

# MEMORANDUM

TO: Finance Committee  
FR: Joe Gromacki, TIF Coordinator

DATE: September 25, 2017

SUBJECT: **Exact Science's Request for a Jobs TIF Gap Analysis Waiver and Exception to the 40% Jobs TIF Rule**

## TIF Law "But For" Requirement

TIF Law requires that projects requesting TIF assistance meet a statutory "but for" requirement (i.e. "but for" TIF, the project could not proceed.)

City of Madison TIF Policy establishes that the City determines the "but for" through gap analysis, wherein Developers must numerically demonstrate that the project could not be financed without TIF assistance.

## Jobs TIF - Gap Analysis Waiver Requirements

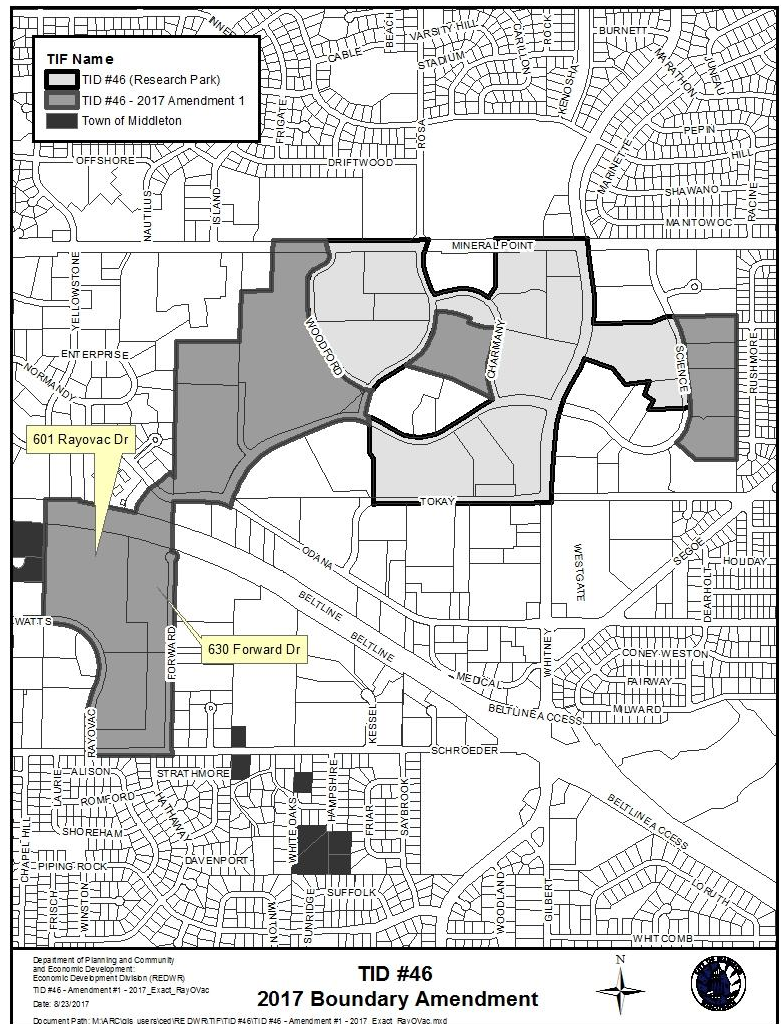
In 2013, the City adopted amendments to the TIF Policy that introduced the "Jobs TIF" program. Under Jobs TIF, employers participating in gap analysis of a project retaining or creating jobs may be eligible for as much as 60% of the TIF generated by the project.

Jobs TIF may also provide no more than 40% of the TIF generated by a project that does not have a financial gap but, at minimum, commits to retain and/or create at least 100 jobs and provide written evidence that another community has made a competing offer of financial assistance.

## TIF Policy Exceptions

TIF Policy requires that projects requesting one or more exceptions to TIF Policy are reviewed by the Finance Committee in closed session, prior to drafting a Term Sheet and introduction of a TIF authorizing resolution. As a gap analysis waiver qualifies as an exception to TIF Policy, it also requires prior Finance Committee consideration. The following report is intended to assist Finance in determining whether the proposed project qualifies for an exception to TIF Policy.

Figure 1



## Rayovac Site Background

In 1984, the City of Madison created TID #13 to fund the \$2.6M purchase of 49 acres of vacant land located on the West Beltline Highway. The City sold the parcel to Rayovac for approximately \$274,000 (a land cost write-down of approximately \$2.3M) for the development of its headquarters. The public purpose of the City's investment was the retention of 1,200 jobs.

