

MEMORANDUM

TO: Common Council

FR: Joe Gromacki, TIF Coordinator

DATE: February 28, 2017

SUBJECT: TIF REPORT – 134 S. Fair Oaks (Stone House Development)

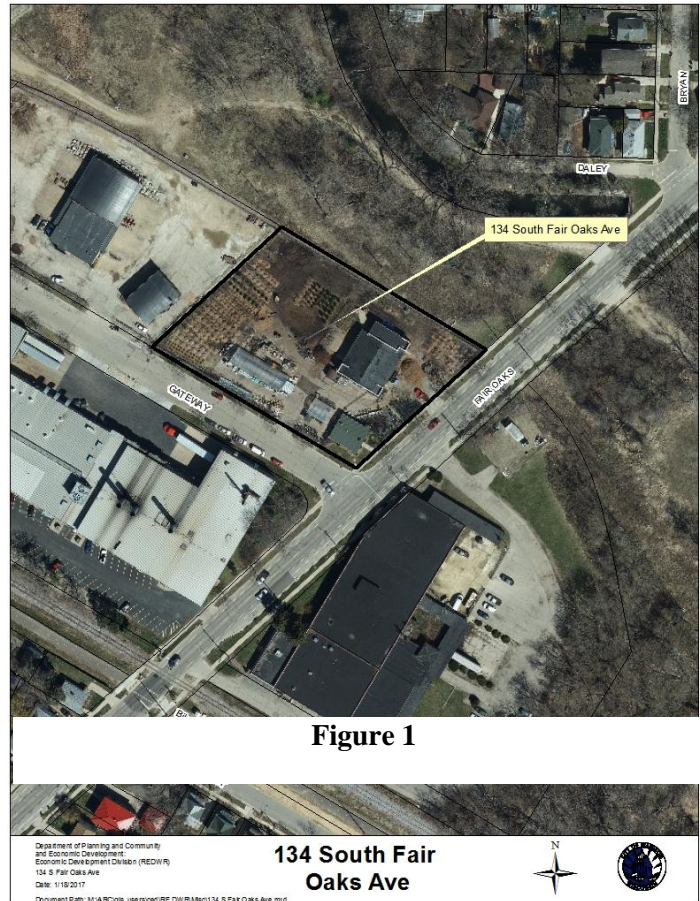
Project Description

Stone House Development (“Developer”) proposes to construct a mixed use project consisting of 80 apartment units, 68 of which are designated as affordable and 12 designated as market units and 2,250 square feet of commercial space located in a brick building currently situated on the site. The project is located at 134 S. Fair Oaks in Tax Incremental District (TID) #37 (**Figure 1**). The site was formerly used as a landscape nursery.

The Common Council adopted RES-16-00854 authorizing \$1,350,000 of Affordable Housing Initiative funds for the project on November 28, 2016. The TIF Application and fee were received on November 11, 2016.

TIF Report

The following TIF Report is provided in compliance with Section 3.1 (8) of TIF Goals, Objectives and Process and Section 1 (9) of TIF Loan Underwriting Policy, adopted by the Common Council on February 25, 2014:



(a) Amount Requested

\$343,000 (55% of TIF)

(b) Type of Project

Redevelopment

(c) Analysis Method

Gap Analysis

(d) Tax Credits:

Impact (WHEDA tax credits)
WHEDA Self-Score

\$7,935,000
226 of 284

(e) Estimated Assessed Value and Tax Increments:

Estimated Value
Total Estimated Tax Increments

\$4,492,000
\$1,289,000

Average Annual Tax Increment	\$101,000
TIF Supportable at 100%	\$624,000

(f) TID Condition:

At its creation, the TID 37 Project Plan authorized approximately \$20,867,000 of expenditures. As of the most recent audit dated December 31, 2015, TID #37 has expended \$6,556,447 allowed under the adopted project plan. TID #37 is currently averaging approximately \$227,000 in tax increments per year. TID #37 has approximately \$3.2 million of outstanding debts.

TID #37 is currently barely meeting its debt service obligations, and the district has been unable to accrue any tax increment cushion in the event that the various development projects do not meet value growth expectations.

Year Created	2006
Years Remaining to Recover Cost	17 yrs
Avg. Annual TID Increment (To Date)	\$227,000
Unrecovered Cost	\$3,259,828
Estimated Cost Recovery To Date	14 yrs
Estimated Cost Recovery With New Project	13 yrs*

*This assumes the project receives a \$343,000 loan and generates incremental revenue peaking at approximately \$100,000 in year five of the TIF loan.

