

Georgia Square Mall TAD

Financial Analysis and School Enrollment Estimate:

The Leaven Group

FINAL REPORT

Prepared for:

Unified Government of Athens-Clarke County
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Overview

The Leaven Group, LLC, with Brian Lu and Mark Jennings as Founding Partners, has applied for Tax Allocation District (TAD) funding from Athens-Clarke County Mall Area Tax Allocation District, TAD #1. The applicant is requesting \$189,503,000 in TAD funding for this project.

Proposed Use of Funds:

The TAD funds are being requested to help in the development of a mixed-use community that will include retail, residential, and office space in a “pedestrian-friendly” environment. The project will include central greenspace, sustainable stormwater infrastructure, and a new tree canopy. The current site is a largely vacant mall located on Atlanta Highway near State Route 10. Specifically, the applicant is requesting TAD funds for the following improvements:

Table 1: Itemized TAD Funding Request	
Bike & pedestrian paths	\$5,030,281
Parks & greenspace	\$17,729,278
Intersection improvements	\$11,385,951
Stormwater remediation & facilities	\$13,100,007
Common areas	\$4,393,031
New paving & curb/gutter streets	\$9,546,018
Landscaping/sitework/utility	\$7,328,316
Transit station	\$9,268,529
Urban/dense apartments	\$46,611,591
Affordable housing	\$15,582,005
CCSD and youth development	\$1,200,000
Financing cost due to “pay-go” funding	\$48,327,994
Total TAD Funding Request:	\$189,503,000
Total Project Construction Budget:	\$474,846,158
% TAD Funding Request of Budget:	39.9%
Developer Equity:	\$213,680,771
% Developer Equity of Budget:	45.0%
<i>Totals may not add due to rounding.</i>	
<i>Source: Leaven Group application for TAD funding</i>	



Current Value

According to county tax records, the site has a current market value of \$25,091,105, with an assessed value (40%) of \$10,036,442. Total property taxes (including the schools) are a little over \$320,000 per year.

Project Budget

The Leaven Group, LLC is proposing "a mixed-use district that includes townhomes, multifamily apartments, active adult apartments, a retrofitted portion of the Georgia Square Mall with retail and office, a new retail village, and a central green space." The project will incorporate the one remaining retail tenant. In total, the "The commercial component will include 352,000 square feet of commercial space, including remodeled existing buildings with 190,000 square feet of retail space and 70,000 square feet of office space, as well as a newly constructed retail core with 92,000 square feet of retail space." In total, the proposed construction budget is \$474,846,158.

Source of Funds

The project will be financed through a combination of developer equity of \$213,680,721 (45.0%)¹; proposed TAD funding of \$189,503,000 (39.9%); and a construction loan for the balance of \$71,662,386 (15.1%).

Conformance of Application with Athens-Clarke TAD Guidelines

According to the Athens-Clarke County Unified Government (ACCGov) TAD Funding Policies & Procedures, projects should be evaluated in terms of four factors:²

1. The purposes/uses for TAD financing and the consistency of those purposes with the Redevelopment Powers Law and ACCGov redevelopment objectives;
2. The overall amount and timing of the tax increment to be generated by the proposed project;
3. The Applicant's demonstrated financial need for TAD Assistance based on standard proforma evaluation criteria (i.e., the "but for" test); and
4. Resulting project community benefits and return on the public's investment.

Purposes/Uses of TAD Financing: Partial

Of the 12 listed items for TAD funding, 9 are clearly eligible for TAD funding under the ACCGov Purposes/Uses of TAD Financing as defined in their Policy Guidelines for Evaluating Requests. These eligible purposes include:

¹ Amount of developer equity was provided via e-mail by ACCGov on January 30, 2023.

² Athens-Clarke County Unified Government Tax Allocation District (TAD) Funding Policies and Procedures, Attachment A, p. 6.



1. Public works and facilities;
2. Telecommunications infrastructure;
3. Street/streetscape improvements;
4. Parks and open space amenities;
5. Transit facilities and public parking structures;
6. Pedestrian access and safety improvements;
7. Site preparation; and
8. Capital costs of any business, commercial or industrial building, or facility.