TID #13 recovered the cost of the land write-down in 2002, when the district was closed. Rayovac was subsequently purchased by Spectrum Brands, which over time, reduced the Madison staff. In 2013, Spectrum relocated more than 500 remaining employees to a new headquarters in the City of Middleton. The City of Middleton provided a TIF write-down to Livesey Development in the amount of \$4.2M to facilitate the relocation. The Rayovac property has been vacant since that relocation. The TIF request submitted by Developer and described below proposes to occupy and develop the Rayovac property.

## Project Description

CG Growth, LLC ("Developer"), a real estate holding company of Exact Sciences Corporation submitted a Jobs TIF Application on August 18, 2017 requesting \$2.5M of Jobs TIF assistance representing 55% of the TIF generated by the project.

Developer requested that the application be considered for the following exceptions: 1) a Jobs TIF Gap Analysis Waiver; and 2) to exceed the 40% of TIF allowable with a Jobs TIF Gap Analysis Waiver.

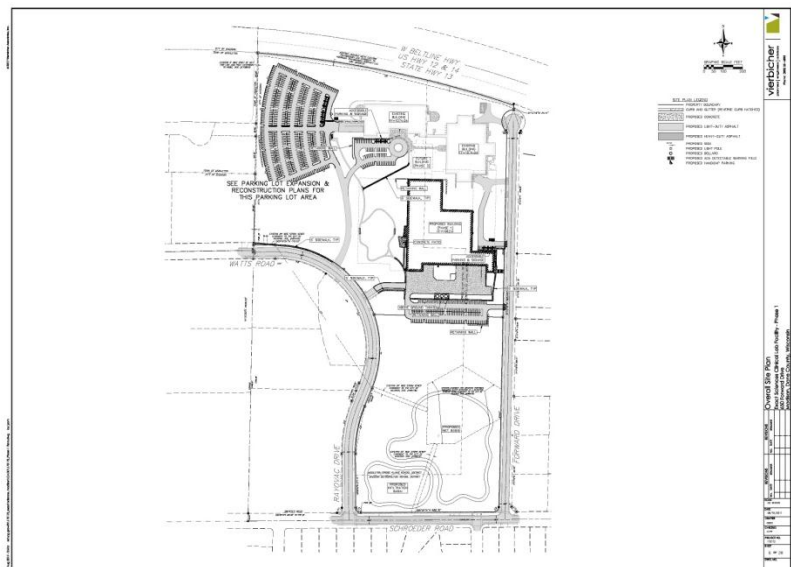
The project is located at 601 Rayovac Drive in the proposed boundary amendment to Tax Incremental District (TID) #46 (Figure 1). The TID amendment is anticipated for approval on September 19, 2017. The site was previously occupied by Spectrum Brands (previously Rayovac) which vacated the property in 2013 (see background below).

Developer proposes to purchase and renovate the 157,000 square feet vacant Spectrum Brands office and construct a new 137,000 square foot laboratory at an estimated cost of \$57.3M (Figure 2). Developer has committed to the creation and/or retention of 250 jobs.

## Proposed TID #46 Amendment

In 2015, the City of Madison created TID #46 adjacent to the Rayovac site but including the UW Research Park. The City of Madison is currently considering an amendment to the boundary and project plan for TID #46 that includes the Rayovac property. Common Council final consideration of the proposed TID amendment is anticipated on September 19, 2017.

Figure 2



## 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) <u>Amount Requested by Developer</u>	<b>\$2,500,000 (55% of TIF)</b>
(b) <u>Type of Project</u>	<b>Jobs TIF</b>
(c) <u>Analysis Method</u>	<b>None. Gap Analysis Waiver Requested</b>
(d) <u>Tax Credits:</u>	<b>None.</b>
(e) <u>Estimated Assessed Value and Tax Increments:</u>	
Estimated Value	\$32,588,000
Total Estimated Tax Increments	\$8,896,000
Average Annual Tax Increment	\$600,000
Total TIF Generated by Project	\$4,531,000
Jobs TIF Eligible at 40% (w/ Gap Analysis Waiver)	<b>\$1,812,000</b>
(f) <u>TID #46 Condition:</u>	

TID #46 was created in 2015 as a 20-year mixed-use TID. At its creation, the TID 46 Project Plan authorized approximately \$6.3M of expenditures. As of the most recent audit dated December 31, 2016, TID #46 has not generated positive tax increment. TID #46 has approximately \$27,812 of outstanding debts. It is typical of newly-created districts, such as TID #46, to generate insufficient tax increment in the early years to meet its debt service obligations. Generally, tax increments from TIF generator projects begin to flow into the district in small amounts in the first 2-3 years and then reach full potential in about 4-5 years after its creation.

