

**Analysis of Jessica Estates III, L.P.  
Participant in the  
Missouri Low-Income Housing  
Tax Credit Program**



*Strength, Dignity, Quality of Life*  
**MISSOURI HOUSING**  
DEVELOPMENT COMMISSION

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## Table of Contents

Executive Summary .....	1
Introduction .....	2
Property Description .....	2
<b>Tax Credit and Incentive Utilization</b>	
Overview .....	3
Federal Low Income Housing Tax Credits .....	4
Missouri Low-Income Housing Tax Credits .....	4
Other Incentives .....	4
<b>Interviews</b>	
Developer .....	4
City Official .....	5
Residents .....	6
Contractor .....	7
Jessica Estates III Economic Impact Analysis .....	7
<b>Tables</b>	
Table 1: Economic Impact .....	8
Table 2: Summation of the Total Present Value of Benefits .....	9
Table 3: Impact in Present Value per Total LIHTC Dollar .....	9

## Executive Summary

This analysis was undertaken to provide estimated economic impact information related to the construction and operation of the senior housing development owned by Jessica Estates III, L.P. and to provide information about the development based on interviews with the developer, city officials, residents and the general contractor. Jessica Estates III is a 24-unit senior housing development located in Raytown, Missouri, and was placed in service during 2007.

The federal low-income housing tax credit (LIHTC) was created in 1986 as an incentive to encourage private developers to invest in affordable housing. In 1992, increased demand for Missouri affordable housing resulted in the enactment of the Missouri LIHTC.

*Economic Impacts.* Economic impacts were estimated based upon an extrapolation of unit data and projections of economic impact of the LIHTC program from 2000 to 2005 contained in the report "Cost/Benefit Analysis of the Missouri Low-Income Housing Tax Credit Program" dated June 6, 2007. There may be differences between the extrapolated results and actual results and those differences may be material.

- Each dollar of state tax credit awarded to the project is estimated to generate \$12.33 in economic activity.
- Each dollar of state tax credit awarded to the project is estimated to result in an increase in gross state product of \$6.82.
- Construction and operation of the project is estimated to generate over \$7.8 million of total economic impact to the state of Missouri and estimated to increase gross state product by over \$4.3 million.
- Construction and operation of the project is estimated to have generated 53 full-time equivalent jobs.
- Sales tax paid on construction materials is estimated at \$101,000. Property taxes increased by over \$16,000 per year as a result of the project.
- As stated by a Senior Planner for The City of Raytown, "Jessica Estates III has become the benchmark for senior development in Raytown". City officials and developers often refer to the success of Jessica Estates III in terms of overall quality and positive community impact.
- The City of Raytown views Jessica Estates III as an economic stimulus and revitalization tool for the community.
- According to the developer, the state low-income housing tax credit allows high quality amenities to be included in the development, all of which are specifically designed to enhance the lives of the residents or lower overall housing costs.
- Residents expressed their appreciation of the opportunity to live in a home where they feel safe, have the support of other residents and the neighborhood people, and have the opportunity to interact frequently with each other. Residents indicated a sense of home, family, friendship, support, community and respect when talking about their experience at Jessica Estates III.

## Introduction

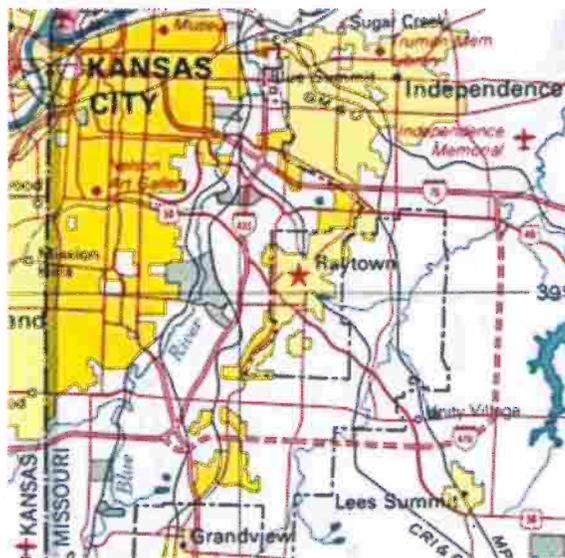
The purpose of this report is to provide the Missouri Housing Development Commission (MHDC) with an analysis of Jessica Estates III senior living development located in Raytown, Missouri. Jessica Estates III was developed using federal and state low-income housing tax credits (LIHTC's). MHDC administers both the federal and state LIHTC programs and is responsible for awarding federal and state tax credits to developers for the purpose of constructing affordable workforce housing for Missouri families and for providing affordable housing for seniors living in the state.