It is unclear how the request for \$46.6M in “urban/dense apartment construction”; the request for \$15.6M in “affordable housing”; or the request for \$1.2M for a YouthForce pilot program meet these eligible purposes/uses. These three items alone represent \$63.4M, or 33.5% of the total TAD funding request.

However, while not included as an “eligible purpose,” both “urban/dense apartment construction” and “affordable housing” could be included under the “Community Benefits” section of the Policy Guidelines and would qualify under the Redevelopment Powers Law (O.C.G.A. 36-44-3(5)). Even so, it would be a stretch to include the YouthForce pilot program as qualifying under any part of the Policy Guidelines or the Redevelopment Powers Law although the funding request for that is less than 1% of the total request.

A quarter of the TAD funds requested are to cover capital financing costs related to the TAD increment being distributed over a 25-to-30-year period.

Tax Increment Generated by the Project: Yes

According to ACCGov's TAD Funding Policies & Procedures, any private project that receives a TAD contribution should be "self-financing" to the extent possible. In this context, "self-financing" means that "the project generates a sufficient future property tax increment to pay back the associated debt service obligations incurred as a result of issuing a TAD bond."³

However, in this case, the applicant is not requesting a TAD bond. Instead, they are requesting the funding through a pay-as-you-go (“pay-go”) arrangement. According to information provided by Athens-Clarke County, the future market value of the fully developed project is expected to be \$627,391,294 with an assessed value (40%) of \$250,956,518. As can be seen in Table 2, once fully developed, this new value would generate a tax increment of \$7.7M annually (including the school taxes).

That increment is more than sufficient to support the TAD funding request on a pay-go basis. On a “pay-as-you-go” basis, over 30 years (using a 10% buffer), and assuming

³ Athens-Clarke County Unified Government Tax Allocation District (TAD) Funding Policies and Procedures, Attachment A, p. 6.

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absolutely zero growth in value over the period, the property would generate \$207.5M, or 109.5% of the funding request (Table 2).

Table 2: Georgia Square Mall – The Leaven Group Analysis of Project Support for TAD Request	
Amount of TAD funding requested:	\$189,503,000
A. Potential Property Taxes: improvement	\$8,005,513
B. Current Property Taxes:	\$320,162
Incremental Property Tax (A-B):	\$7,685,350
<u>Pay-as-you-go</u>	
30-year rebate of incremental taxes:	\$230,560,512
% of request self-supporting	121.7%
30-year rebate of 90% of incremental taxes:	\$207,504,461
% of request self-supporting	109.5%
<i>Totals may not add due to rounding.</i>	

However, it is important to note that ACCGov's TAD Funding Policies & Procedures states that "the total amount of TAD financing shall not exceed 15% of the total estimated project value."⁴ The request here is nearly triple that (39.9%). The policy does provide an exemption to that requirement for "large redevelopment projects," but they must be able to support the additional assistance through the generation of "sufficient tax allocation increments." As demonstrated above, this project will do that on a pay-as-you-go basis.

Project Economics/Financial Need ("But for"): Unclear

The applicant has prepared an application indicating that their weighted average return on capital (ROC) for the residential portion of the development without the TAD is significant. With the TAD the ROC reported in the application is even higher. With the information provided here, it is not clear how this is being calculated and what is being compared in the provided documents. For example, is the ROC the return on capital

⁴ Athens-Clarke County Unified Government Tax Allocation District (TAD) Funding Policies and Procedures, Attachment A, p. 8.



(including senior debt) while the IRR is the return on just the equity? It isn't clear. That said, the expected IRR on an equity investment for these projects could easily be in the high teens and it isn't surprising to see them over 20%. The ones reported here are in that range, but again, it isn't clear exactly what is being compared. One would need to see, and have full access to, the actual model to be able to evaluate this criterion.

Community Benefits: Very Positive

The redevelopment of the current Georgia Square Mall and the investment of nearly half a billion dollars will have a very positive impact, not only on the site, but in the surrounding area as well. With a robust mix of rental and for-sale housing (including housing options that meet the needs of households earning 80% of AMI, as well as senior housing) the development will provide expanded residential opportunities in this area of Athens. In addition, the development promotes walkability, and a pedestrian-friendly environment, which is a goal of the Redevelopment Plan.

