TAX EXEMPTION RATE OF RETURN

Internal Rate of Return (IRR): The IRR measures return on investment for all benefits received. It is based on the time value of money and involves analysis and evaluation of project risk and the following:

1. amount and timing of equity investment
2. cash flow over time
3. tax benefits over time-taxes owed less tax credits, depreciation, amortized costs (reliable developer estimates of tax benefits may be acceptable)
4. sale or refinance of project in the future- typically in year 10 or so
5. a discount rate (or desired return)

When all required information is available and verifiable, the PHB determines the Internal Rate of Return (IRR), based upon the Project Sponsor's investment and the projected before tax return, over the first ten years of the project. PHB estimates the before tax income stream to include the portion of the cash flow projected to be available to the Project Sponsor, plus fees paid to the Project Sponsor above and beyond normal management fees. Please note that the PHB does not include projected releases of reserves or payments of deferred development fees allowed within the PHB maximum capitalized development fees in its IRR calculation. However, payments of development fees that exceed the PHB maximum PHB guidelines (as amended, as of application date) are included in the IRR calculations as projected income.

In situations where all information needed to reliably calculate IRR is not available, (which is the case for most if not all of the tax abatements applications to the City of Portland) required or is deemed unverifiable or unreliable by PHB underwriting staff and Managers, the PHB will use an alternative approach. One alternative approach will be computation of a 10-year average cash on cash return as a substitute of rate of return measure for tax abatement purposes. The calculation itself will be by excel formula but the average cash on cash return calculation also involve analysis and evaluation of project risk and the following:

1. project gross annual income
2. vacancy loss- lender required or as estimated
3. operating expenses compared with similar developments
4. annual debt service
5. cash flow
6. amount and timing of owner equity invested in project