The tax credits not only provide housing for Missourians throughout the state, but also impart an economic stimulus for state and local communities, creating jobs and expanding the state and local tax base. The program provides quality, affordable housing for many seniors and a significant workforce in the state, assists with the revitalization of urban and downtown areas that in many cases have been economically stagnant for years, and provides needed housing in rural counties where quality affordable housing is scarce.

This report and analysis was based upon information provided by MHDC and other sources, including interviews with officials from The City of Raytown and interviews with the developer, general contractor, and residents of Jessica Estates III. The economic analysis utilizes data from the June 6, 2007 "Cost/Benefit Analysis of the Missouri Low-Income Housing Tax Credit Program" report, which was prepared for MHDC by BKD, LLP in cooperation with Missouri State University.

## Property Description

Jessica Estates III is a 24 unit senior living development located in Raytown, Missouri and placed in service during 2007. According to the U.S. Census Bureau, the population of Raytown in 2007 was 28,328. Raytown is surrounded by Kansas City, MO on three sides and Independence, MO on the other. The development is within a 15 to 20 minute drive to medical facilities and the downtown Kansas City area. The development is bordered by an established neighborhood area, bowling alley, storage facility and Woodson Road. Grocery stores, shopping centers, churches and restaurants are all located within one to one and a half miles from the property, and a Wal-Mart Supercenter is being built within a mile of the development.



The complex consists of five buildings (three 4-plexes and two 6-plexes), with each of the 24 units containing 963 square feet of living space. One building contains a 1,927 square foot community center. The units have a slab on grade foundation and wood frame. Exterior walls are 80% brick and 20% Hardy-board. Each unit is equipped with a HVAC system consisting of a forced air/heat pump and its own hot water supply.

The units are all one story at ground level and have a front entrance with porch and a back entrance with a small patio. Parking immediately outside the front door is available for each unit. The units consist of two bedrooms, one bathroom, a living room, dining area, kitchen and storage room. Kitchen appliances provided include a range/self-cleaning oven, microwave, refrigerator with ice maker, dishwasher, garbage disposal and exhaust fan. Each bathroom is outfitted with a walk-in shower, handicap height toilet and bathroom grab bars. Two of the units are fully handicapped equipped. Washer/dryer hookups and prewiring for cable TV and Internet are provided in each unit. A common laundry area is also available in the community center.

The community center has a full kitchen, party/meeting area with tables and chairs and computer and entertainment centers. There is a manager on duty during the daytime hours. The manager lives less than a block away, so is available after hours if needed. An on-call maintenance person is available when maintenance and repair problems arise. There is a walkout patio off the community room and a nearby gazebo, both which have tables, chairs and grills. The property is landscaped and irrigated. Activities that are offered at the community center include monthly potluck dinners, monthly game night, Tuesday morning donut and coffee get-togethers, holiday get-togethers, cookouts, card parties, bible studies, flu shots, tax preparation assistance and other informative meetings. The MetroFlex bus transportation system will also pick residents up at their door and take them to locations in Raytown or to connection points to Kansas City routes.

## **Tax Credit and Incentive Utilization**

### **Overview**

Developers receiving an allocation of federal and state LIHTC's use these credits to finance construction of affordable housing for Missourians. The state LIHTC allows developers to build high quality housing with modern amenities while maintaining affordable rents.

The state tax credit, which mirrors the federal credit, is based upon a percentage of qualified development and construction costs and is generally received over a ten-year period. The ten-year stream of credits allows the state to leverage the production of affordable workforce and senior housing for the state. Housing is produced today with state tax credits that are claimed in the future.

To receive an allocation of state LIHTC's, an investor typically acquires an interest in a partnership (limited partnership or Missouri LLC taxed as a partnership) owning an interest in a qualified project. As equity from the investor is needed to pay for construction of the project, the investor typically pays in equity up front and then receives a stream of tax credits over a ten-year period. Under the Missouri program, each project must be operated in accordance with strict guidelines in terms of tenants who qualify to live in the housing. Each project is subject to yearly financial and operational oversight by MHDC and investors that help ensure quality, affordable housing over the long term. Developers and investors who do not operate their properties within strict federal and state guidelines may be denied the benefit of the tax credits.

Development and construction costs for the Jessica Estates III development were \$3,615,122, which included the funding of reserves. Financing included federal LIHTC equity of \$2,018,000, state LIHTC equity of \$782,180 and a MHDC Fund Balance loan of \$675,000. \$139,942 in development fees was deferred.