On March 21, 2017 the Common Council adopted RES 17-00250 authorizing a \$1.89M TIF Loan, representing 40% of the TIF, to Epicentre, Inc. to construct a corporate headquarters at 6102 Odana Road (also in the TID #46 Boundary and Plan amendment) and retain 100 jobs over five years. Disbursement of the loan is contingent upon approval of an amendment to TID#46, anticipated in September 2017. The Epicentre project is forecasted to generate approximately \$600,000 per year beginning in 2022, fully recovering the expenditure in about 6 years.

Year Created	2015
Years to Recover Cost	20 yrs
Avg. Annual TID Increment (To Date)	\$0
Unrecovered Cost	\$27,812
 <u>Projected – Epicentre Loan<sup>1</sup></u>	
Unrecovered Cost – Epicentre TIF Loan	\$1,890,000
Estimated Tax Increment – Epicentre (Year 5)	\$600,000
Estimated Cost Recovery To Date	6 yrs
 <u>Projected – Proposed Exact Sciences Loan</u>	
Unrecovered Cost – Proposed Exact Sciences Loan	\$2,500,000

<sup>1</sup> This assumes the Epicentre receives a \$1.89M loan and generates incremental revenue peaking at approximately \$600,000 in year five of the TIF loan.

Estimated Tax Increment – Exact Sciences (Year 5)  
Estimated Cost Recovery With New Project

600,000  
6 yrs<sup>2</sup>

**(g) TIF Policy Compliance**

**Proposed Job Creation and/or Retention**—Developer indicates 125 jobs will retained and created in Year 1, with additional jobs created over five years, however actual job creation commitments are in the process of verification.

**Evidence of Competing Financial Bid**—Developer attached a Wisconsin State Journal article dated August 15, 2017 that discusses Exact Sciences’ expansion plans and its development options between Madison and an undisclosed City of Fitchburg location. Fitchburg offered no detail as to any commitment of financial assistance other than a willingness to consider TIF assistance. The Developer has also submitted a letter which intends to detail the state of negotiations for a site in Fitchburg which was received late on September 8, 2017. TIF Staff could not independently confirm the details at the time of this report.

**(h) Other Applicable**

**(i) Amount of TIF to Be Considered**

TIF Eligible w/ Gap Analysis Waiver	\$1,812,000	40% of TIF
TIF Requested	\$2,500,000	55% of TIF

**(j) Developer’s TIF Goals Statement**— TIF Policy requires that Developer provide a statement (**See Figure 3 on Page 5**) 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

<sup>2</sup> This assumes Exact Science receives its requested \$2.5M loan and generates incremental revenue peaking at approximately \$600,000 in 2022.

## Figure 3

### Jobs Project TIF Application

CG Growth LLC

8 18 2017

### TIF Policy Goal Statement

1. The project will result in an incremental \$27 million of property tax base.
2. The project will foster the retention of family-supporting jobs. All of the retained/created jobs enumerated in the application are at family-sustaining levels. There will be a diverse range of jobs and pay scales, with initial jobs projected to pay between \$15.00 per hour to \$100,000 per year.
3. The project will re-use obsolete property. The 157,000 square foot former Rayovac office building has is not built to current Class A market standards and has been vacant for over 3.5 years. The first floor will be completely renovated by the existing owner/landlord (this is a separate project whose costs are not included in project cost in the application), and Exact Sciences plans to substantially renovate the office building over the next five years following acquisition of the property and construction of the clinical lab project.
4. The project is urban infill. The project will add 137,000 square foot clinical lab to the campus.
5. The project will revitalize the former office building and the campus, which will benefit from upgraded parking lots, landscaping, a new pedestrian walkway connecting Watts Road to the front door of the office building, and outdoor amenity spaces.
6. NA
7. The following public improvements will enhance the development potential of the site:
  - a. Sidewalk on Watts Rd / Rayovac Drive (from the west driveway to the western property boundary)
  - b. Sidewalk on Forward Drive (from the existing sidewalk north as determined by the City Engineer) – deferred until Phase 2/Demo/Parking Lot construction
  - c. Storm sewer discharging from public streets to the proposed basin as required per the new storm basin design
  - d. Storm basin (private but must accommodate public drainage)
8. The project will promote superior design through the use of quality building materials and sustainability features. The design will take advantage of the storm ponds as curvilinear, landscaped water features, that will be linked to the rest of the campus through a network of pedestrian walkways. Onsite amenities will include an outdoor patio area and ample bicycle parking. The building will maximize natural daylighting to the extent possible, and the project team is seeking a LEED Gold designation in recognition of a host of green design features that will be incorporated in the project. The design has received very positive preliminary feedback from the Urban Design Commission in two informational presentations.
9. The project will reserve sufficient increment for public infrastructure.

