jersey Transit.

- Ferren – This was a 730,000 square foot project to incorporate market rate housing with public parking, a grocery store and a hospital based fitness and wellness facility.

- Arts – This was a 128,000 square foot project to incorporate affordable housing and retail.

Since the previous application was approved on May 10, 2010, the applicant has modified the scope of the project to reflect changed market and financing conditions. The current application reflects a total of $313.6 million of investments and anticipates a decrease in total residential units from 375 to 296 and an increase in office space from 50,000 square feet to 58,000 square feet. In addition, since the previous application was approved, construction has commenced on the Gateway and Ferren projects, which are 75% and 25% complete, respectively, reflecting almost $150 million of investment. Consistent with the prior application, the predominate use in this application is residential, and as such, it can still be considered under the residential portion of the UTHTC program, allowing for up to 35% of eligible costs to be issued as credits.

Since the prior application, the Applicant was not able to secure certain financing previously anticipated. Specifically, proceeds of New Markets Tax Credits for the Gateway and Ferren projects were approximately $12 million less than originally projected. In addition, the first position mortgage on the Gateway project was $2 million less than projected. The Applicant was not able to secure $2 million in Low Income Housing Tax Credits that were anticipated for the Arts project. Also, NJHMFA's primary mortgage terms were too expensive and restrictive to the Arts project, and as a result of utilizing a conventional lender for the primary mortgage instead of NJHMFA, the applicant lost $5 million in other HMFA funding and the size of the primary mortgage was $1.3 million less than anticipated. Developer equity in the project was increased by $2 million.

A revised pro-forma review of the Applicant's combined financials has been performed based on the revised project. The following chart displays the changes in the award:

Item	May 2010 Board Action	Revised Award
Eligible Costs	$275,500,000	$233,046,673
Maximum HUB Award (PV)	$40,544,080	$60,033,555
Maximum HUB Award (Nominal)	$55,100,000	$81,566,336
Recommended HUB Award (PV)	$40,544,080	$56,378,267
Recommended HUB Award (Nominal)	$55,100,000	$76,600,000

Based on the total eligible costs of the project, the maximum increase in the award is $26.5 million based on the project changes and increase in the award from 20% to 35%. Including the prior HUB award, the Applicant has already secured financing commitments for all but $21.5 million of total project costs. As such, staff is only recommending an additional award up to $21.5 million, which represents the additional funding gap that has materialized as a result of the Applicant's inability to secure previously anticipated financing as detailed above.

Recommendation:
Staff has reviewed the revised pro-forma for the project and has concluded that the project meets the statutory criteria that the project is likely to be realized with the provision of the tax credits at the new level requested, but is not likely to be accomplished by private enterprise without the tax credits. As such, staff recommends a revised nominal tax credit award of $76.6 million (present value of $56.4 million).

Prepared by: C. Caruso