### **Federal Low Income Housing Tax Credits**

Annual credit amount:	\$211,400
Years:	10
Price:	\$0.955
Equity proceeds:	\$2,018,000

### **Missouri Low Income Housing Tax Credits**

Annual credit amount:	\$211,400
Years:	10
Price:	\$0.37
Equity proceeds:	\$782,180

### **Other Incentives**

MHDC Fund Balance Loan: \$675,000 at 3.0% interest for 360 months

## **Interviews**

During the course of information gathering, the developer, general contractor, and residents of the development were interviewed. An interview was also conducted with a Senior Planner from The City of Raytown. Following is a summary of the information provided by those interviewed.

### **Interview with Developer**

The developer for Jessica Estates III is Dean Development, LLC. An interview was conducted with Ron Dean, a managing member of Dean Development, LLC. In addition to developing Jessica Estates III, Mr. Dean has also been involved in the development of nearby Jessica Estates I and II and other senior living complexes in the area. Jessica Estates I has 36 LIHTC units, Jessica Estates II has 32 LIHTC units and Jessica Estates III has 24 units. In addition, 18 market rate units are located in the immediate area.

According to Mr. Dean, the state LIHTC equity allows high quality amenities to be included in the development, all of which are specifically designed to enhance the lives of the residents or lower overall housing costs. The construction amenities in the Jessica Estates III development include brick exteriors, high quality insulation, and energy efficient HVAC, windows and appliances. These features allow for lower energy consumption, which translates into lower monthly energy bills for residents. According to many of the residents interviewed, monthly utility bills average between \$75 and \$80 on the level-pay plan. The high quality construction also allows for housing that is designed to last for many years at a lower maintenance cost.

In addition to providing construction amenities, the state LIHTC equity provides other amenities, such as the community center, which have a positive impact on the quality of life for the residents. According to Mr. Dean, Jessica Estates III provides healthy, safe living conditions with frequent interactions between the residents and the surrounding neighborhood, which enhances the mental and physical well-being of

those residents over the long-term and fosters a true sense of community. The layout of the complex and constant interaction among the residents also promotes independent living so that seniors are less likely to become completely dependent on Medicare and Medicaid or require more costly assisted living services. Most of the residents have lived and worked in Missouri or the Raytown area for years and facilities such as Jessica Estates III allow them to remain in an area with which they are familiar, provide them access to family, neighborhood support, churches, medical facilities, and many other services.

Monthly rent at Jessica Estates III is currently \$545. Rent at independent living facilities in the area such as Bickford House range from \$1,800 per month for a studio apartment to \$3,155 per month for a two bedroom apartment. Quality affordable housing in Raytown is in great demand with few alternatives for residents. Even though Jessica Estates I, II and III have added 92 affordable senior living units to the Raytown area, Mr. Dean stated that 172 seniors are currently on a waiting list and are in need of affordable housing.

Per Mr. Dean and his staff, current property tax on the Jessica Estates III land and building is \$16,883. Prior to development, property taxes were only \$829. Development of the project has increased annual property tax revenues to local governments of over \$16,000 per year.

### **Interview with City Official**

An interview was conducted with John Benson, Senior Planner for The City of Raytown. Mr. Benson provided the following information about Jessica Estates III and senior living in the Raytown area. Jessica Estates III has had a positive economic and social impact on The City of Raytown and has been embraced by the community. Prior to the development of Jessica Estates, there was very little affordable, independent living senior housing in the Raytown area. Many of the Jessica Estate III residents have been life-long residents of Raytown who have raised their families, worked and paid taxes in Missouri and the community. The tax credits that helped build Jessica Estates III have allowed these residents to continue making their homes in Raytown. Providing senior living in a community softens the burden of aging and fosters a sense of family support and community. Without affordable senior housing many aging parents are forced to move into the homes of children or other family members. Jessica Estates III allows aging mothers and fathers to continue living independently yet still live near their children and families for support.

According to Mr. Benson, "Jessica Estates III has become the benchmark for senior development in Raytown". City officials and developers often refer to the success of Jessica Estates in terms of overall quality and positive community impact. The Jessica Estates III development was built with high quality construction and design standards, including the use of sustainable brick and Hardy-board siding. The Greater Kansas City Homebuilders Association had a tour of senior housing and Jessica Estates III was one of the properties toured. According to Mr. Benson, those on the tour were impressed with the development and its offerings.