**(k) TIF Policy Exceptions**

**Gap Analysis Waiver**—Developer requests Gap Analysis Waiver based upon job retention/creation criteria.

**40% Gap Analysis Waiver Cap**—Developer requests \$2.5M or 55% of TIF. No more than 40% of the TIF generated by a project receiving a Gap Analysis Waiver shall be provided to the project without prior authorization of the Finance Committee.

**(l) Known Labor Agreement, Law Violations****None Indicated By Developer.****Staff Comments:**

Developer cites two criteria for its eligibility for a Gap Analysis Waiver:

- 1) **Retention and/or creation of approximately 250 jobs over five years.** When verified, this would meet the first eligibility standard for a Gap Analysis Waiver. Job retention/creation will be memorialized in the authorizing resolution.
- 2) **Evidence of a competing financial offer from another community.** This is the second eligibility standard for a Gap Analysis Waiver. As evidence, Developer submitted a Wisconsin State Journal article referencing Fitchburg's interest in considering TIF assistance to Exact Science, and the letter noted in (g) above, as evidence that it is considering bids from other communities. TIF Policy states that the City "will give greater consideration to applicants that provide documented proof of such bids." The evidence submitted is not objective proof of bids.

In addition, TIF staff suggests that the following risk factors for this project should be considered:

- 1) **Historically Unprofitable, Undiversified Product Line.** Though currently popular with some Wall Street investors, the Employer is historically unprofitable and produces only one product in a highly-competitive medical technology industry. In a casual search, TIF staff found about an equal amount of investor reports recommending stock purchase in Exact Sciences as those urging caution. The company has financed losses among its investors, indicating investor commitment. However, this does not guaranty that such commitment would continue if losses continue. A City of Madison TIF investment in this project would qualify as high risk as compared to other TIF projects.
- 2) **Stock Market Uncertainty.** In 2015, Exact Sciences withdrew from a large scale expansion project Downtown, with a \$12M TIF investment, when stock prices declined due to the company's failure to secure insurance approval. Though currently appearing to be on a slight stock value upswing, and the insurance approval has been obtained, the company's current condition does not predict whether a positive trend will continue over the life of the proposed TIF assistance.
- 3) **City's Subordinated Financial Security.** The City of Madison has not traditionally invested TIF funds in publicly-traded companies with this high level of risk. Typically this level of risk would be more appropriate for a venture capital firm that has significant security, operating control and a portfolio of other investments that could mitigate risk, rather than a municipality, which in this case would be a subordinated lender.
- 4) **Corporate Guaranty.** As a corporate guaranty of jobs and tax increment is offered by Developer, keep in mind that such a guaranty's efficacy is largely dependent upon the company's performance in the marketplace.
- 5) **Lack of Financial Cushion – TID #46.** TID #46 does not yet have an increment cushion or a TIF generator that might provide cushion in the event of a loss. In the event that increments are insufficient and the corporate guaranty unavailable, the shortfall would be absorbed by the City.

**6) Jobs TIF Policy Consistency, Fairness.** The standards concerning job creation/retention or competitive financial offer were established to judge whether an applicant is eligible for a Gap Analysis Waiver exception. The Jobs TIF Policy does not reward applicants with an “exception to the exception” for exceeding the standards. The two previous Jobs TIF applicants (Extreme Engineering and Epicentre) were granted Gap Analysis Waivers and received 40% of TIF. Providing an additional amount of TIF assistance, absent a policy measure to determine eligibility, may be inequitable to previous and future Jobs TIF applicants.