Summary

- The project would redevelop the deteriorating, largely vacant Georgia Square Mall and increase the value by more than \$600M.
- The project would create 1,198 new rental and for-sale residential units, including affordable and senior housing options.
- The project is requesting \$189,503,000 in TAD funding which represents 39.9% of the project cost which is nearly triple the amount allowed in the ACCGov's TAD Funding Policies & Procedures.
- The project is self-financing on a pay-go basis.
- It is unclear if the project has demonstrated that it would not be financially feasible without TAD financing.
- The project would have a very positive impact on the area and meets the goals set forth in the redevelopment plan.
- Recommendation: Given the significant level of developer equity, consider approval of the TAD request, **but only on a pay-go basis**.

**Table 3: Summary of Potential TAD Financing for
Georgia Square Mall – The Leaven Group**

Estimated TAD Potential	Market Value (100%)	Assessed Value (40%)
New Developed Value	\$627,391,294	\$250,956,518
Existing Value of Site	\$25,091,105	\$10,036,442
Incremental Value	\$602,300,189	\$240,920,076
<u>M&O Millage Rates</u>		
A. Athens-Clarke County	13.100	Incremental Tax: \$3,156,053
B. Athens-Clarke County Schools	18.800	\$4,529,297
		Total Incremental Property Tax: \$7,685,350
<u>TAD Financing</u>		
Pay-as-you-go for 30 years:		\$230,560,512
Pay-as-you-go for 30 years @ 90%:		\$207,504,461
<i>Totals may not add due to rounding.</i>		



School Enrollment

There are two elements that drive new enrollment in the schools – (1) an estimate of new students from the residential redevelopment, and (2) an estimate of new students from new jobs in the commercial redevelopment.

In the case of the first, the project contains a total of 1,198 new residential units – 212 owner-occupied and 986 rental units. (These numbers come from Part III, section C "Residential Detail" of the application. However, in Part III section B they report only 1,183, and in their cover letter, they report 1,188 residential units.) Of these, 638 are either studio or 1-bedroom units with minimal impact on the school system. Another 313 are 2-bedroom units; 161 are 3-bedroom units; and 86 have 4 or more bedrooms. (170 of these multi-bedroom units are "active adult" units which have no impact on the schools. These were deducted from the 2-bedroom units for purposes of estimating school enrollment.) In total, the new residential units are estimated to generate 187 new students (Table 4).

In addition, background growth within the TAD from new commercial development will generate new households in Athens-Clarke, which will, in turn, increase school enrollment. Based on the proposed square feet of the new retail and office space, it is estimated that there will be 350 new jobs in the development⁵. (This is substantially less than the 1,035 provided in the application and is based on average employment per square foot by building type.) Given the commuting patterns for Athens-Clarke, this level of new employment is expected to create 55 new local households, and another 34 students in the school system. In total, the project as proposed is expected to generate 221 new students in the public school system (Table 4).

School Cost for New Students

The cost of educating these 221 new students comes to \$1.6 million based on current costs at the three schools in the TAD area. The school board provided an average cost of \$7,354 for the new students. See Table 5 below for the details.

⁵ U.S. Energy Information Administration, Office of Energy Consumption and Efficiency Statistics, Form EIA-871A of the 2018 Commercial Buildings Energy Consumption Survey. Tables B-1 and B-2. Data released September 2021.

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**Table 4: Estimated New Public-School Enrollment
The Leaven Group Project**

	Units	Resident Multiplier	Estimated New Population	School-Aged Children Multiplier ⁶	Estimated School-Aged Children
Residential – Rental					
1-BR/Studio	638	1.44	919	0.07	45
2-BR/Active	170	1.30	221	0.00	0
2-Bedroom	122	1.89	231	0.17	21
3-Bedroom	56	2.76	155	0.46	26
Residential – Owner					
Townhomes	212	1.77	375	0.452	96
Project Housing Totals:	1,198		1,900		187
Housing change driven by new jobs:					
	55	2.41	133	0.624	34
Total Project Impacts:	1,253		2,033		221

Table 5: Cost of Education New Students - on Average

Cost Per Student	New Enrollment	Total Cost
Totals	\$7,354	221

⁶ "One Public School Child for Every Three Homes, Special Studies," Na Zhao author, NAHB Economics and Housing Policy Group, May 1, 2020