Mr. Benson commented on the positive neighborhood support received by the project. The Jessica Estates III property was originally zoned commercial but was rezoned for multi-family use. Residents of the adjoining neighborhood were very supportive of the senior development and have taken an active role in supporting the needs of the seniors. Neighborhood people have become friends and advocates of the senior residents and volunteer at Jessica Estates III including weekly delivery of food provided by nearby grocery stores.

According to Mr. Benson, The City of Raytown views Jessica Estates III as an economic stimulus and revitalization tool. Per the 2000 census, over 70% of single-family homes were built prior to 1960. More than 60% of the owners have lived in those homes for 20 years. Raytown's population was aging and the

availability of affordable homes for young families was limited. In addition, this older housing stock was deteriorating and many of the homes did not have contemporary amenities and aging residents could not afford to maintain them. This could have led to a threat of investor-owned housing that may not have been properly maintained. Instead, young working families now see this older stock of homes as an opportunity to move back into the Raytown community where they can acquire affordable housing, update and rehabilitate these older homes, and live and work in the Raytown community. Due to seniors moving into Jessica Estates III, many homes have been made available for young families. This is leading to a decreasing median age and increasing incomes in the Raytown area. Having younger families move into the Raytown area has helped promote business development, economic growth and revitalization, and the public school system.

The application for the tax credits included support letters for the Jessica Estates III development from many other officials in the community. Among the officials expressing support were Tim Truesdale, AICP, Director of Community Development, Barb Schlapia, Alderman Ward 4, Sandra Hartwell, Alderman Ward 4, Will Kraus, State Representative for District 48, Kathie Schutte, President of the Crossroads Chamber/Raytown Area Chamber of Commerce, and Charlotte Melson, Alderman – City of Raytown and Executive Director of Shepard’s Center of Raytown and Shirley Wittman, President of Shepherd’s Center of Raytown. These individuals all indicated that there was a need for affordable housing for seniors in the Raytown area.

### **Interview with Residents**

Jessica Estates III houses approximately 28 residents in 24 units. An interview session was conducted with approximately 20 of the residents. Reasons for moving to Jessica Estates III include the following:

- Affordability of units
- Could no longer afford to maintain existing house
- Did not want to have to live with children, but still wanted to be near family
- Neighborhood feel of the complex
- Right in the middle of everything – grocery stores, churches, doctors
- Security of complex
- If something goes wrong within a unit, there is always someone to fix it.
- The community center is well maintained and has weekly and monthly events for the residents
- You feel like part of a family

Residents were very vocal in expressing their appreciation of the opportunity to live in a home where they feel safe, have the support of other residents and the neighborhood people, and have the opportunity to interact frequently with each other. Residents indicated a sense of home, family, friendship, support, community and respect when talking about their experience at Jessica Estates III and several commented on the impact this has had on their mental health. Several residents indicated there were simply no affordable alternatives to Jessica Estates III and that market rate options comparable to Jessica Estates III were simply too costly. Many of the residents commented about the energy efficiency of their unit in that utility bills were only \$75 to \$80 per month, which greatly lowered their overall monthly housing costs. Residents indicated that even a modest increase in housing costs of \$25 per month would be a significant burden on their ability to pay for necessities such as food, medicine, clothing, etc.

When asked about the alternative to living as Jessica Estates III, the residents indicated they would not want to face this as many would be forced to move in with children, live in lower quality or substandard apartments, or possibly be homeless. Several of the residents indicated that they personally know of others who are on the waiting list and want to live in an affordable home like Jessica Estates III.

### Interview with General Contractor

The construction contractor for Jessica Estates III was Woodco, Inc. An interview was conducted with Dolf Woodman, president of Woodco, Inc. According to Mr. Woodman, without the state LIHTC, the quality of construction, size of units and amenities offered would decrease or the rent would have to increase. Monthly rents at Jessica Estates III are \$545. Rents at comparable market rate units are approximately \$830 per month. Without the tax credits, the affordable rents simply would not support the debt service and operating costs of the development with the only alternative being a reduction in quality of construction or amenities.

The economic impact to the State of Missouri of building such complexes is far reaching. Sales taxes and fees are paid to the government, wages are paid to the employees who then spend those wages on food, gas and lodging and many of the materials that are used to build the development are purchased in the State of Missouri.

Woodco, Inc. provided the following information regarding construction of the project.