(g) TIF Policy Compliance

Developer Equity--Developer equity is \$415,000 of deferred developer fee with an expectation to receive \$7,935,000 of Low Income Housing Tax Credit equity from an investor. In total, this amount is in compliance with TIF policy that equity equal or exceeds the amount of TIF provided. Principals of Developer are providing a personal guaranty.

Affordable Housing Project Requirements—TIF assistance may be provided to a residential real estate project in which no less than 40% of the units are affordable to households making less than or equal to 40% of Area Median Income, said units made affordable for a period of not less than 30 years. Developer has proposed that 68 of the 80 units (85%) will be made affordable and therefore complies with this standard.

55% Gateway--The \$343,000 TIF Request is 55% of TIF and complies with the 55% Gateway.

(h) Other Applicable

1) Quantity of living wage jobs created and/or retained	N/A
2) Quantity of affordable housing units and level of affordability	68 units, 30% to 60% of AMI

(i) Amount of TIF to Be Considered

Initially, Developer requested \$470,000 of TIF assistance, comprising 75% of TIF. Staff believes that the project cash flow demonstrates a greater ability to support private debt such that the gap could be reduced to \$343,000. The debt coverage ratio as proposed was 1.6 for a \$4.1M residential loan. As a typical ratio is about 1.2 to 1.3 for this type of project, there is room for Developer to borrow slightly more residential loan to reduce gap.

TIF Eligible	\$343,000	55% of TIF
TIF Recommended:	\$343,000	55% of TIF

(j) Developer's TIF Goals Statement— TIF Policy requires that Developer provide a statement **(See Figure 2)** as to how the project addresses the following TIF Policy Goals:

- 1) Per Sections 1 and 3.4 of "TIF Goals, Objectives and Process", how does the Project meet City and TID's goals?
 - A) Grows the City's property tax base
 - B) Fosters the creation and retention of family-supporting jobs
 - C) Encourages the re-use of obsolete or deteriorating property
 - D) Encourages urban in-fill projects that increase density consistent with the City's Comprehensive Plan
 - E) Assists in the revitalization of historic, architecturally significant or deteriorated buildings or enhancement of historic districts.
 - F) Creates a range of housing types, specifically encouraging affordable housing
 - G) Funds public improvements that enhance development potential and improve City's infrastructure
 - H) Promotes superior design, building materials and sustainability features
 - I) Reserves sufficient increment for public infrastructure in both TID Project Plan and TIF underwriting

134 S. Fair Oaks Avenue

TIF Policy Goals

Section 1 –

A. Growing the property tax base

The site currently is currently a plant nursery. The current assessed value is \$541,000. The apartment building when fully occupied will have an assessed value in excel of \$5,000,000.

D. Encouraging urban in-fill projects that increase density consistent with the City's Comprehensive Plan.

The site is located in close proximity to a neighborhood of single family homes built forty plus years ago. It is a viable location due to its proximity to schools, retail establishments and recreational opportunities.

F. Creating a range of housing types and specifically encouraging the development of workforce and affordable housing, especially housing that is for those earning much less than the area median income.

The project will contain 80 units of rental housing with 68 of the units restricted to individuals and families earning far less than the area median income. The breakdown is as follows: 20% of the total units will be set aside for people whose incomes are at or below 30% of the Dane County median income; 40% of the total units will be set aside for people whose incomes are at or below 50% of the Dane County median income; and 25% of the total units will be set aside for people whose incomes are at or below 60% of the Dane County median income.

H. Promoting superior design, building materials, and sustainability features in the built environment.

The project will involve the new construction of a four story building and reuse of an existing prewar, one story building. High quality materials such as brick and cementitious siding will be utilized and extensive landscaping will be incorporated.

Figure 2

(k) TIF Policy Exceptions

55% Gateway—No more than 55% of the TIF generated by a project shall be provided to the project without prior authorization of the Board of Estimates in closed session. Developer's proposal for 75% of TIF, or \$470,000, was presented to the Board of Estimates on January 23, 2017. BOE recommended that no more than 55% of TIF be provided to the Project.

(l) Known Labor Agreement, Law Violations**None indicated.**

Staff Recommendation: The Project has demonstrated a gap that does not exceed \$343,000 or 55% of TIF. Staff recommends that TIF assistance should not exceed this amount. Closing on financing is anticipated between 12 and 18 months from the date of Council adoption. Therefore, prior to disbursement of TIF funds, Developer shall provide the City with a certified proforma that verifies financing and project cost. The City reserves the right to make an adjustment to TIF assistance at that time in the event that the certified gap is less than projected at the time of Council adoption of the funding resolution.