Estimated Sales Tax Paid on Materials	\$101,000
General Contractor Labor	\$ 77,580
General Contractor Temporary Labor	\$ 13,840
Estimated Subcontract Costs Attributable to Labor	\$770,800
City & Local Permits	\$ 5,532
TAP Fees	\$ 30,600

### Jessica Estates III Economic Impact Analysis

Construction and operation of the Jessica Estates III senior housing project has had a sizable impact on the state economy. Construction and operation of the project is estimated to generate economic activity of over \$7.8 million, increase the gross state product of the economy by over \$4.3 million, and created an estimated 53 full-time job equivalents. The construction of the development is estimated to generate over \$309,000 in additional state and local taxes with estimated additional fees of over \$16,600 generated statewide. Annual operations are estimated to generate economic activity of over \$136,000 per year and increase the gross state product of the economy by over \$81,000 per year.

The impacts shown in Table 1, Table 2 and Table 3 below were estimated using the unit data and statewide projections of economic impact of the LIHTC program from 2000 through 2005 contained in the report "Cost/Benefit Analysis of the Missouri Low-Income Housing Tax Credit Program" dated June 6, 2007 (June 6, 2007 Report). Please refer to this report for a full explanation of input-output analysis and the research methodology used. Per unit amounts for each of the economic impact categories in the Kansas City area were calculated and extrapolated to the 24 units of Jessica Estates III. Please note that there may be differences between the extrapolated results and actual results, because events and circumstances frequently do not occur as expected over time, and those differences may be material.

**Table 1: Economic Impact**

<b>Construction</b>		
Output	\$	5,678,767
Value Added	\$	3,048,659
Taxes	\$	309,598
Fees	\$	16,665
Employment (Jobs)		57.78
Employment (FTEs)		52.02
<b>Annual Operations</b>		
Output	\$	136,590
Value Added	\$	81,025
Taxes	\$	6,116
Employment (Jobs)		1.29
Employment (FTEs)		1.19

Table 1 delineates the estimated economic effects of developing the Jessica Estates III 24-unit project. The impacts in Table 1 are divided between construction and annual operations. The reader should carefully note the difference between value added and output which is explained on page 25 of the June 6, 2007 Report as follows:

Output generated is a reflection of 'total' output and includes the value of intermediate inputs while value added estimates include only employee compensation, proprietor income, other property income, and indirect business taxes. Value added, not output, is identical to gross state product (GSP), which is the state equivalent of a nation's gross domestic product (GDP). For example, suppose that there is an economic shock that results in one more car being produced. Suppose that Ford must pay \$2,000 for the steel needed to make the car and that once completed, the car will sell for \$10,000. Examining total output will add up both the final value of the car, \$10,000, plus the \$2,000 purchase of the steel for a total economic impact of \$12,000. However, remember, the value of the steel is already reflected in the \$10,000 price of the car. Therefore, looking at total output 'counts' the steel in the car twice—once when it is purchased as an input and then again when it is sold as part of the car. Value added looks only at the increase in value that occurred to the inputs. In other words, Ford Motor Company took \$2,000 worth of steel and transformed it into a car worth \$10,000—in short they added \$8,000 in value.

**Table 2: Summation of the Total Present Value of Benefits**

Output		Value Added	
Construction	\$ 5,678,767	Construction	\$ 3,048,659
Operations	2,162,246	Operations	1,282,638
<b>Total</b>	<b>\$ 7,841,013</b>	<b>Total</b>	<b>\$ 4,331,297</b>

Table 2 estimates, in present value terms, the output and value added impacts from construction and operations. Construction impacts occur in the short term and come about due to construction of the project. Once the construction phase is complete, construction impacts stop. Impacts from operations will be spread out over 20 years and come about due to annual operations (a 20-year operations phase was assumed in the June 6, 2007 Report). Output and value added benefits from operations over the next 20 years are shown in present value dollars (i.e., inflation adjusted) and were extrapolated from the results presented in the June 6, 2007 Report. Value added from construction of \$3,048,659 occurs during construction while value added from operations of \$1,282,638 occurs over 20 years as the property is operated.

**Table 3: Impact in Present Value per Total LIHTC Dollar**

Output		Value Added	
Construction	8.93	Construction	4.80
Operations	3.40	Operations	2.02
<b>Total</b>	<b>12.33</b>	<b>Total</b>	<b>6.82</b>

Table 3 estimates the impact in present value terms per total LIHTC dollar. For example, for every dollar of state tax credit granted, it is estimated to increase gross state product in Missouri by an average of \$4.80 during the construction phase and is estimated to generate an additional \$2.02 in gross state product during the 20-year operations phase of the project. In other words, the state's LIHTC dollar is estimated to generate \$6.82 in additional present value gross state product over the course of the project's 20 year lifetime. The amounts shown in Table 3 were determined from the analysis in the June 6, 2007 Report.